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The Accounting Historians Journal

December 1997
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Research on the Evolution of Accounting Thought
and Accounting Practice

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THE ACCOUNTING HISTORIANS JOURNAL

Semiannual Publication of
The Academy of Accounting Historians

Volume 24, Number 2 **December 1997**

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THE ACCOUNTING HISTORIANS JOURNAL

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THE USE OF HISTORICAL DATA IN ACCOUNTING RESEARCH: THE CASE OF THE AMERICAN SUGAR REFINING COMPANY

Abstract: In 1908, the American Sugar Refining Company (ASR) reversed its long-held policy of secrecy as to its financial condition and performance. Prior work, applying contemporary capital market methods to ASR security price data of that period, has suggested a value to ASR shareholders of this policy reversal. This paper examines the historical record of that time and presents additional evidence on this matter, particularly in terms of identifying potentially confounding events occurring during the period under study. The results of this analysis suggest a difficulty in attributing observed abnormal returns to ASR's secrecy policy reversal on the basis of the results obtained from applying capital markets methods. This analysis is useful for scholars interested in applying modern capital market methods to historical data. It highlights the significance of the possible effects of contemporaneous historical events, focuses attention on the importance of a deep understanding of the historical period studied, and suggests a value in combining historical and empirical-markets methods to gain a richer understanding of the events and conditions in the time period under study.

The application of modern capital markets methods to explore accounting issues in historical time periods has attracted increased interest in recent years. One such study, Porter et al, (1995) (hereafter PSW) examine the effects of American Sugar Refining's (ASR's) 1908 reversal of a financial secrecy policy to determine the value of voluntary disclosure per se and voluntary disclosure policy. They find in part,

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using traditional capital markets methods and an event window around the time of the secrecy policy reversal, positive abnormal returns for ASR stock. These findings lead them to conclude that the secrecy policy reversal had measurable value to ASR stockholders. Narrowly, the purpose of this paper is to assess these findings and to consider whether other chronologically proximate events and conditions could plausibly have affected the valuation of American Sugar securities. Broadly, this paper seeks to address the use of data in capital markets studies of historical time periods, and the interpretation of results derived in such studies. Not addressed in this paper are underlying issues related to institutional arrangements, acceptable trading practices, and other matters pertinent to the issue of market efficiency during this historical period. We are not challenging the assumption that ASR security pricing was efficient with respect to publicly available information. Readers interested in studying issues of this period related to market efficiency are referred to Previts and Bricker (1994).

The remainder of this paper is organized as follows. First, we review the PSW study and summarize the historical events amidst which it is set, these being the illness and death of H.O. Havemeyer, the long time President of ASR, the succession of a new president, and the company's annual meeting at which time ASR formally announced the reversal of its long-held financial secrecy policy. Several research issues pertinent to the PSW study, primarily related to the existence of other possibly significant historical events during the period covered by PSW, are identified. We then provide a contextual, historical analysis of contemporaneous events and conditions of the period and use this as a basis for evaluating the PSW study of ASR. Particular attention is focused on events reported in the financial press that may have affected ASR security pricing, dates on which press reports related to ASR's financial secrecy policy are published, and the period of uncertainty surrounding the succession to the ASR Presidency that occurred following Havemeyer's death. Next, using the PSW data and methods, tests extending the original PSW analysis are conducted based on the results of our historical analysis. Following a presentation and discussion of these results, we conclude the paper with a discussion of the opportunities and difficulties of applying capital markets methods to data from historical time periods.

BACKGROUND AND RESEARCH ISSUES

The PSW study follows a line of research that has applied contemporary capital markets methods and models to data from historical time periods. Prior work has included Chow (1983) and Sivakumar and Waymire (1993 and 1994). The focus of these studies on historical time periods makes them interesting and appealing. Chow's work, however, has been specifically criticized by Merino et al (1987), and Previts and Bricker (1994) argue generally that such studies must fully consider historical contextual issues that are essential in both the design of such studies and the interpretation of results.

The PSW study finds that ASR shareholders earned abnormal returns as a result of the 1908 reversal of Henry O. Havemeyer's long-held financial secrecy policy. As summarized in PSW, Havemeyer, who opposed disclosure of any ASR information, died suddenly on December 4, 1907 after becoming ill on November 28, 1907. Havemeyer's successor, W. B. Thomas, "announced the company's intent to reverse its long-standing secrecy policy by making periodic reports" (PSW, 1995, p. 129) at the company's annual meeting on January 8, 1908. On March 23, 1908, ASR made its first annual report available to shareholders. PSW examine cumulative abnormal returns to ASR shareholders for both the secrecy policy reversal on January 8, and the publication of the annual report on March 23 (and each preceding day). They find a positive wealth effect which is statistically significant for three sets of dates: January 8th, January 8th and March 23rd combined, and January 7th and 8th and March 21st and 23rd combined. On the basis of the abnormal returns of these dates, PSW conclude the existence of a value to voluntary reporting - for the first event as related to voluntary reporting <u>policy</u>, and for the second event as related to voluntary reporting per se, for ASR shareholders. We do not address the value of voluntary reporting per se in the remainder of this paper, but rather on the issue of a value to a <u>policy</u> of voluntary reporting, as studied by PSW in their assessment of the effects of ASR's secrecy policy reversal.

The PSW study measures ASR returns from September 30th, 1907 to May 29th, 1908. PSW use a dummy variable is used to measure the difference in returns during the event window(s) in comparison to returns outside the event window. The event date for the secrecy policy reversal (disclosure precommitment date) is defined as January 8, the date on which the company's policy reversal was officially announced during its annual meeting. The resulting model is significant (p = .023) and they find a significant cumulative positive abnormal return of 2.35 percent, Several issues not fully addressed in PSW may bear on their results and the interpretation thereof, as listed below.

- The date used by PSW to isolate the financial secrecy policy reversal effect (January 8th) is the date of ASR's annual meeting. It is conceivable that other potentially significant disclosures may have occurred on that date. Such disclosures would raise issues about distinguishing ASR's secrecy policy reversal from its voluntary reporting, per se, (or other economic effects) as causes of ASR security price changes.
- January 8th is the sole date used by PSW in assessing the (separable) effect of ASR's secrecy policy reversal. If, however, there are other dates on which ASR's secrecy policy was addressed in financial press reports prior to January 8, then such dates should also be added to any empirical analysis addressing the effect of the secrecy policy reversal on ASR securities.
- The period of the illness and death of Havemeyer is included by PSW as a part of the period for estimating ASR normal returns. However, any systematic ASR pricing reaction to Havemeyer's passing may influence the PSW results.

Several research questions arise from these issues. First, is it reasonable to attribute any abnormal ASR price effect on January 8th to a change in the company's financial secrecy policy, or do other disclosures confound such an interpretation? Second, were there other dates in addition to January 8th (the date used by PSW) which are plausible event dates for assessing the effect of the secrecy policy reversal? Third, was there an ASR security price reaction to the succession uncertainty that may have occurred with and following the illness and death of Havemeyer? If so, would this effect influence PSW's findings?

ANALYSIS

Our analysis consists of two parts. First, we study the events and conditions roughly contemporaneous with January 8^{th} to address the three questions posed above. Then, using the same data and methods as PSW, we conduct additional empirical testing based on the results of our first phase of analysis.

