Accounting Historians Journal

Volume 20
Issue 2 *December 1993*

Article 12

1993

Accounting history and empirical research

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The Accounting Historians Journal
Vol. 20, No. 2
December 1993

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ACCOUNTING HISTORY AND EMPIRICAL RESEARCH

Abstract: This paper examines historical methodology and suggests ways accounting history may be made more relevant to contemporary accounting researchers. First there is a brief discussion of the "traditional" accounting history method, the documentary model, and an examination of history methodologies that offer alternatives modes of inquiry. This includes the pattern model and rhetorical analysis. This discussion is brief and focused on only issues examined in subsequent discussion of the empirical research. The discussion of the empirical research, including behavioral research, focuses on three issues: retrodiction, with examples concerning securities legislation; belief transference, with examples concerning the demand for auditing; and methodological transference, with examples from the behavioral literature including a discussion of the importance of historical context and sensitivity. The objectives are [1] to show how all researchers need to tell more plausible stories and how historical analyses can clarify and enhance understanding of the complex environment in which accountants function, [2] to suggest fruitful areas for future accounting historical/empirical/behavioral research and [3] to issue a call for diversity, tolerance, and a free exchange of ideas— stressing these as values that cannot be separated from accountants' research activity.

Ball and Foster's [1982] methodological review of empirical research highlights the difficult tradeoffs that empirical researchers face when attempting to integrate the institutional environment of accounting with the constraints imposed by abstract models borrowed from economics, psychology, statistics, and mathematics. Ball and Foster address validity issues and offer several explanations, such as competing world views, as to why this body of research has been less than convincing, concluding that one reason may be that accounting empiricists do not tell "plausible" stories.[1] Since, as Williams [1992] points out,

[1] Ball and Foster [1982] address four validity issues—internal, construct, statistical conclusion, and external validity—associated with quasi-experimental

accounting empiricists rarely test theories, they use theories to shape empirics into coherent stories, the failure to tell plausible stories is a fundamental failure.

Accounting historians could contribute meaningfully to the ongoing empirical debate. If understanding precedes interpretation in any explanatory research project, then historical analyses of topics of interest to empiricists, as well as historical critiques of empirical models, would be useful contributions to the accounting literature. This paper calls for more historical inquiries to address issues raised in the empirical research, although we do not imply that accounting historians have not addressed these issues, that is not the case.[2] However, given the enormous resources that have been expended within the academic community on empirical research over the last three decades, the inconclusive results should be of concern to all accounting academicians. Our overall objective is to stimulate a dialogue among accounting academicians, particularly between historians and empiricists and between traditional and critical accounting historians.

To enable readers to position this paper, the terms—traditional and critical—historical research are defined.[3] The term *traditional* refers to historical inquiries that attempt to render the past familiar, the term, *critical*, refers to those inquiries that try to render the familiar, unfamiliar. These two types of research are complementary, although they often result in conflicting interpretations of the historical record. Traditional in-

design and six world views—the six world views are the Accounting Model View [matching, cost allocation], Economic Reality View [true income theory], Fair Presentation/Comparability View, Economic Consequences/Firm's Stockholders View, Economic Consequences to Management View, and Regulatory Compliance View.

[2]Positive research is one area that has generated a great deal of historical attention, see for example, Tinker, *et. al.* [1982], Mills [1988], Mouck [1989], to name a few, who have pointed out the limitations of this body of research. See Mouck [1992] for an interesting rhetorical analysis of why positive research has been successful and for discussion of dismissal of criticisms, which could be predicted, given the rhetoric of positivism.

[3]The authors accept Ball and Foster's [1992] characterization of the research they examine as *empirical*, recognizing that some taxonomies would limit that term to experimental research and label this body of work archival [See Buckley, *et. al.*, 1976]. Since the empirical usage is common in accounting, that label is retained since many readers will associate this term with research that lays claim to scientific status, an important attribute in subsequent discussions.

quiries attempt to examine the past on its own terms; the objective is to gain an empathetic understanding of why people behaved as they did in a particular circumstance.[4] Critical inquiries focus on how discursive practices or dominant institutions have served as filters that enable powerful interests in a society to control others without their knowledge; the objective is to bring to light the negative and silent aspects of a discipline or society.

This examination of the explanations offered by accounting empiricists will be traditional in that the fundamental premise of economic rationality that underpins accounting empirical research, perhaps the most potent discursive filter in contemporary society, is not challenged. The purpose is to show why, even if one examines empiricism on its own terms, the stories that empiricists tell do not always appear plausible. While a critical historical analysis of empirical research is not conducted, to the extent possible, we suggest the questions that critical researchers might ask are indicated. Also included is a brief discussion of the rhetoric of reason to highlight the more fundamental challenge that a critical perspective would engender with respect to empirical accounting research.

The above analysis is presented because it is important to establish a meaningful dialogue between traditional and critical accounting historians. Kuhn's [1970] conclusion that advances in science do not occur through incremental advances within a dominant paradigm, but through sharp breaks with that paradigm, certainly gave impetus to critical work in all disciplines. Accounting has been no exception. By examining how accounting discourses and its calculative techniques serve the dominant economic interests in a society, support class structures, and mask societal conflicts, critical accounting histories have highlighted the complex, interactive, and constitutive nature of the discipline.[5] Critical researchers have rendered the familiar,

[4]It is not suggested that reenactment is possible; see Martin [1977] for discussion of empathetic understanding and why most historians reject Collingwood's reenactment model. LaCapra [1985] takes a similar position when he writes that a good starting strategy for examining a document is to pretend that the author can talk back and to listen to the argument being presented.

[5]See Klamer [1989] for discussion of these attributes of critical research; accounting critical research has bee informed by a number of different perspectives, for hermeneutical inquiries (i.e., often called interpretive inquiry, hermeneutics rejects the idea that there is an a historical, objective truth that

strange and in doing so have raised a myriad of interesting questions for accounting historians. This essay is traditional in that the objective is to examine how accountants have arrived at their current state of knowledge.