Research question one explores the attribution of the observed ASR abnormal return effect to the announcement of the secrecy policy reversal, and whether other information released on this date could have had information content and have affected ASR security pricing. An analysis of the financial press articles of the period in the *Financial Chronicle*, the *Wall Street Journal*, and the financial section of the *New York Times* raises issues potentially bearing on this matter. Significantly, January 8th was not just a date on which ASR announced the reversal of the secrecy policy, but (as noted in PSW) was the date of ASR's annual meeting. For instance, it was on this day that the company made its initial report of its annual operations to shareholders, and also discussed other economic and political developments prospectively affecting ASR. It appears (and widely believed), for example, that sugar crop and tariff announcements were important factors in ASR security pricing. As reported on the following day by the *Wall Street Journal*, management discussed several topics during the annual meeting: that the past year had been the best that the company had experienced, that the policy of the company with new management would be less antagonistic and less secret, that various lawsuits would be adjudicated, that sugar crops were smaller and prices higher, that labor trouble in Cuba implied a smaller crop, and that government statements on tariffs were favorable to ASR. All of these reported disclosures, to the extent unanticipated, could be expected to increase ASR security prices. Even with the presence of some level of anticipation, the elimination of uncertainty accompanying the official company announcement would also tend to increase ASR security prices and returns. These several potentially significant information disclosures confound interpretations of stock price reactions for the day and certainly do not lend themselves to an unambiguous attribution of the day's abnormal price effect to any single cause.

Research question two addresses the existence of additional dates which may have lead to a market anticipation of a reversal of ASR's secrecy policy. We searched financial press reports of the period from the date of Havemeyer's illness to the date of the official announcement of the policy reversal to identify all days on which the secrecy policy reversal of ASR was discussed, implied, or anticipated. We identified the following four dates:

- In The Wall Street Journal of Thursday, December 5th 1907 in an article following H. O. Havemeyer's death, it was asserted that "(Havemeyer's) policy was not that of publicity, so that he belonged to a passing rather than to a new era of corporate finance." This assertion implies that Havemeyer's secrecy policy would not survive him.

- In the *Wall Street Journal* of Tuesday, December 10th, 1907, the following article appeared: "American Sugar Refining Co.: Havemeyer's Death Likely to Result in Abandonment of Secrecy Policy".
- In the *Wall Street Journal* of Tuesday, January 7th, 1908 in an article preceding the next day's annual meeting, it was written that ". . . it is supposed that the policy of the company will change, the keynote of the new administration being less antagonistic and less secret".
- In the *Wall Street Journal* of Wednesday, January 8th, in an article published **prior** to that day's annual meeting, it was written that "Friends of (ASR) . . . admit that more publicity in regard to the company's affairs would be better policy... President Thomas has given his word to this effect... the first step in this direction is expected at the annual meeting tomorrow, when President Thomas may in his review of the year disclose more information than has been given out heretofore." January 8th was also, of course, the date of the actual annual meeting at which the financial secrecy policy reversal was officially announced later that day (See January 9 - *New York Times*).

Although PSW use event dates of January 7th and 8th as well as those of March 21st and March 23rd, only January 8th is tested individually for a secrecy policy reversal effect. PSW's remaining tests address the joint hypothesis of a price response as a function of both voluntary reporting and the secrecy policy reversal. If PSW's hypothesis about the value of a voluntary reporting and publicity policy, per se, is correct, then we would expect to see positive security price effects on each of the event days, with the effect on the 8th being limited to the elimination of whatever uncertainty remained regarding reversal of the secrecy policy.

As related to the third research question posed, any analysis of this period or interpretation of results requires consideration of any possible effect on ASR security prices of the illness and death of Henry Havemeyer. Particularly, as described subsequently, if Havemeyer's death resulted in a period of uncertainty related to management succession, and if that period was included in an estimation window for calculating normal ASR returns, then the stationarity assumption of PSW's beta estimate would be violated, with the result that in the estimation of ASR normal returns would be mathematically biased.

Specifically, the statistical analysis computing returns in the immediately subsequent period would be biased in favor of finding abnormal returns.

Havemeyer's passing was clearly regarded as a significant event in the eyes of ASR, the financial markets, and its shareholders, according to financial press accounts of the time. These accounts reflect the belief, for example, of an association between Havemeyer's illness and death and an ASR's stock price decline that occurred. On December 4th, the *Wall Street Journal's* daily column "Features of the Market" column noted "American Sugar was naturally depressed on the serious illness of H.O. Havemeyer". On December 6th, the same column noted that "(t)he first transaction in (ASR) was one point below the closing sale of the previous day on President Havemeyer's death. It is admitted that the loss to the company is a very serious one . . ." On December 12, as ASR's common stock price neared its nadir, "Features of the Market" stated that "(ASR) selling . . . comes through conservative commission houses . .. It is naturally based upon the very tangible loss the company . . . has sustained in H.O. Havemeyer's death and represents investment holdings." On December 16, the column reported that "Boston has been selling the stock since H. O. Havemeyer's death. This is a natural result, as investors there had great faith in the late president." An article in December 17th's *Wall Street Journal* stated ". . . One reason advanced for the marked decline in the stock is the loss of H.O. Havemeyer, which, if be true, is indeed a tribute to his ability as the real genius of the American Sugar Refining Company." On January 4th, well into ASR's price rebound, and following a day on which the stock closed up over 6 1/2 points to 107, the "Features of the Market" column noted, "One reason for the exceptional strength in Sugar is the real scarcity of the stock . . . It was always a dangerous short sale, and was oversold when H. O. Havemeyer died".

As the matter of succession was not settled at ASR at the time of Havemeyer's illness and death, it is plausible to believe that his passing initiated a significant process of increasing uncertainty as to management succession and ASR prospects. PSW, in contrast, address the possible impact of Havemeyer's death from a different perspective:

> ". . . our results may be confounded by Havemeyer's sudden death. For example, investors may have expected Havemeyer's death to lead to the adoption of a disclosure policy, and impounded any wealth effects at that time. Accordingly, we investigated ASR stock returns at the time of Havemeyer's death. The evidence does not support the hypothesis that

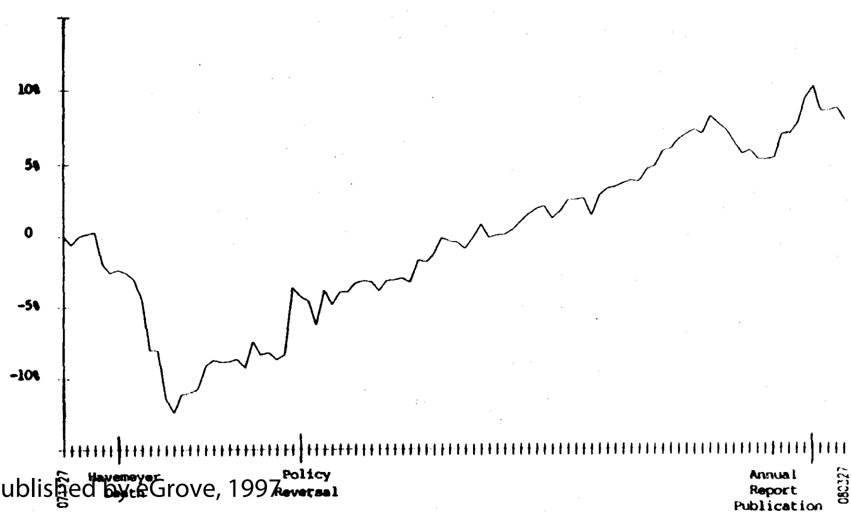
> favorable effects of the subsequent policy reversal were capitalized when Havemeyer died; the market adjusted return on the date of his death was -2.26 percent. No large price movements were observed in adjacent days." (PSW, 1995, p. 136-137)

PSW, then, focus on the possibility that the death of Havemeyer itself may have signaled a reversal of the secrecy policy, and so test for a **positive** abnormal return effect. But they do not examine an alternative possibility that an uncertainty-increasing process began at the date of Havemeyer's illness regarding management succession and ASR prospects and concluded at ASR's announcement of his successor, resulting in a negative abnormal return effect for the period.

Chronologically, this succession-uncertainty process occurred several weeks prior to ASR's annual meeting and the formally announced reversal of the secrecy policy. Havemeyer's sickness began November 29th (he died December 4), and W.B. Thomas was announced as his successor on December 20th. A visual inspection of Figure 1, which is reproduced from PSW, shows that ASR returns turned negative about the time of Havemeyer's sickness and death, and remained negative until the December 20th announcement regarding W.B. Thomas.