Outline of the Paper

Our discussion starts with a brief overview of the documentary model, explaining why we do not accept the "extreme" form of that model, as reflective of "traditional" accounting history. Discussed are some aspects of the model that do have widespread acceptance among traditional accounting historians and the problems associated with the implicit directionality of the model. We conclude with a brief examination of two alternative modes of inquiry, the pattern model and rhetorical analysis, that can be used to guard against the consensus and continuity inherent in the documentary model. The discussion of each alternative method is selective in that the focus is only on issues relevant to subsequent discussion of empirical research.

The next three sections focus on particular, contextual issues raised by empirical research in relation to securities legislation, the emergence of audits in the United States, and the effect of comparative world views on interpretation of research. Retrodictive analysis is used to examine securities legislation in order to show why the pre/post SEC dichotomy found in empirical models appears problematic with respect to financial reporting. Some questions are outlined about interpretations of empirical results and we suggest areas for future research. The section concludes with a brief discussion of the rhetoric of reason to highlight how the assumption of economic rationality structures empirical debate and to highlight questions that critical theorists might ask.

Our discussion of the emergence of demand for audits focuses on belief transference, i.e., imposition of current beliefs on a prior period. We examine the reasonableness of the relationships (motivation and causality) implicit in the stewardship

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exists independent of human life and culture, instead truth, knowledge and morality are seen as rooted in social practices and tradition), see Arrington and Schweiker [1992] and Boland [1989], for labor value and process theory, see Lehman and Tinker [1987] and Hopper, *et. al.* [1987], for Foucauldian, see Hoskin and Macve [1986] and Miller and O'Leary [1987], for feminist theory, see Shearer and Arrington [1993]; see Tinker and Neimark [1988] for discussion of historical research from a critical perspective.

and information hypotheses to determine if belief transference has occurred. Then, we focus on one specific audit issue, detection of fraud, to explain why economic analyses of auditing may simply be too narrow to provide an adequate understanding of the demand for audit services. We conclude with a brief discussion of critical research, related to auditing, to suggest areas for future historical research.

In the next section, our focus is on the issue of methodological transference to assess how comparative world views impact interpretation of research results in behavioral accounting research. Ebbinghaus's experimental simplification approach and Bartlett's introspective approach [see Crowder, 1976] are examined to address the issue. We conclude with discussion of the rhetoric of psychology to highlight why it is important for accounting behavioral researchers to be sensitive to historical context and the rhetorical metaphors they use when conducting their research.

The concluding section begins with a summarization of why empirical research has not resulted in plausible stories and the alternative strategies that could be used for future empirical research. Implications of this paper for future historical inquiries are discussed. Our message is simple—the accounting academic literature needs to celebrate diversity and keep conversations open if accounting researchers are going to respond adequately to the challenges facing the discipline. A commitment to a specific criterial standard of knowledge, *a* scientific method, will not be sufficient to achieve this objective; instead, accounting researchers must make a commitment to scientific mores—tolerance, the free exchange of ideas, and accurate reporting of results.

HISTORICAL RESEARCH

The documentary model has gained almost paradigmatic status in historical research. The model emphasizes collection of data, "objectivity" of sources, and sequential [chronological] analysis. The focus is on identification of regularities that can be used to give coherence and continuity to a narrative account. In its *extreme* form, as outlined by Elton [1967], the historian becomes an archivist, a simple reporter of facts.[6] This form of

[6]See Megill and McCloskey [1989] who note that the extreme form of the documentary model suggests that a historical accounting is akin to a "lab report to be written up."

the model has been rejected by most historians for many years; it is considered an inadequate description of traditional accounting history, although some accounting historians might disagree.[7] Traditional accounting history, however, does imply acceptance of some aspects of the documentary model that critical accounting historians would (or should) reject.

For example, the documentary model contains an implicit hierarchy with respect to sources, i.e., primary being more objective than secondary sources. Traditional historians accept this hierarchy. Since the hierarchy ignores the process by which documents may process or rework reality, the privileging of primary sources may mask the reconstructive and partisan use (to legitimize past actions or to close off unwanted prospective alternatives) of historical evidence. Therefore, critical researchers reject this hierarchy for, as LaCapra [1985] points out, there is no reason to value the discovery of a new document over a critical rereading of an old document or the account of a non-participant source. However, if one is trying to understand the actions and motivations of people from their perspective, then the primary/secondary dichotomy remains important [Potter, 1973, Martin, 1977]. The traditional historian's non-problematic acceptance of the documentary model's focus on motive, a rationalistic discourse, also would seem to be a distinguishing feature between critical and traditional historians.[8]

These two aspects (hierarchy of sources and motivation) of the documentary model appear to be integral and appropriate aspects of traditional accounting histories. However, the documentary model's emphasis on sequential analysis, which may be best described as a continuous time series model, creates a directional bias that Mandelbaum [1977] points out may be inappropriate for specialized histories, like economics and accounting, that deal with cultural artifacts. He argues that the model's

[7]See Berlin [1966] and LaCapra [1985] for discussion of why historians have rejected the extreme form of this model. For an alternative view with respect to traditional accounting history, see Hopper and Armstrong [1991], for discussion of critical historiography, see Tinker and Neimark [1988].

[8]See Brown [1989] for discussion of the implicit rationality of the concept of motive; see Anderson [1989] for discussion of work of ethnomethodologists, who have found that people feel they should be "instructed by reason" so their retrospective reports of their actions are prepared as if they had been "instructed by rationality." The work being done by ethnomethodologists clearly has implications for assessment of "primary" sources.

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focus on continuity and coherence makes it difficult for the historian to recognize discontinuities created by cultural importation, a frequent phenomenon in specialized histories.[9]

Conversely, a sequential analysis that focuses on an event as the terminus of a process, may depict that event as a discontinuity, when it is not. Carr [1961] describes a "critical" historical event (a discontinuity), as an event that significantly changes existing relationships. The pattern model, discussed below, checks the impulse to focus on regularities and provides guidance for determining if an event is a critical event, warranting periodization.