FIGURE 1
ASR Cumulative Market-Adjusted Returns
(Reprinted from Porter et al [1995])

Cumulative Market-Adjusted Returns on ASR Common Stock from Late November 1907 to Late March 1908



decline in ASR returns during this period, it does provide prima facia evidence of a decline in ASR security prices as well as an analyst and press belief that this was so. Such an effect, as described above, would bias an analysis of abnormal returns on January 8th in favcr of a rejection of the null hypothesis. Specific empirical tests on this are described later in the paper.

The empirical portion of our analysis began with a replication of a portion of PSW in order to establish comparability with its data and methods. Using the same parameters and process for selecting a data set, and duplicating the general model employed by PSW, we tested for a price effect on January 8th, the date of the financial secrecy policy reversal. Following PSW we employed a dummy variable for the date of January 8th as the secrecy policy reversal event date, and used the railroad index to proxy for the market. The results, shown in Table 1, Panel A, compare the PSW results (Item 1) with our replication (Item 2); The results are generally consistent, including an event-variable coefficient (probability) of .0235 (.023) and .0237 (.026) respectively. Therefore, we are comfortable that our data and method fairly closely approximates those of PSW.

Table 1
Estimation Results for Event Parameter Models

Panel A
Single Event Models

Description (event dates)	α	$\alpha(t)$	β	$\beta(t)$	δ	$\delta(t)$	$\delta(p)$	r^2	*CAR%*
(1) Porter Results (1/8/08)	.008	1.11	.833	12.18	.0235	2.29	.023	.436	2.35
(2) Replication Results (1/8/08)	.001	.91	.798	11.31	.0237	2.24	.026	.387	2.37
(3) Four Event Dates Results (12/5/07,12/10/07, 1/7/08,1/8/08)	.001	1.21	.796	11.16	-.0061	-1.14	.250	.386	-2.45
(4) Uncertainty Results (12/3/07 through 1/19/08)	.001	1.72	.791	11.23	-.0070	-2.47	.014	.400	-10.47
(5) Two Event Dates Results (1/7/08,1/8/08)	.001	1.01	.795	11.12	.0031	.40	.687	.382	.61

Panel B
Model Respecified to Include Two Event Parameters

α	$\alpha(t)$	β	$\beta(t)$	$\delta 1$	$\delta 1(t)$	$\delta 1(p)$	$\delta 1CAR\%$	$\delta 2$	$\delta 2(t)$	$\delta 2(p)$	$\delta 2CAR\%$	r^2
.001	1.67	.791	11.21	-.007	-2.458	.015	11.20	.0025	.387	.737	.50	.398

where δ_1 represents the "succession uncertainty" event of 12/3/07 to 1/19/08
and δ_2 represents the "secrecy policy reversal" event of 1/7 and 1/8/08.

Next, to empirically address research question 2, we tested for a policy reversal effect using the four dates identified above (days on which reversal of the secrecy policy was discussed in press articles). Although PSW use event dates of January 7th and 8th as well as those of March 21st and March 23rd, only January 8th is tested individually for a secrecy policy reversal effect. PSW's remaining tests address the joint hypothesis of a price response as a function of both voluntary reporting and the secrecy policy reversal. Using the method described above, we tested for a secrecy policy reversal effect using December 5th, December 10th, January 7th, and January 8th. The results are given in Table 1, Panel A, Item 3 which shows no significant effect on the secrecy reversal variable for the dates with secrecy policy reversal references. Notably, the sign of the coefficient on the event variable is negative (-.0061).

Using the data set and general model described above, we tested the hypothesis derived from research question 3: that an uncertainty-increasing process began with the illness of Havemeyer and ended with the announced selection of Thomas. We employed a dummy variable for the dates of December 3rd, when Havemeyer's illness was first reported in the *New York Times,* through December 19th, the day before the *Wall Street Journal* announced W.B. Thomas's upcoming election as ASR president. We observe in Table 1, Panel A, Item 4 a highly significant effect (p. = .014) on the event days in the direction consistent with an uncertainty-increasing process (that is, negative). Using PSW's method of calculating the size of the abnormal return as the product of the dummy coefficient (-.0070) and the number of days in the event period (15), we find a cumulative abnormal return of -10.50%. Overall, this evidence is consistent with a picture of investors who became increasingly distressed by the uncertainty of management succession until the experienced W. B. Thomas was identified as H. O. Havemeyer's successor. As a further test of investor uncertainty during this period, we compared an ASR market model using the period of September 30th 1907 through January 19th, 1908, with a model using a period of the same length immediately after. As shown in Table 2, ASR's beta increases from .786 to .963 in the two models, and their difference is marginally significant at alpha = .10.

Irrespective of the interpretation of the above results, they demonstrate that any model used for estimating ASR normal returns that includes the period from December 3rd through December 19th cannot assume beta stationarity; the inclusion of the period effectively incorporates a bias for rejecting a null hypothesis for any event date(s) proximately subsequent to that period. This occurs because the inclusion of the uncertainty-increasing period mathematically reduces the slope (coefficient) on the systematic (market) return. Given the evidence and findings described above, the PSW findings are reinforced by the occurrence of an event window that merely happened to fall following a period of significant negative abnormal returns included in the estimation period. Indeed, **any** event identified during the period immediately following the resolution of the succession issue would be biased towards the finding of positive abnormal returns for ASR investors. A second implication, as mentioned earlier, is that any policy reversal tests using event dates falling during this period could be confounded by the succession uncertainty effect. For this reason, our earlier results, which included two secrecy policy reversal event dates falling during this apparent succession uncertainty period, may be biased against finding a positive ASR abnormal return associated with a reversal in its secrecy policy[1].

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[1] It is hard to have much confidence in these results. As described in the next section, tests reveal a negative security market response to the succession uncertainty accompanying the illness and death of Havemeyer, which potentially confounds any analysis including event days in the period from November 29th to December 20th. The policy reversal test described above includes the event dates of December 5th and December 10th. Further complicating any interpretation of our results, news articles on ASR on the two remaining days, December 7th and 8th, refer to both the secrecy policy reversal and other matters of potential importance. We have previously described the topics covered in the press on January 8th. The day before ASR's annual meeting (January 7th) The *Wall Street Journal* not only discussed the anticipated secrecy policy reversal, but based on favorable news about the sugar market and the favorable estimates made regarding ASR's financial results, the article declares ASR's "past fiscal year. . . was one of the

We, therefore, respecified our model to include a separate dummy variable for the event dates falling in the succession uncertainty period and used only the event dates of January 7th and January 8th (we removed December 5th and 10th). The results, shown in Table 1, Panel B again suggest no effect of the secrecy policy reversal. The coefficient on the policy reversal variable is positive (.0025) but not significant, with an implied CAR of .50%. The succession uncertainty variable is negative (-.007) and significant (p = .015), with an implied CAR of -11.2%. While this may appear odd, our investigation suggests that it may reflect (as reported by the financial press) C.A. Spreckels' published attack on ASR which appeared on that day.

To test the sensitivity of the results to the separation of the succession uncertainty dates as a second event, we reran the analysis including the succession uncertainty dates as estimation dates (that is, along with all the other dates in the estimation period), continuing with January 7th and 8th as event dates. Table 1, Panel A, Item 5 shows a positive coefficient on the policy reversal variable that, while slightly larger than the result in Panel B, is still statistically insignificant.

CONCLUDING REMARKS

In conclusion, the results do not necessarily rule out that the positive wealth effect observed on January 8th for ASR shareholders resulted from ASR's reversal of its secrecy policy. However, our analysis of the events and context surrounding January 8th suggests the following. First, there were several disclosures with potential import to investors. While PSW are correct in their finding of an empirically measurable abnormal return on January 8th, it is difficult to know how much of this effect can be attributed to the official policy reversal announcement versus ASR's report of a good year, Cuban crop shortages, favorable government tariff policies, the methodological artifact stemming from the succession uncertainty following Havemeyer's death (nonstationary beta), or the secrecy policy reversal. There are, thus, several possible factors which may have contributed to the ASR abnormal return effect found by PSW on January 8th.

Second, the financial press anticipated the reversal of the secrecy policy other dates. When included in an analysis, no positive abnormal

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best that the company has experienced. . ."

returns for those dates are found. However, these results may be suspect because the analysis includes event dates during the negative-return period that accompany the apparent succession uncertainty at the time of H.O. Havemeyer's death. Nevertheless, when controlling for the succession uncertainty dates and reducing the event dates to January 7th and 8th, we found no secrecy policy reversal event effect, even when including the succession uncertainty dates in the "normal return" estimation period. Yet even this result cannot be relied upon, as financial press articles attribute ASR stock price weakness on the 7th to C.A. Spreckels published criticism of ASR on that date.

Finally, as mentioned just above, the positive abnormal return of January 8th is, in part, a statistical artifact resulting from the succession uncertainty following Havemeyer's death. During this period of succession uncertainty ASR returns were below market returns. The nonstationary beta confounds the interpretation of any event dates occurring during the succession uncertainty period (including some of the secrecy reversal policy dates), and mathematically biases any statistical analysis using this period in the window for estimating normal returns in favor of finding a positive abnormal return for immediately subsequent dates.

We conclude that it is not possible with the present data and capital markets methods to empirically and statistically attribute ASR's positive abnormal returns to its reversal in its secrecy policy. Our objective, however, is not to disprove that ASR's secrecy policy reversal resulted in a stock price change. Rather, our point is to emphasize the importance in considering all the contextual factors salient to research focusing on historical time periods. This is particularly important when applying contemporary markets methods to data from such periods. Aside from issues of market efficiency during this period (Previts and Bricker, 1994), the nature of historical data may frequently place some limitations on the drawing of conclusions, particularly when the data are scarce and the historical context of the events renders data interpretation ambiguous. Correspondingly, it may be in such instances that historical analysis can be a useful and tool for more fully investigating, interpreting, and augmenting the results of empirical work. In this way, modern capital markets method and historical analysis may prove to be valuable complements in studying historical time periods.

It is helpful and desirable for accounting scholars to carefully construct research that applies contemporary methods to historical accounting data as a backdrop for considering present-day issues.

Empirical researchers are to be commended for conducting pioneering work in this area. Future research of this sort should continue to develop full and careful approaches to combining historical analysis with modern capital market methods, so that adequate consideration of the fundamental contextual factors can be used in the design of such research and in the interpretability of results.

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Wall Street Journal. "American Sugar Refining Co. Again Center of Interest" *Wall Street Journal,* Tuesday 12/17/07.

Wall Street Journal. "American Sugar" *Wall Street Journal,* Friday 12/20/07.

Wall Street Journal. "American Sugar Refining Co. Completes a Successful Year" *Wall Street Journal,* Tuesday 1/07/08.

Appendix A

American Sugar Refining Prices

November 1, 1907 through January 31, 1908

Date	American Sugar	Dow Jones Railroad index	Notes
11/1	100.625	84.360	
11/2	100.625	84.140	
11/4	104.000	85.050	
11/6	105.000	85.720	
11/7	103.625	84.270	
11/8	103.625	85.090	
11/9	103.625	85.070	
11/11	105.875	85.910	
11/12	104.500	85.410	
11/13	104.250	84.800	
11/14	101.875	84.150	
11/15	100.500	82.500	
11/16	101.250	82.970	
11/18	103.000	84.600	
11/19	101.125	82.930	
11/20	101.750	82.380	
11/21	101.000	81.410	
11/22	101.500	81.490	
11/23	103.000	83.400	
11/25	103.000	81.720	
11/26	104.000	83.510	
11/27	103.000	84.090	
11/29	103.750	85.800	Havemeyer is ill 11/28
11/30	106.000	87.130	
12/2	107.750	88.280	
12/3	106.000	87.320	Havemeyer illness reported in NY
12/4	106.500	89.110	Havemeyer
12/5	107.250	90.300	Havemeyer death reported. Secrecy
12/6	107.750	90.560	reversal—date 1
12/7	107.000	90.120	
12/9	105.000	89.190	
12/10	102.000	87.880	Secrecy policy reversal—date 2
12/11	98.375	87.850	
12/12	98.375	87.850	
12/13	94.125	86.940	
12/14	94.125	87.760	
12/16	95.625	86.730	
12/17	95.750	86.610	
12/18	96.250	87.230	
12/19	98.000	87.390	
12/20	100.000	88.780	W.B. Thomas announced as Havermeyer successor

Appendix A (continued)

Date	American Sugar	Dow Jones Railroad index	Notes
12/21	100.125	89.350	
12/23	99.125	88.110	
12/24	98.750	87.610	
12/26	96.875	87.010	
12/27	100.250	88.410	
12/28	99.250	88.350	
12/30	100.875	89.500	
12/31	99.500	88.770	
1/2/08	101.375	89.810	
1/3	107.000	90.380	
1/4	106.250	90.370	
1/6	106.500	91.120	
1/7	104.750	91.150	Secrecy policy reversal—date 3
1/8	107.000	90.820	Annual Meeting. Secrecy policy
1/9	108.250	92.860	—date 4
1/10	108.250	92.030	
1/11	110.250	93.750	
1/13	112.250	94.270	
1/14	113.375	95.060	
1/15	113.250	95.100	
1/16	112.125	94.680	
1/17	113.625	95.270	
1/18	113.625	95.750	
1/20	113.250	94.670	
1/21	111.000	93.090	
1/22	112.375	92.760	
1/23	111.875	92.460	
1/24	111.500	91.660	
1/25	113.500	92.220	
1/27	113.500	92.730	
1/28	114.500	93.400	
1/29	112.500	92.400	
1/30	113.500	92.440	
1/31	114.250	92.190	

Appendix B
Pertinent Articles from the *Wall Street Journal*

1. "Features of the Market" extract - dates as noted:

Wed. 12/04/07	"American Sugar was naturally depressed on the serious illness of H. O. Havemeyer. Washington has been selling a little of the stock lately, which has often shown some tendency to sell off about the time of the meeting of Congress. American Sugar, however, has been very much out of politics for a long time past."
Fri. 12/06/07	"The first transaction in American Sugar was one point below the closing sale of the previous day on President Havemeyer's death. It is admitted that the loss to the company is a very serious one, as he raised it from the most sensational gambling counter in the unlisted department to one of the best held and distributed industrial stocks in the market."
Wed. 12/11/07	". . . Sugar also was subjected to considerable pressure. There was a poor market in it. . ."
Thurs. 12/12/07	"Inquiry from people in close touch with the Havemeyer family and the American Sugar situation disposes of any rumors of a change in the holding of the stock arising out of the death of the president. The selling, however comes through conservative commission houses, and in the opinion of specialists does not indicate a short position of any consequence. It is naturally based upon the very tangible loss the company has sustained in H. O. Havemeyer's death, and represents investment holdings."
Fri. 12/13/07	"American Sugar opened active and higher. H. Content who is thought to have sold something like 25,000 shares on Wednesday, was reported active in making a market, helped by J. Carlisle, the specialist in the stock. It used to be one of the best trading industrials on the board, and the present opportunity is considered favorable for reviving interest."

"Halsted & Hodges, who were among the heavy sellers of stocks in the early trading of Wednesday, sold American Sugar and Amalgamated Copper in considerable quantity on the opening strength. Traders called this good selling, and took it to be long stock."

Sat. 12/14/07 "American Sugar showed the severest break in the industrial list, losing over 4 points. . ."

Mon. 12/16/07 "Houses which used to do a good deal of business for lower Wall Street when American Sugar was the most active industrial on the list, have been selling that stock. Some of this is probably for shorts."

"There was renewed pressure in American Sugar at the outset, with selling by J. Carlisle, the specialist in the stock, C.D. Barney & Co., and other influential commission houses. Boston has been selling the stock since H.O. Havemeyer's death. This is a natural result, as investors there had great faith in the late president. One disturbing factor, however, in the market has been some selling from Washington in the past few days."