The Pattern Model

Kaplan [1964] suggested the use of the pattern model for explanatory research in the social sciences. This model offers a research tool which enables researchers to deal with complex, interrelated phenomena. This model, like deductive models, constructs explanations; the difference is that the pattern model does so by relating an event to a set of other elements that together . . . constitute a unified system. Kaplan [1964, p. 33] defines *objectivity* as continuously examining evidence to fill in and extend the pattern as researchers obtain more knowledge. Complex events are made meaningful by identification of causal connections; the resultant explanation becomes part of the pattern, but that pattern emerges only retrospectively.

Retrodiction

Porter [1981] combines sequential, analytic and hierarchical analyses to adapt the pattern model to historical inquiry. The historian uses sequential analysis to highlight regularities, but this analysis serves primarily as a heuristic for further inquiry. Continuity serves to make novelty intelligible. Porter [1981] uses the term *retrodiction*, selecting a point subsequent

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[9]Cultural importation occurs in accounting when an accounting technique, practice or theory is found in a nation, although it is inconsistent with the socioeconomic or cultural structure of the host country. The rather odd groupings that have surfaced in "cluster" analysis of accounting practices that suggest that the Mexican socioeconomic condition and culture is more like the United States, than is the United Kingdom's, perhaps best reflect the fact that cultural importation occurs; see Frank [1979]. Alternatively, these clusters may occur because the data being analyzed are misleading; see Nobes [1991].

to an event and working back toward the event, to describe the analytic phase of historical inquiry. Retrodiction involves more than reverse sequential analysis in that the effects of an event emerge and gradually absorb its causal antecedents; the event and subsequent actions, give new meaning to evidence gathered in the sequential analysis [Porter, 1981].

For example, actions of any group may be symbolic, designed to respond to external criticism without affecting real change. Whether an action was symbolic, however, cannot be known until the event unfolds and subsequent actions give meaning to evidence previously examined. Retrodiction also increases awareness of any unintended consequences of an event and makes it easier to identify chance events in the antecedent period, both important factors in specialized histories. Porter [1981, p. 35] suggests that historians ask three questions to determine the historical significance of an event, namely "what happened, what might have happened as well as what happened [or did not happen] *after* the event." Significance becomes a matter of "hindsight." The historian has to do more than look at "what was" since "what was not" may be of crucial explanatory importance. This paper's retrodictive analysis of securities legislation focuses on Porter's last question—what did not happen—to address the question of whether passage of legislation warrants periodization with respect to financial reporting.

Rhetorical Analysis

Rhetorical analysis is a critical method in that it challenges the fundamental premise of economic rationality, which underpins all explanatory empirical research in accounting. Rhetorical analysis explicitly rejects the possibility of "objective" evidence, suggesting that historians remain aware of "the political involvement of all interpretation" [LaCapra, 1985, p. 37]. This paper examines the critical implications of this form of inquiry briefly in the concluding section of the discussion of disclosure legislation, but that analysis focuses on a more traditional problem—transference.

Transference

Rhetorical analysis has provided historians with a powerful tool to identify transference; this essay focuses on two types of transference—belief and methodological—relevant to empirical research.[10] *Belief transference* occurs when researchers impute current beliefs to people in different time periods or in different cultures. A related form of this type of transference occurs when researchers imply that current beliefs are totally different than past beliefs. Traditional historians have recognized the dangers of imposing current beliefs on the past and a rich body of literature exists with respect to this problem.[11] The danger of transference increases exponentially when researchers use a theoretical framework to explain a particular historical phenomenon. The theoretical assumptions must reasonably reflect existing conditions in the particular time period or the theory will have little explanatory power [Kaplan, 1964]. The examination of agency theory explanations of emergence of demand for audits in this paper focuses on this issue. Transference also can occur in disciplinary or subdisciplinary debates. LaCapra [1985, p. 73] concludes that research might be blindest when "disciplinary or subdisciplinary boundaries and protocols of research become the foundation for a self-enclosed frame for reference that induces the methodological scapegoating—the exclusion or reduction—of phenomena and perspectives that cannot be fully adjusted to it." In short, conversations should not be silenced by forcing all research into the same mold. The analysis of two comparative world views in behavioral accounting research focuses on one aspect of methodological transference, namely how the transference of protocols from one subdiscipline can lead to the type of blindness that LaCapra warns can occur. This leads to a lack of communication between the two schools due to rhetorical arguments that discount the methods used by the competing world views [Carlston, 1987].

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[10]This paper does not discuss *cultural* transference, but that problem should be of concern to all accounting historians. See LaCapra [1985], who warns, that the term *culture* often is used in a generic sense of a group with a shared identity, i.e., the accounting profession, raising the very real danger that significant differences within that culture will be suppressed by assuming that the elite is representative of the culture.

[11]Berlin [1966] and Potter [1973] emphasize the dangers of being doctrinaire, i.e., making facts *fit* a theory, while Hansen [1979], Novick [1988], and Porter [1981] focus primarily on positivists' claims that *facts* are neutral as a more dangerous form of transference since the researcher becomes the arbiter of reality imposing his or her own meaning on the *facts.*

DISCLOSURE LEGISLATION

Ball and Foster [1982] examine several topics, related to corporate financial reporting, and discuss four validity issues [construct, internal, external, and statistical conclusion] that arise in these studies. They outline two models that empiricists might use to assess the impact of securities legislation. They could [1] attempt to model events leading to the formation of the SEC or [2] treat the SEC as an intrusive event in a static social order.[12] To date, researchers have used the latter model. This enables them to assume that formation of the SEC is an appropriate operational proxy for the concept of disclosure regulation and that "regulation can be operationalized as a zero-one variable switching in the early thirties" [Ball and Foster, 1982: p. 185].

From a historical perspective, the central issue is, did passage of legislation constitute an intrusive event, warranting periodization? For the pre/post SEC dichotomy to be meaningful in a financial reporting context, passage of the legislation should have changed pre SEC reporting relationships, i.e., management/auditor, management/stockholder, auditor/stockholder. Passage of legislation does not by itself constitute a critical event since as Edelman [1964] notes, legislation may be symbolic, designed to still public outrage without effecting substantive change. Merino and Neimark [1982] examined events leading to passage of securities legislation, concluding that the disclosure requirements of the legislation appeared to be designed to maintain the status quo, i.e., to restore confidence in the economic system, a conclusion consistent with symbolic regulation. Flesher and Flesher [1986] provide additional historical support for the thesis that the 1933 Securities Act was designed to support the status quo.

There are some excellent sequential accounts of the formation of the SEC, those studies identify a continuous pattern of demand for increased disclosure that culminated in the passage of regulation.[13] A limited review of the historical record here

[12]Ball and Foster [1982: p. 178] note that modeling the phenomena that led to the formation of the SEC would greatly increase the complexity of the analysis. See Benston [1969] and Chow [1983] for examples of research that adopts the "static" model; see Merino, *et. al.* (1987) for criticism of that model. See Flesher and Flesher [1986] for discussion of events leading to the formation of the SEC.

[13]See McGraw [1984], Parrish [1970], and Seligman [1982] for historical analyses of disclosure legislation from different perspectives.

does not duplicate these prior historical inquiries, it does, however, focus on actions in the period subsequent to passage of legislation to highlight why the pre/post dichotomy appears to be problematic. If that dichotomy does not hold, then both the construct validity (does the experimental design employed allow the researcher to test their theoretical variables) and the internal validity (has the group partitions/experimental groups allowed for an anticipated effect to occur) of the intrusive model would be open to challenge since depiction of passage of legislation as a random event in a static social order would be inappropriate. If that is the case, then valid inferences cannot be drawn from the empirics generated by the model. The approach here in this paper examines implementation of the reporting objectives of the legislation to address Porter's last question—what happened or did not happen after passage of legislation?

Implementation of Securities Legislation

The stated objectives of the Securities Acts were to limit managerial power, to promulgate uniform reporting rules and to provide information that would be useful to investors for decision making. The crucial historical question—were the stated objectives implemented? A brief examination of the historical record suggests that the answer is *no*. The SEC clearly did not promulgate uniform rules nor is there evidence managerial power had been limited. By 1939, managers seemed to have more, not less, flexibility with respect to reporting practices.[14] If Congressional intent had been to curb managerial power by restricting accounting choices, then the legislation does not seem to have achieved that objective.

The SEC indicated that the political intent of the 1934 Act was to "make available to the average investor honest and reliable information" for decision making [Kaplan and Reaugh, 1939, p. 35]. However, if that was the case, then the failure of

[14]Part of this can be attributed to the legal liability imposed on auditors by securities legislation, a brief review of the AIA/SEC literature shows that auditors did not seek to limit management's choices. The SEC accepted consistency, which limited auditors' responsibilities, and conservatism, which Gilman [1939, p. 248] concludes gave management the right to tell stockholder untruths about their company, in lieu of uniformity. The SEC delegated authority for setting accounting standards with the issuance of *ASR #4*, April 25, 1938 and by 1939, the era of *dirty surplus* was in full bloom, see Previts and Merino [1979] for discussion of the flexibility afforded managers.

the legislators to require that corporations follow regulatory standards in preparing annual reports is curious. Kaplan and Reaugh [1939] point out that the SEC did not make filings easily accessible to "average" investors. SEC commissioners usually referred to annual reports when they spoke of investors' access to reliable data [Healy, 1938]. They certainly did not stress that annual reports need not meet SEC disclosure standards. Regulators, like political reformers, may have assumed that the "average" investor could not benefit directly from financial data and would have to rely on financial intermediaries. However, pluralistic democratic values may have precluded a direct statement to this effect so that the emphasis was placed on disclosure as a mechanism to create a "fair" game so that all could participate in the nation's economic growth [Merino and Neimark, 1982].

Kaplan and Reaugh [1939] compared pre/post SEC annual reports of companies that came under the SEC's jurisdiction. They found a slight improvement in quality, but concluded that overall annual reports did not contain sufficient disclosure to render them interpretable. Even disclosure of basic items, such as sales, did not improve significantly as 21% of the 1939 corporate reports contained no sales data. In 1946, the SEC staff investigated annual reports of Over-The-Counter companies (OTC), cited numerous omissions, and concluded these reports did not provide reliable data to investors. The report harshly criticized audit firms for signing off on deficient reports that might mislead the public. Auditors were outraged. They did not dispute the SEC's findings with respect to the quality of OTC reports, but they accused the SEC of hypocrisy, since the same types of omissions existed in annual reports of companies under the SEC's jurisdiction [Editorial, *Journal of Accountancy*, August 1946]. Maintaining the perception that investors could participate in a fair game seemed to be more important than the stated objective of actually providing reliable information to investors.

Implications for Empirical Research

The most fundamental question arises from the possibility that legislation was symbolic, an act of political manipulation, or as political persuasion, designed to change initial conditions and preferences. If the reporting provisions of the legislation were symbolic, then how do models that hold initial conditions and preferences constant, assess the effect of that regulation?

We suggest they cannot. In this case, the question is not whether disclosure was an efficient means to reach comparable objectives, but rather did it provide a mechanism to achieve a particular political objective. Nelson [1989] suggests that Riker's [1986] *heresthetics* (*rhetoric* by another name) political manipulation model might provide some useful insights about the role of regulation.

On a more basic level, how can the results of the current empirical models be interpreted if the assumptions of the models are questionable? First, if legislation did not result in significant changes in financial reporting, what do the results generated by a zero-one switching variable model mean? The legislation would appear to be an intervening variable. The empirics would not test the impact of the legislation but some other unknown factors. Similarly, what do empirical tests of pre/post SEC periods, based on a variable, such as sales, mean if that data was still not publicly available after passage of legislation? While the legislation did mandate sales disclosure, the SEC was not anxious to be embroiled in controversy so it adopted a permissive attitude and allowed numerous confidentiality exceptions with respect to disclosure of sales data in its filings.[15] It seems likely that most of the companies that requested confidentiality exceptions were non-disclosure companies in both the pre/post SEC period. Therefore, studies that use companies that did not disclose sales, prior to regulation, as an experimental group, assuming that they must have done so after passage of legislation, may be making an invalid assumption.[16] If the experimental group contains companies not affected by regulation (non-disclosure companies), then the empirical results do not test the effect of securities regulation.