Wed. 12/18/07 "Trade interests seem to be the principal bears in American Sugar. One view is that the short crop will hurt earnings. The fact possibly that trade enemies of the company see a chance of retaliation for the Havemeyer attitude towards them in past years."

Fri. 12/20/07 "American Sugar, after opening quiet, advanced a point and a half in the first ten minutes. Traders began to suspect from the beginning of the week that short selling was being encouraged, and a sharp demand for the stock in the loan crowd on Wednesday confirmed this view. The Washington houses have been borrowers of the stock."

Mon. 12/23/07 "There was some disposition to test the strength of American Sugar, but J. Carlisle, the specialist in the stock, had buying orders, and seemed able to support it without much difficulty. It is well and widely held, and soon becomes oversold."

Tues. 12/24/07	"Traders think that a little of the American Sugar bought to support in the recent decline has been coming out quietly. Lower Wall Street advices are bearish, but such speculators do not seem to have made much by their preliminary campaign after H.O. Havemeyer's death."
Fri. 12/27/07	"With very little pressure Sugar disclosed a rather weak technical position. There is no doubt that the rally to par forced in most of the shorts. The bear talk still comes from lower Wall Street, and it looked as if a little long stock were coming to the market, to judge by its more frequent appearance in loans."
	"The selling of Sugar in the forenoon was taken as indicating that the New Street bear party was trying to make an active market. S.L. Blood & Co. and E. F. Hutton & Co. were conspicuous among the sellers, while the specialists supported."
Sat. 12/28/07	"Bear points on American Sugar were again current. They have reference to the election of the new president on Jan. 8, when lower Wall Street believes some permanent difference among leading holders as to policy may make itself felt."
Sat. 1/04/08	"One reason for the exceptional strength in Sugar is the real scarcity of the stock. It loaned at 1.64 premium in the first hour, and has been in demand flat in the loan crowd for some time past. It was always a dangerous short sale, and was oversold when H.O. Havemeyer died."
Wed. 1/08/08	"American Sugar was 2 points lower at the opening on the violent attack by Claus A. Spreckles published in a morning paper. While the Street does not regard him as altogether impartial witness, traders admit that the attack is the most formidable made upon the stock in many years."
Thurs. 1/09/08	". . . Speculators who attacked American Sugar on the protests of Mr. Spreckles found a market which was too much for them, and probably took losses during the course of the day. . ."

2. Additional Articles - dates and titles as noted:

Tues. 12/03/07 **"Answers to Inquires"**
An investing advice column states: " . . . [American] Sugar stock is in danger of being adversely affected by an industrial slow-up, and also by agitation of the tariff question."

Thurs. 12/05/07 **"H. O. Havemeyer"**
Announcement of the death of H. O. Havemeyer: " . . . Under his control the American Sugar Refinery Co. has made a remarkable record of profitable operation. Mr. Havemeyer's methods imparted steadiness and efficiency to his corporation, but his policy was not that of publicity, so that he belonged to a passing rather than to a new era of corporate finance."

"H. O. Havemeyer Dead"
Provides a brief biographical sketch of H. O. Havemeyer.

Fri. 12/06/0 **"American Sugar Refining Co."**
Article downplays the impact of H. O. Havemeyer's death:"While the removal of death of Henry O. Havemeyer, founder and president of the American Sugar Refining Co., for between sixteen and seventeen years, is a loss which is bound to be severely felt, the splendid organization which had been perfected under his leadership, in the opinion of those most familiar with its affairs, has gathered sufficient momentum to carry forward the business without interruption or diminution of prosperity. . ."

Tues. 12/10/07 **"American Sugar Refining Co.: Havemeyer's Death Likely to Result in Abandonment of Secrecy Policy"**
Article predicts more open communication with stockholders.

Wed. 12/11/07 **"Dividends and Meetings"**
"The directors of the American Sugar Refining Co. have elected Horace Havemeyer, a director of the company to succeed his father, H. O. Havemeyer, deceased. Vice-President Thomas was appointed acting President until the next annual meeting, Jan 8.

Appropriate resolutions were passed by the board regarding the death of Mr. Havemeyer."

Mon. 12/16/07 **"American Sugar Refining: Trade and Company Conditions Good"**

"Secretary Heike, of the American Sugar Refining Co., says: 'The condition of the sugar trade and of the company is very good. We are doing a normal business for this season of the year, and the general business recession has not as yet affected the sugar market. The sugar crop is a little short this year.'

In the sugar trade it is stated that there is no apparent cause for the selling of sugar stock. The American Sugar refineries are all running. Its sugar accumulations are sufficient for thirty days, and of these, 50,000 tons were bought by Mr. Havemeyer shortly before his death, at the lowest prices current for sugar for the year and as 1/4c. below present values, which transaction netted a profit of $200,000.

The company's purchases of sugar in October and November show their cost was below present value. The total stocks of all refiners is only 100,000 tons.

Mr. Thomas, the acting president, has been in the management for many years and has wide knowledge of the sugar trade.

It is said the financial results for the present fiscal year are the best that the company has yet experienced. The profits from the Beet Sugar industry along are said to have increased fully 25%."

Tues. 12/17/07 **"American Sugar Refining Co. Again Center of Interest"**

"Not for years has the American Sugar Refining stock been so active as during the past week when over 107,000 shares changed hands at prices ranging from 106 1/2 to 92 3/4, the latter being the lowest point recorded in years. Considerable interest has been aroused as to the causes of this activity, and all the more so, since the company's officials maintain the trade is normal for this time of year, and that conditions, generally, are favorable. In justice to the 17,000 stockholders it should be pointed out that in the sugar trade there is utmost confidence as to the future. The crop is a little short of last year's crop, but on the other hand much better prices prevail.

For the fiscal year, about to close, it is believed, and there is sufficient ground for so doing, that the earnings will be larger that in any year heretofore. . . .

. . . One reason advanced for the marked decline in the stock is the loss of H. O. Havemeyer, which, if be true, is indeed a tribute to his ability as the real genius of the American Sugar Refining Co. The company was apparently too well organized for such to have a radical effect, though it undoubtably did occasion considerable selling."

Wed. 12/18/07 **"American Sugar"**

"Many thousand shares of American Sugar common have been picked up by individual investors on the decline to 92 3/4, and in the cause of several Boston houses, Sugar buying last week was the investment feature. . ."

Fri. 12/20/07 **"American Sugar"**

". . . The notice states that proxies will be voted for the re-election of Messrs. Parsons and Frazier and the election of Horace Havemeyer to succeed his father. It is the intention of the board, as Mr. Heike [Secretary], at the annual election of the officers after the stockholders meeting, to elect W. B. Thomas as president of the company."

Tues. 1/07/08 **"American Sugar Refining Co. Completes a Successful Year"**

"The American Sugar Refining Co.'s past fiscal year, which will be reviewed at the annual meeting on Wednesday, Jan 8., was one of the best that the company has experienced. . .

With the inauguration of the new management it is supposed that the policy of the company will change, the keynote of the new administration being less antagonistic and less secret. It is presumed that the various lawsuits inherited from the Havemeyer regime will be adjudicated.

. . . The strength of the stock in the past week, during which it showed a net gain of seven points, is attributable to various causes. Primarily, the crop is smaller than last year's. This in itself, is sufficient cause for the higher prices prevailing. . . Another bull point as far as the stock is concerned is the spread of the labor troubles in Cuba. Still another factor pointed to with considerable satisfaction by the sugar traders is the attitude of Secretary Taft taken in regard to the duty on sugar and the regulation of the supply from the Philippines. . ."

Wed. 1/08/08 **"American Sugar"**

"The officers of the American Sugar Refining Co. brand the Spreckel's charges against the Sugar Co. as utterly absurd. Acting President Thomas says, 'The story is, of course, untrue,' and Secretary Heike is equally emphatic in denying the truth of the account.

Friends of the American Sugar Refining Co. in the sugar trade admit that more publicity in regard to the company's affairs would be better policy. The new management has already committed itself to more open and less antagonistic methods. President Thomas has given his word to this effect. It will however, take some time to bring about this result completely but the first step in this direction is expected at the annual meeting tomorrow, when President Thomas may in his review of the year disclose more information that has been given out heretofore."

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DEFINING AUDITORS' RESPONSIBILITIES

Abstract: This paper explores the efforts of the audit profession to dominate definitions of their roles and responsibilities throughout the last two decades. The paper considers alternative definitions of these roles and responsibilities as forwarded by others and the justifications and defenses provided by auditors to legitimize their conceptions of these matters.

The U.S. auditing profession maintains that its work enhances the reliability and credibility of financial statements and thereby facilitates the operation of capital markets. Although the profession has benefitted greatly from legislated requirements for annual audits, it has also fought forcefully to dominate the definitions of its tasks, roles, and responsibilities—to perform audits as it sees fit. In developing and maintaining a particular position relative to their responsibilities in conducting financial audits, auditors have attempted to tell the public whom they serve as well as the types of tasks that the public may reasonably expect the profession to undertake.

This insistence upon a self-definition of tasks, roles and responsibilities should not be surprising. With the passage of the securities acts and licensing statutes by individual states, auditors have demarcated the attestation of financial statements as an element of their professional jurisdiction. Through such demarcations, professions attempt to gain legitimate control over particular kinds of work [Abbott, 1988]. They claim the right to perform work within their jurisdiction as they deem appropriate and also to dominate public definitions of their professional tasks. In effect, professions are asking the public to trust that they know best how to define their professional roles and responsibilities and how to accomplish their professional tasks. Carmen Blough [1939, p. 165] succinctly captured this position in discussing why auditors should refer to audit

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procedures "deemed" appropriate rather than exhaustively listing the procedures performed during an audit in the audit certificate (i.e. report):

> [These words] say 'You must trust me to do a good job as an accountant. No detailed recital that I might make of the auditing procedures followed would tell you enough to make it worth your while to read them. If you cannot trust me, you had best not depend upon my certificate, but if you can bring yourself to the frame of mind where you believe I will do what an honest, capable and independent public accountant should do, then you may rely upon it.'

In exchange for defining its professional work and responsibilities, however, a profession must also be seen to perform the work defined as contained in its jurisdiction. In other words, an obligation is imposed upon a profession to do what it says it will do. For some professions, this obligation is perhaps difficult to monitor. For example, do lawyers actually serve the needs of justice, their primary jurisdictional claim [Abbott, 1988].[1] For other professions such as auditing and accounting, "failures" to accomplish professional work may be highly visible and the definition of a "failure" contested.

Audits are seen to fail. Indeed, the history of auditing might be interpreted by some as a history of auditing failures [Power, 1992]. But when is an audit to be described as a failure, and when do such failures suggest weaknesses in auditing practices or failures by the auditing profession more generally? Are sudden and unexpected corporate bankruptcies evidence of an audit failure? What of the failure to detect material fraud? When may audits described as failed be interpreted to imply the roles and responsibilities of auditors should be redefined? The answers to these questions no doubt depend upon to whom they are addressed.

The significances or meanings to be attached to an audit opinion, the only visible sign that audit work has been performed, remain ambiguous. Does a "clean" report imply that fraud was absent or that no fraud was detected? Can one infer from a "clean" report that a corporation is financially sound and can be expected to continue its operations into the future? Or does a "clean" report refer only to the use of GAAP in constructing financial statements? Each (or all) of these meanings may be and have been assigned to the "clean" audit report. Yet, they carry

[1]This claim is also being increasingly contested in recent years.

significantly different implications for the roles and responsibilities of the auditor. If a "clean" report is interpreted to mean no fraud is present, then the auditor has a responsibility to detect fraud, to search actively to find it. If it implies only that no fraud was detected, then the auditor may not be seen as responsible for searching for fraud. If the report is interpreted to imply that a company will continue to exist, then the auditor must assess its future viability before issuing a report.

In recent decades, considerable attention has been given to the existence of an "expectations gap" between what "the public" believes auditors should do and how auditors have defined their roles and responsibilities. Disagreement and controversy have surrounded the significance and content to be accorded the term "auditors'"roles and responsibilities". This gap has been explored in the accounting literature. For example, Humphrey et al. [1992] have critically examined the response of the profession to this gap, primarily in the UK context. Hooks [1991] has considered efforts to match public concerns with auditor actions, and suggested that the profession may benefit from public ignorance. These and other authors have raised questions regarding whether auditors act in the public interest when they adhere to extant standards rather than assess the economic consequences of audited transactions [Merino & Kenny, 1994; Martins & McEnroe, 1992]; when they respond to public outcries in particular ways [Fogarty, 1996; Byington & Sutton, 1991; Mills & Bettner, 1992] or even whether they meet their own definitions of serving the public interest [Sikka et al., 1989]. In this paper, I hope to make a modest contribution to this literature by examining the efforts of the U.S. accounting profession to dominate definitions of its roles and responsibilities during the last three decades. These efforts have occurred amidst tension between the perceived obligations of auditors to perform particular tasks and their declared "rights" to define such tasks. In part, this tension has arisen from the particular cultural values [Abbott, 1988] with which auditors have aligned their work. The next section briefly considers some of these values in an historical context and the justifications employed by auditors to legitimize their work. It also outlines the ways that auditors defined their professional tasks during the 1970s. In the subsequent sections, I consider the challenges that have been posed to these definitions and the responses of auditors to these challenges, from the 1970s to the 1990s. The final section contains some concluding observations.

WHY ARE FINANCIAL AUDITS "VALUABLE"?

In the 1970s, auditors described their role as one of enhancing the credibility of financial information and furthering the operations of an effective capital market [Carmichael, 1974]. This claim bears a striking resemblance to those made in the 1930s regarding the necessity for enhanced financial disclosure by corporations. Prior to the 1930s, corporations were required neither to submit annual reports to government agencies or shareholders nor to have such reports audited. Corporate managers "regarded their company's affairs as private and privileged" [McCraw, 1984, p. 166].[2] Indeed, "Mystery [i.e. nonreporting] was treated as an asset, on the grounds that publicity would be too informing to competitors" [Ripley, 1927, pp. 178-179]. During the economic depression, corporate secrecy was increasingly seen as a threat to the functioning of capitalism undermining the legitimacy of the securities industry [McCraw, 1984]. For some, the "worst damage" of the Depression was the "wholesale betrayal of confidence by investors" [Andrews, 1932, p. 354], including "unrestrained financial exploitations which create[d] fictitious values never justified by earnings" [Roosevelt, 1933, p. 226].

Regaining investor confidence was deemed essential to the economic recovery of the U.S. [Roosevelt, 1933], and enhanced disclosure by corporations was seen as one means to this end. It was in this climate of economic depression and distrust that the 1933 Securities Act ("Truth in Securities") was enacted. The act was described as a response to "the reticence of financiers" [Rep. Rayburn, quoted in McCraw, 1984, p. 166], and required that specific disclosures accompany the issuance of new securities. The 1934 Securities and Exchange Act extended these disclosure requirements to encompass all publicly traded companies and established the Securities and Exchange Commission. The New Deal legislation also required that the disclosures and reports submitted by corporations be audited. These audits would enable a new era of "caveat vendor" [Andrews, 1932, p. 359], supplanting that of *caveat emptor* which had been prevalent in previous decades. After all, "it is generally regarded that an independent audit of any business is a good thing" [Col. Carter during Congressional hearings on the Securities Act, quoted in Carey, 1960, p. 187]. Through enhanced disclosure, audit, and other practices, confidence and trust were to be restored in the operations of

[2] Also see Ripley [1927] and Robbins [1929].

the securities markets.[3] The practice of auditing was thus closely linked to the cultural value of credible financial reporting seen as necessary for the securities markets.