Suggestions for Future Historical Research

This essay focused on one issue, implementation of the ob-

[15]Accountants strongly supported confidentiality exceptions; see for example, AIA Minutes [1936] where Wellington, Chairman of the AIA's Committee on Cooperation with the SEC, applauded the fact that the SEC had shown some leniency in allowing confidentiality exceptions; in the same year, the AIA issued a pamphlet urging that the SEC become even more liberal in allowing confidentiality exceptions to income statement disclosures.

[16]See Benston [1973] who uses companies that disclosed sales in 1929 as a control group and non-disclosure companies as an experimental group to test that efficiency of the legislation with respect to reduction of risk, i.e., variance of stock market prices of each group, in 1935.

jectives of legislation, there are other facets of "what did not happen" after passage of legislation that also need further examination. For example, New Deal reformers, like Berle [1933] and Douglas [1934], suggested that the 1933 Securities Act be viewed as no more than a "modest start." Both suggested that it would not be long before the government played a direct role in investment banking by passage of a federal incorporation law, which they viewed as salutary.

Prior to enactment of the 1934 Act, there was almost universal agreement among reformers that disclosure regulation could not curb the power of those who controlled the nation's corporations or protect investors. What role, if any, did the accounting practices, techniques, and discourses play in stemming demands for more direct government oversight? What changed reformers' attitudes, or did they change, with respect to the adequacy of disclosure as a regulatory device? Empirical tests do not address the issue of what did not happen, but historical inquiry need not be so limited.

From a critical perspective, a key question has to be, why should disclosure legislation be assessed on an efficiency basis? Brown [1989] discusses the "universalization of the economic," that makes all decisions, including ethical and political decisions, subject to economic calculation. He argues that for this to be accomplished cultural barriers had to be broken down so that all ends would appear to be comparable. This is crucial so that all debate can be shifted to assessment of efficiency of various means to achieve comparable ends.

Tinker, *et al.* [1982] explain how this privileges a particular type of research. In short, if ends are comparable, then research that examines ends can be dismissed as subjective value judgments of the researcher; whereas, evaluation of alternative means to assess the efficiency of obtaining comparable ends, results in objective, factual research. However, if disclosure was not viewed by reformers as a means to comparable ends, but rather a way to achieve a specific political objective (a non comparable end), such as restoring the "moral" legitimacy of the existing economic system, then empirical analyses that assess disclosure on an economic efficiency basis will not tell a complete story.[17]

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[17]See Berle [1927] who concluded that the unbridled power exercised by bankers and corporate managers could result in "private property passing out of existence," he also lamented the fact that the courts refused to question account-

Empirical models often may be too narrow to address complex accounting issues, but that does not mean that empirical research has not raised some interesting questions for accounting historians. For example, Benston [1973, p. 218] found that companies that did not disclose sales in 1929 were "better investments" than those that did, concluding that disclosure companies had "a greater real need to assure their stockholders of their worth than those who did not." The authors of this paper do not find Benston's [1973] results surprising, although we believe his conclusion as to why some companies *voluntarily* disclosed should be subject to closer scrutiny. Mattesich's [1976] suggestion that full disclosure entails a "doctrine of concealment" might provide an interesting starting point, as might Berle's [1927] contention that accounting practices enabled managers to gain absolute power.

Critical researchers also have raised some interesting questions about disclosure. For example, Neu [1992] asks *how* was regulation expected to restore investor confidence? We doubt that empirical studies that assume that reformers sought to restore investor confidence by providing information that reduced risk, measured by the variance in stock market prices, accurately capture political expectations; although that may be what reformers should have done had they been instructed by economic rationality. Future accounting historical inquiries might examine the political or moral rationale for securities legislation to address the question of political intent.

Neu [1992, p. 366] offers one suggestion, namely, that future researchers view regulation as a "textually mediated discourse" that structures social consciousness to create (political persuasion) the impression that perceived inequities have been corrected. Economists, who have recognized the multifaceted nature of regulation, also recognize, although in a narrower sense, the need to examine the political aspects of regulation. For example, Stigler [1971] suggests that academic researchers must try to determine when and why an industry (or a group

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ing practices, which he claimed is how people gained power; see also Berle [1928], who documents a series of cases that he deemed benefited bankers to the detriment of absentee owners, i.e., stockholders. If political leaders perceived disclosure as the best means of persuading (political manipulation) the public that powerholders could be controlled and private property rights restored, then the efficiency of that means becomes irrelevant since other ends are not viewed as comparable.

such as accountants) is able to use the state for its purposes or when and how it is singled out by the state to be used for alien purposes if they are to understand the regulatory process. Both traditional and critical historical analyses of the above issues would seem to be a necessary first step if accounting empirical researchers are to develop models that result in "plausible" stories about the impact of securities legislation.

AUDITING AND AGENCY: SOME QUESTIONS

Ball and Foster [1982] do an excellent job in outlining the methodological weaknesses of the "stewardship-contract monitoring paradigm." A similar historical analysis of the reasonableness of the relationships posited by the model would seem to be in order. If these relationships (motivation and causality) do not reasonably reflect actual relationships in a given time period, then transference has occurred. If this happens, a model has little explanatory power. While empiricists can credibly argue that the assumptions of a predictive model need not be realistic, that argument becomes tenuous when a model is used to explain a particular historical phenomenon.[18] The following section briefly examines the stewardship and information hypotheses to highlight the types of questions that accounting historians might ask about the reasonableness of agency theory explanations of the emergence of demands for audits.

Stewardship Hypothesis

In its simplest form, the stewardship hypothesis states that when a decision-making authority has been delegated to one group [agent/manager], agents have incentives to seek monitoring agreements. They bargain with the principals to obtain such agreements.[19] The incentives to bargain arise from the agents' fears that principals will overestimate the amount that they

[18]See Kaplan [1964] for discussion of why explanation is not the obverse of prediction; while the term *causality,* consistently with the historical literature, it does not mean to imply that empirical correlations can determine causality, they can do no more than show association. It is the researcher that imputes causality to the empirical evidence.

[19]See Dugger's [1983] discussion of how contracting (bargaining) replaces the *invisible hand* as the mechanism to justify *laissez faire* governmental policies; see Merino [1993] for discussion of why pragmatists, like Dewey, viewed contracting as meaningless, stressing formal freedom over real freedom, and of little value to those who had no power.

might appropriate and penalize them unduly. Thus, benefits exceed costs and voluntary monitoring occurs.[20]

This hypothesis imputes a specific motivation [to control the divergent self interest of principal and agent], infers a causal factor [separation of ownership and control that results in divergent self interest of principal and agent], and a causal agent [management] to explain the emergence of a particular phenomena, i.e., voluntary audits. If this hypothesis provides a valid *explanation* of why independent audits became widely used in the United States in the early decades of this century, then a historical inquiry should show that corporations, characterized by separation of ownership and control and divergent self interests, were most likely to be audited.

Unfortunately, most empirical studies use corporate size as the proxy variable for separation of ownership and control.[21] Trusts were the largest corporations in our nation at the turn of the century. Financial capitalists, like J. P. Morgan, who controlled a large number of trusts, also were pioneers in the use of audits. If, as the brief overview of the historical record, below, suggests, trusts did not reflect the relationships posited by agency theorists, then the significant correlations found between size/audits should not be interpreted as providing support for the stewardship hypothesis.

Historians generally have concluded that financial capitalists exercised absolute control over the trusts that they promoted.[22] Morgan [1913] made similar claims, stating that he controlled both managers and Boards of Directors [stockholders] of the companies that he organized, absolutely. If this testimony and historians' conclusions are valid, then an autonomous managerial class did not exist in trusts. A nonexisting group cannot be a causal agent. Nor would the posited motivation appear applicable to trusts; if financial capitalists exercised absolute control over stockholders and managers, then it seems unlikely that they incurred audit costs to control divergent self

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[20]See Williamson [1981] for historical overview, see Wallace [1980] and DeAngelo [1981] for discussion of evolution of auditing from an economic perspective.

[21]See Ball and Foster for discussion of the problem of size as a proxy variable; see Demski [1988] and Kelly [1983] for interpretive problems created by use of size as a proxy variable in positive research.

[22]See Edwards [1939], Galambos and Pratt [1988], and Fligstein [1990] for historical interpretations of corporate control in the Progressive Era.

interests. Alternative motivations for financial capitalists to incur audit costs are discussed later in this section of the paper, after examining the information hypothesis, an alternative explanation for the emergence of audits.

Information Hypothesis

In simplified terms, the information hypothesis assumes that separation of ownership and control [causal factor] created a demand for *voluntary* audits because investors [causal agents] needed reliable financial information to determine market values [motivation]. The hypotheses implicitly assume that [1] voluntary audits resulted in financial data of sufficient reliability to be used in decision making and, that [2] investors based investment decisions on intrinsic analysis.

A brief review of the historical record suggests that accounting historians might ask the following questions. Is it reasonable to assume that audits *necessarily* improved the reliability of financial statements? Or was Ripley [1927] correct when he charged that audits simply served to mask the continuing unreliability of financial statements? If his criticisms were not valid, why did accountants concede he made valid points? [May, 1927, Wildman, 1928]. Were bankers correct in their assertions that *Uniform Accounting* [1917] so eroded audit standards that financial reports became increasingly unreliable throughout the 1920s? [AIA, 1923, Campbell, 1928]. Why, if audits emerged in response to investors' needs for reliable information for decision making, did investors not demand that companies disclose the bases for valuation of various accounts so that they could interpret data? [Merino and Neimark, 1982]. A host of other questions could be raised, but until the above issues are resolved, the information hypothesis should be regarded as conjectural. Thus, interpretation of empirical results must be problematic since the results support a number of alternative hypotheses, equally well.

Alternative Incentives

Merino and Neimark [1982] offered two alternative incentives, one economic (to market *watered* stock) and one political (the desire to deter more draconic government regulation) that may have motivated financial capitalists, who controlled trusts, to incur audit costs during this period. The significant size/audit correlations that empiricists report are consistent with both the watered stock and the political hypotheses. The alternative hypotheses have the added benefit of avoiding one of the inherent contradictions in the historical record, the growing use of audits, purportedly for monitoring, accompanied by claims of the increasing unreliability of financial reports. Neither the need to market watered stock, nor the need to deter more draconic government intervention, required that audits result in more reliable information or that they be effective monitoring devices. One could argue that from a financial capitalist's perspective, ineffective audits were best as long as they created a perception that monitoring was taking place. Providing reliable information probably was not a high priority for those marketing watered stock. Nor did audits have to have these attributes to meet political demands for symbolic reassurance. If accounting researchers are to develop better empirical models, then a necessary first step may be that those models reflect the actual attributes of companies that were and were not audited at this time.[23]

Future Historical Research

From a traditional historical perspective, any explanatory study that is informed by a particular lens, such as agency theory, creates concerns about imputation of current beliefs on the past. The theories may offer partial explanations, but they may be too narrow to furnish adequate explanations. Future historians could make a valuable contribution to the understanding of the audit function if they examined the reasonableness of "economizing" various types of audit functions.

For example, the ongoing expectations gap may reflect the failure to recognize that cost/benefit is not the primary concern in many audit functions. The detection of fraud is used as an

[23]For example, the Standard Oil Companies, among the largest in the nation and the most widley held, were not audited with two exceptions until the 1930s; but because they were traded in the unlisted department of the NYSE and the financial press had a separate section for quotations of their stock, these companies probably do not appear in most empirical samples. None of the Standard Oil Companies issued watered stock and most had an A common stock rating (perhaps a least cost monitoring device?); Rockefeller had little use for auditors and the companies he controlled had little trouble borrowing money or attracting investors without audits; SOC companies did provide extensive financial data.

example to indicate when prescriptions generated by empiricists should be closely examined by historians, since those prescriptions may be irrelevant. It is trivially easy for empiricists to show that it is not cost/beneficial (especially when the deterrent effect of audits is not measured) for auditors to detect fraud.[24] Accounting historians need to point out that cost/benefit analysis is simply a statement of tradeoffs in values and that tradeoff may not be acceptable unless it can be shown that detection of fraud is an economizing decision.