In the 1970s, audits were still described as affirming the truthfulness of financial statements and ensuring that financial statements were "fairly presented" [Palmer in *New York Times*, April 6, 1975]. This function was loosely linked to various audit practices including the review and testing of company records and the procedures and controls used to assemble financial information, approval of the use of various accounting principles, and examination of financial statements to ensure they contained no material misstatements, omissions, or misleading presentations of data [Silverman, 1971]. Through the application of such practices, the auditor was to render a professional opinion "as to the reliability of a company's financial records. . . .judged in terms of the adequacy of records from which the information emanates and the acceptability of technical accounting principles involved in recording transactions" [Silverman, 1971]. In describing their role in this way, auditors maintained that the purpose of an audit was to ensure that financial statements fairly presented the financial position and condition of a business entity and that the notion, "fairly presented", was a function of the acceptability of various accounting principles. The audit profession did not accept responsibility for the preparation of financial statements. Instead, these statements were declared to be the representations of management and the responsibility of management [Mautz and Sharaf, 1961].[4]

The terms used to describe the auditors' role were quite ambiguous—ensuring "fair presentation" and the "truthfulness" of financial reporting. While such ambiguity serves to suggest the expertise and knowledge required to conduct an audit properly through the exercise of professional judgment [Power, 1992], it also increases the possibility of multiple and conflicting interpretations of these terms as well as multiple and conflicting assessments as to whether auditors had accomplished these ends in specific instances. What obligations did the profession maintain were undertaken by auditors? Could financial statements be described as "fairly presented" when an auditor failed to

[3]See Neu [1991a, b] re: trust production in the Canadian securities industry.

[4]This statement echoes an opinion of the SEC which maintained that the "fundamental and primary responsibility for the accuracy of information filed with the Commission rests upon management" [quoted in Montgomery, 1940, p.140].

detect fraud? With fraud, revenues and assets might be overstated or expenses and liabilities understated. If information about these accounting categories could be said to represent the financial condition and operations of an entity but the categories themselves were "inaccurate," then could one argue that the financial statements fairly presented the operating results and financial condition of the entity? Did the term "fairly present" which appeared in the standard audit opinion imply that financial statements were free of material errors resulting from fraud or other illegal acts?

Prior to the passage of the securities acts, the primary purpose of an audit was to "ascertain the actual financial condition and earnings of an enterprise," with the minor object of detecting and preventing fraud and errors [Montgomery, 1921-22, pp. 19, 21, and 1927, pp. 23, 25]. However, by 1940, the detection of fraud was no longer described as an object of the audit, as this would "require an examination of such detail that its cost ... would be prohibitive" [Montgomery, 1940, p. 13].[5] By the late 1940s, it was argued that audits were not designed to detect fraud, nor were auditors responsible for its detection [Montgomery, 1949; Kohler, 1947].

Throughout the 1970s, auditors continued to maintain that the concept of "fairly present" as defined by the profession imposed a very limited obligation upon auditors to detect fraud or other illegal acts. Some argued that it was "sheer ignorance to think the purpose of the audit is to detect fraud" and, in their engagement letters with corporate management, audit firms often included explicit statements to indicate they were not in the business of detecting fraud [Hershman, 1974; Blinn, 1977]. According to the professional literature of the time, auditors were responsible for detecting fraud only when such detection could occur through the application of generally accepted auditing standards (GAAS) [Holdren, 1969; Carmichael, 1975; Kapnick, 1976]. Yet, GAAS was seen to guide the conduct of "ordinary" audit examinations—those in which fraud was not thought to occur. Indeed, audits were assumed to be performed in a corporate environment of honesty and integrity [Solomon and Muller, 1977] and auditors were not required to presume that fraud had occurred while conducting an audit [Kapnick, 1976]. As a consequence, the application of GAAS could not be "relied upon to assure the discovery of either defalcations and similar irregularities or deliberate management misrepresentations" [Carmichael, 1975, p. 79].

[5]Through such arguments, auditors were also aligning their work with notions of efficiency.

From this perspective, if auditors properly applied GAAS in an engagement but failed to detect fraud, then no audit failure had occurred even though the financial statements might contain errors. The audit profession thus limited its definition of an audit failure to include only those cases in which an auditor failed to apply GAAS. In doing so, it maintained that auditor performance and their roles and responsibilities were to be assessed only by reference to the rules and guidelines established by the profession. Auditors were to be evaluated on their own terms rather than by reference to the roles and responsibilities that nonauditors might believe should guide the conduct of an audit.

In defining an audit failure as a failure to follow GAAS, the profession was promoting and claiming its right to establish definitions of "fairly present" and to perform its work as it saw fit [Abbott, 1988]. Even as it continued to call upon broader cultural values such as the credibility of financial statements to justify and legitimate the usefulness of an audit, the profession also attempted to control and define the terms used to assess whether these values had been achieved. In this way, and through these definitions, the audit profession was attempting to construct and define the "proper" roles and responsibilities of auditors. Furthermore, with its limited definition of an audit failure, the profession was apparently attempting to equate the performance of an audit in accordance with GAAS as sufficient evidence that the cultural value of credible financial statements had been achieved [Abbott, 1988]. If audited, financial statements were to be seen as credible. The profession was attempting to preclude public discussions of the meanings and significances to be assigned to the audit and, instead, sought to define those terms seen to provide the audit process with value in ways desired by the profession, and thereby to control the significance of work performed within its jurisdiction.

QUESTIONING THE DEFINITIONS PROVIDED BY AUDITORS—1970s

Although the profession forwarded its desired definition of an audit failure and thereby of a "quality" audit, the revelation of scandals such as Westec, Yale Express, and Bar-Chris [Why Accountants, *Business Week*, 1971] as well as National Student Marketing [*Wall Street Journal*, October 29, 1974], Beverly Hills Bancorp [*Wall Street Journal*, August 14, 1974], and Equity Funding [*Wall Street Journal*, January 8, 1975; January 10, 1975; December 18, 1975] raised questions about the propriety of the auditing profession's definitions, including questions about its roles and responsibilities in detecting fraud. Some commentators suggested that if audits could fail to detect a fraud of the magnitude of Equity Funding, then as currently conducted they might have little value [*Wall Street Journal*, July 12, 1974; Hershman, 1974]. The Equity Funding scandal was seen to place intense pressure upon auditors to accept a duty to detect fraud [*Wall Street Journal*, January 8, 1975].

Members of the SEC also criticized the profession's position on fraud. Some commissioners considered auditors in a strategic position to "nip fraud before it blossoms" and criticized them for failing to heed "red flags" that were indicative of potential fraud [*Wall Street Journal*, July 12, 1974]. In referring to several major cases of substantial management fraud, one SEC commissioner commented:

> In most of these cases, the fraud was one which was designed to present a misleading picture of results through transactions with related parties or through outright fictitious transactions...If the accounting profession adopts the view that auditors should never be responsible for detecting management fraud, there is little likelihood that increased imposition of the truly onerous and unfair burdens on the accounting profession can be prevented. Standards can best be promulgated by the profession and can serve to allay fears that auditors will become insurers against all forms of management fraud, however carefully concealed [News Report, *Journal of Accountancy*, 1973a, pp. 14,16].

He urged the profession to accept responsibility for fraud detection [*New York Times*, October 17, 1973] as did the Commission more generally: "We believe that in examinations for corporations whose securities are held by the public, accountants can be expected to detect gross overstatements of assets and profits, whether resulting from fraud or otherwise" [quoted in Hershman, 1974, p. 53].