If, however, ethical concerns predominate, then reduction of detection of fraud to cost/benefit is inappropriate. One does not have to adopt a critical perspective to challenge the relevance of cost/benefit in this case. Berle [1963] contended that fraud jeopardized the underlying rationale for private property, since there is no "moral" justification for allowing those in control to benefit by appropriating corporate resources that they do not own. Means are not the issue, ends are. Maximization of wealth is not comparable to maintaining the "moral" legitimacy of private property rights.

Traditional histories could be particularly beneficial by pointing out the circumstances and conditions that lead to acceleration of demands that auditors assume greater responsibility for detection of fraud. For example, merger movements could be perceived to strengthen managerial control; therefore, it would be useful to know if periods of rapid merger activity result in greater demands being placed upon auditors to be more vigilant in their efforts to detect managerial fraud. For over a century, auditors and the public have been at odds about issues such as detection of fraud, perhaps it is time to stop trying to educate the public as to the limitations of audits and take time to educate accountants as to the conditions that make political or ethical considerations of primary concern and economic considerations secondary.

There is a rich body of critical auditing research that should provide new insights for all accounting historians. This research has questioned the fundamental claims that auditors make to professional status [Hopwood, 1990, Willmott, 1991], questioned the value of audits [Humphrey and Mozier, 1990], and

[24]See Watts [1980], who discusses Pareto optimality, but reduces detection of fraud to cost/benefit analysis, concluding it is not cost beneficial for auditors to be expected to detect fraud.

effectively challenged the depiction of auditors and accountants as "neutral" observers [Tinker, 1985, Hines, 1989]. Hooks [1992] shows that audit actions and behavior are consistent with several social theories, raising a fundamental challenge to empirical research. Given that a critical mass of both empirical and critical work now exists, a comparative analysis of specific audit functions would seem to be useful, not only to broaden understanding of the current state of knowledge but also to assess the persuasiveness of the arguments offered from a historical perspective.

COMPETING WORLD VIEWS AND BEHAVIORAL ACCOUNTING RESEARCH

Ball and Foster [1982] outline six world views in financial reporting as a partial explanation of why empirical research has not generated plausible stories. D'Agostino's [1985] excellent analysis of comparative world views in historical linguistics provides an example of how historians might assess Ball and Foster's [1982] contention.[25] However, to examine six views in this manner would entail another paper, since one would first have to determine if six world views exist, which is problematic, and then assess the impact of each. The concern here is to demonstrate how methodological transference stops conversations in accounting by examining two world views within behavioral accounting. Both views are consistent with the basic functionalist paradigm of empirical research that has been discussed previously.

Understanding the history of alternative methodologies (which may lead to dominant schools of thought) may enhance the communication and narrow the differences between competing methodologies in accounting. Bazerman [1987] states that a research community will gain "confidence" in its prescriptions and "stability of text" when researchers share a belief that there is "one right way" to acquire knowledge. However, this tends to silence creativity and alternative views. An understanding of the history of alternative methodologies may enable researchers to overcome a close minded view of knowledge acquisition.

[25]Paradigmatic analysis provides an alternative method of examining these world views, see Glautier [1984] and Wells [1976], but the two views discusses here appear to be within a functioning paradigm.

Historical methodology also stresses the importance of being sensitive to the surrounding environment. It is critical for all researchers, whether using archival data or doing a laboratory experiment, to take into account the conditioning environment that they are trying to understand and relate this environment to their assumptions, research questions, and research design.

The researcher needs to ask: given the environment, do my assumptions, questions, and design make sense? In short, are they appropriate? The researcher must also evaluate the conditions in which the findings will be upheld *and* under what conditions will the findings *not* be upheld [Ijiri, 1972]. These questions are critical to current behavioral accounting research. For example, in cognitive psychology there are two schools of thought to the methodological approaches with respect to the study of human memory, the Ebbinghaus [1885] approach and the Bartlett [1932] approach. Ebbinghaus's methodology emphasizes internal validity, control and experimental simplification; whereas Bartlett's method emphasizes the complexity of human memory, the need to examine human memory with complex material, and introspection.[26] Both approaches have influenced behavioral accounting researchers (the latter represented by protocol analysis studies and the former by many laboratory controlled experiments).

Accounting researchers have argued about the rigor and validity of two approaches; with most discounting the introspective approach. Nevertheless, observation of cognitive theories will show an integration of both methods in their models [Crowder, 1976]. By ignoring this integration, Hogarth [1991] suggests that accounting researchers are only concerned with replicating the cognitive experimental research in a sterile accounting setting. These replications tell us that accountants are like or not like other individuals when it comes to decision biases. However, Hogarth [1991] avers that researchers need to go beyond the dominant schools of thought and integrate ideas from all schools, with a clear understanding of the specific context of the research. This will allow researchers to address problems that are relevant to their discipline rather than do minor extensions of the psychology literature. The accounting litera-

[26]*Introspection* is a term that has been "disreputable" in behaviorism but has been allowed to come out of the "closet" under alternative metaphors such as "self-reports," "verbal" protocols, etc.; see Carlston, p. 150 for further elaboration.

ture is at least beginning to consider the merits of a multiple approach [Gibbins and Jamal, forthcoming].

Another example is the criticism of the Lens model approach used in much behavioral accounting research. It is said the Lens model is dead in accounting since it represents a static model in designing experiments. However, Brunswik [1952] never intended the Lens model to be a static model. Brunswik emphasized the need to develop *representative* research designs. He explicitly states you cannot ignore the environment in which learning takes place. The Lens model itself should not be considered static, researchers just need to develop *dynamic* experiments, using a representative design. For example, audit judgment researchers may consider conducting field experiments; using the natural auditing environment and observing the type of information acquired rather than providing all the *relevant* information in a factorial design and sterile environment.

Finally, accounting behavioral researchers (as well as psychology researchers) tend to get mired and narrowed by their own rhetoric. Researchers limit experimental reports to convincing reviewers and readers of their methodological competence rather than providing intellectual arguments to "persuade readers of the truth of an idea" [Bazerman, 1987, p. 140]. Reviewers concentrate on methodological weaknesses with little consideration for understanding and solving problems. As Bazerman [1987] points out, this may be due to the constraints on what is considered to be the "appropriate" experiment reporting style. Accounting behavioralists borrow from the underlying sub-areas of psychology. In doing so, they adopt the language of the sub-area. Attribution studies consider "implicit personality theory" whereas cognitive studies talk about "schemas;" these terms essentially mean the same thing (how an individual represents another event or individual), but the two areas of psychology do not communicate with each other [Carlston, 1987]. Specific metaphors are useful for those who understand the language, but they may also "obscure alternative interpretations" and lead readers to accept research findings without adequate evidence [Carlston, 1987, p. 153].

Future Historical/Behavioral Research

The above indicates that having an understanding of historical methodology, which stresses the importance of sensitivity to the context, surrounding environment, and motivations may be critical to developing more robust behavioral accounting models. Accounting historians and behavioralists can also join together and conduct studies which provide the historical back drop for alternative behavioral models, intent of the language and metaphors used in the various sub-areas, and the intended boundaries and overlap of the competing schools of thought. Another important aspect of such an analysis would be to point out the critical need to validate the reasonableness of the assumptions underlying any experimental or empirical model.

CONCLUSION

This article attempted to show how historical inquiry might be used to assess the reasonableness of stories empiricists tell. The brief historical analysis of securities legislation was designed to point out why the pre/post SEC dichotomy appears questionable. If the reporting objectives of the legislation were not implemented, then the legislation may have been symbolic. This not only raises questions about interpretation of the findings of empirical models, but also about the adequacy of models that hold initial conditions and preferences constant. Riker's heresthetics (political manipulation) provides one possible alternative for future accounting empirical researchers working within the functionalist paradigm. Historical inquiries that examine the political and moral rationales for securities legislation might add valuable insights about disclosure legislation that would enable members of the accounting profession to better understand the complex functions that accounting has in contemporary society.

The examination of agency theory explanation of the emergence of audits in the United States suggests that belief transference (imposition of current beliefs on prior periods) has occurred since the economic incentives posited by the model do not seem to fit actual relationships at the turn of the century. The empirical results appear uninterpretable since the most significant correlations (size/audits) support alternative hypotheses, exogenous to agency theory, equally well. Future accounting historical inquiries need to consider the possibility that political and moral incentives have created demands for audits. If accounting researchers continue to focus solely on the economic aspects of auditing, then the expectations gap between the accounting profession and the public that has existed for more than a century should be expected to continue. Perhaps it is time to try to educate accountants about the complex, interactive nature of the accounting discipline, rather than trying to educate the public about its limitations.

This examination of behavioral accounting research shows that it relies on methodological transference from psychology. The dangers of this transference is that researchers will be: 1) insensitive to the changes in the underlying discipline; 2) insensitive to the specific context and problems that are being examined; and 3) blinded by the rhetoric of the mother discipline, exhibiting intolerance for alternative interpretations and methods. Historical inquiries that highlight the contextual limitation of various world views may help accounting behavioralists to obtain a better understanding of the boundaries of their methods and the context of the problems they address.

Future Historical Inquiries

Traditional historical analyses serve a valuable function in that they enhance understanding of how the accounting discipline has arrived at the current state of knowledge. By expanding the parameters of analysis, historical inquiries can create discomfort and uncertainty about what are held to be "certified" truths. Questions, such as, under what conditions and circumstances is it appropriate to assume that promoting economic efficiency is the primary accounting/auditing function, when is it not, certainly deserve the attention of accounting historians. This paper suggests two areas, disclosure regulation and detection of fraud, where economic efficiency may be irrelevant because society may reject "economizing," i.e., reducing political and ethical objectives to economic decisions, as inappropriate. A rhetorical examination of how accounting discourses, practices, and techniques fit into the what Brown [1989] calls the universalization of the economic incentives simply may be fruitful.

Another question, related to empirical work, that was not addressed, but that needs to be addressed, is the relevance of the classificatory generalizations used in accounting research. Empiricists implicitly assume homogeneity of interests among groups, such as investors. Given the dynamic changes in the economic structure during this century, those classifications, which have not changed, may mask important conflicts that now need to be considered. For example, is it reasonable to assume commonality of interests between current and potential investors or between "average" and institutional investors? Neu [1992] conducted a case study to show the differential impact that the bankruptcy of a company had on various investors in a new issue of that company. He concludes that accounting regulations did not protect all investors equally well. Accountants need general historical inquiries that specifically look at the question of the adequacy of current classifications, and specific case studies that look at the impact of accounting techniques and practices on particular subunits within each user group. Accounting historians can make an important contribution by providing a more realistic picture of the current state of the discipline and by pointing out contradictions that exist between what academic researchers assume and actual economic relationships in contemporary society. This picture should consider both institutions and individuals. This may help empiricists to tell more plausible stories and behavioralists to experiment on more relevant problems.

The message of this essay is simple—accounting academics need to celebrate diversity and keep conversations open. Critical historical research has provided important new insights by rendering the familiar, strange; while traditional historical inquiries render the familiar, intelligible. If accounting empirical research has not been convincing because empirical researchers do not tell plausible stories, as Ball and Foster [1982] suggest, then accounting historical studies may provide a means of developing more robust models. To paraphrase Bronowski [1965], no research community can survive without trust and respect among its participants since all researchers are dependent to some degree on the work of those who have preceded them. Commitment to scientific values, rather than to a particular method or a particular theory, promotes creativity and novelty. As Bronowski [1965] astutely notes, what other disciplines can learn from the success of the scientific research community is not its techniques but its spirit—the irresistible need to explore.

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