In addition to concerns about auditor responsibilities to detect material errors, auditors were criticized for a perceived failure to maintain their independence from their corporate clients [It's Time to Call, *Fortune*, 1970; Why Accountants, *Business Week*, 1971]. These questions were particularly troubling as they suggested that auditors had failed to meet their own definitions of a "quality" audit. Did auditors serve their corporate clients or act in the public interest by protecting investors and creditors [The Big Bath, *Newsweek*, 1970; Why

Accountants, *Business Week*, 1971; *New York Times*, November 5, 1973]? Were auditors "too friendly" with management and should they continued to be hired as employees by their former clients [*New York Times*, November 18, 1972]? Had heightened competition within the profession resulted in an increasing unwillingness by auditors to insist on "compliance" with financial accounting standards and to "pursue incompetence" [Letter to the Editor, *New York Times*, December 7, 1975]? Was a "more muscular audit" needed to alleviate pressures on auditors to provide creative accounting answers for clients who otherwise threatened to change auditors [*New York Times*, April 14, 1974]?[6]

Although accounting writers indicated an awareness of criticisms that auditors were not adequately independent of corporate clients, that accounting results disclosed too little, and that financial statements were too complex [e.g., Seidler, 1973], the general response of the profession to these criticisms can be summarized in a single phrase: "You just don't understand." Even as auditors continued to argue that audits enhanced the credibility of financial information, they also claimed that audits were not designed to detect fraud. While auditors insisted they could enhance the credibility of financial reporting without actively searching for fraud, the public appeared to disagree with this position and apparently expected that significant or material fraud would be detected by an audit.[7] In contrast to the definition of an audit failure forwarded by the profession, the public defined such failures as including those audits

[6] Apparently, the Securities Acts were not as effective in allowing auditors to escape the "grip" of management as was originally hoped [McCraw, 1984], nor were the rules on independence sufficient to achieve this end despite an awareness by the profession of the need for public confidence in the "unbiased and selfless character of the public accountant's role" [Miranti, 1990, pp. 176-177].

[7] For example, a 1974 Arthur Andersen & Co. survey "indicated that 66% of the investing public believe[d] that the most important function of the public accounting firm's audit of a corporation is to detect fraud" [cited in AICPA, 1978, p. 31]. Further, Baron et al. [1977] reported survey results in which nonauditors indicated higher levels of auditor responsibility for the detection of deliberate material falsifications than did auditors. With the exception of auditors, the survey respondents also indicated a preference for extending auditor responsibilities with respect to the detection of deliberate material falsifications of financial statements.

which did not detect material fraud or errors. This difference in definition called into question the propriety of the practices both followed and defined by auditors in conducting audits. The controversy surrounding Equity Funding and other corporate failures as well as questions about the independence of auditors suggested that the profession had not succeeded in equating the performance of an audit in accordance with GAAS as sufficient evidence that credible financial reporting had been produced. These corporate failures highlighted differences between the ways in which the auditing profession linked the audit to credible financial reporting and how the public interpreted this linkage.

The profession interpreted these criticisms as indicative of a failure by the public to understand the roles and responsibilities which it had defined. The public was described as misinformed about the services customarily performed by CPAs [Solomon et al., 1976, p. 68]. These differences between public interpretations and auditor interpretations of how an audit was to intersect with the production of credible financial statements were construed by auditors as indicative of a need to educate the public. A properly educated public would accept that audits could enhance the credibility of financial statements without serving as guarantees of the accuracy of financial statements [Hershman, 1974]. In emphasizing the necessity for educating the public, the profession attempted to avoid reassessing its own definitions of its roles and responsibilities. Instead, confronted with these differences and interpretations, the audit profession renewed its efforts to dominate the signficances to be assigned to its roles and responsibilities and to persuade the public to accept the value of an audit as defined by auditors. In particular, the profession sought to manage impressions, emphasized better communication by auditors, called upon other cultural values to justify its position, and outlined expertise and its limits.

Managing Impressions. Through various means, the AICPA attempted to manage public impressions about the roles and responsibilities of the audit profession. In 1973, the AICPA Board of Directors announced the formation of a special committee "to study whether the auditing standards, which are currently considered appropriate and sufficient in the examination of financial statements [by the AICPA], should be changed in the light of Equity Funding and to report its conclusions to the Board of Directors and the auditing standards executive committee" [News Report, *Journal of Accountancy*, 1973b, p. 14]. The Institute justified forming the committee by indicating that "the Institute shares the general public concern about the

Equity Funding disaster, which caused enormous losses to investors and creditors apparently by reason of massive and collusive fraud" [News Report, *Journal of Accountancy*, 1973b, p. 14]. Although some individuals claimed that no lessons could be learned from such a poorly conducted audit engagement, others suggested that the fraud was possible because Equity Funding employees had exploited blind spots and crevices in existing audit practices [*Wall Street Journal*, January 8, 1975; Tipgos, 1977].

This AICPA special committee later concluded that the Equity Funding fraud could have been detected using existing auditing standards and that the professional position with respect to its responsibility to detect fraud was sound [*Wall Street Journal*, June 5, 1975; Olsen, 1982]. For the committee, the Equity Funding scandal was not interpreted as evidence of the profession's failure to perform appropriate tasks but rather as a failure by individual auditors to follow established rules and guidelines. Even so, the committee urged that the standards relating to fraud detection be restated in more positive terms to avoid public misunderstandings of the audit and to reemphasize that audits might detect fraud but were not specifically designed to do so [Olsen, 1982]. The committee in this way reasserted the position of the profession with respect to fraud detection and maintained that the audit purposes as previously articulated were sound. The problem confronting the profession was thus seen as one of educating the public about the proper role of the auditor rather than a reconsideration of this role. Audits were not designed to detect fraud, and the public was to accept the profession's definitions of its roles and responsibilities.

This emphasis upon interpreting public criticisms as the public's failure to understand the auditor's role can also be seen in the 1974 formation of the Cohen Commission on auditor's responsibilities.[8] This commission was charged with "determin[ing] whether a gap exists between what the public expects of auditors and what auditors can reasonably be expected to accomplish [News Report, *Journal of Accountancy*, 1974, p. 14]. The wording of this announcement suggested the results the AICPA anticipated the Commission would find: the public's expectations of auditors were unreasonable and auditors had appropriately defined their tasks. As part of its efforts at impression management, the AICPA later pointed to the formation of the Cohen

[8]The Commission was to explore mechanisms for developing auditing standards, possible alterations to the standard audit report, and whether auditors should monitor all financial information released to the public.

Commission as evidence that it was taking the steps necessary to police itself: "We're going to show that accountants are concerned about the consumer" [*New York Times*, May 9, 1976]. Apparently, the formation of the Commission rather than any changes resulting from its possible recommendations was to be seen as sufficient evidence of auditor concerns about discrepancies between public and auditor interpretations of how to define auditor tasks and responsibilities.

Emphasizing Better Communication. Again, criticisms of auditors were interpreted as the public's failure to understand properly the role of the auditor. However, this failure was now explicitly attributed to faulty communications between the auditor and the public. At times, this faulty communication was blamed upon the media for misleading the public:

> and if the public has cast the accountant in the role of the nemesis of all those who would embezzle funds, falsify financial statements or commit other corporate crimes, it is not altogether at fault. Some of the recent publicity in connection with lawsuits involving prominent accounting firms appears to lend considerable credence to the idea that the auditor is, in the final analysis, the conscience of business, big and small. In reality, this is a popular misconception [Silverman, 1971, p. 80].

At other times, faulty communication was attributed to the existing audit opinion. In 1969, Roth [p. 61] argued that

> A better understanding of the independent auditor's role by the users of our reports and by the public generally might go far toward reducing the number of cases taken to court and resultant unfortunate legal decisions. One means of attaining better understanding could possibly be a clearer explanation of the scope and purpose of our audit in our short-form report.

Rosenfield and Lorenson [1974] also blamed the ambiguous audit report for the turmoil over auditor responsibilities. In particular, they faulted the statement made within this standard report that claimed financial statements were presented fairly in accordance with generally accepted accounting principles. They recognized that this statement could be subject to a number of different interpretations, each of which implied differing responsibilities for auditors.

The failure of the public to understand was in part a consequence of poor communication by auditors. As such, the solution to then current controversies surrounding the audit profession was to consider "improving" the audit report so as to describe better the profession's conception of an audit's purpose. However, this purpose was still to be defined by the profession. Apparently, "improved communication" was to be a monologue in which the public would be told by the profession what it could "reasonably" expect from an audit. In calling for altered audit reports, there was a presumption that the existing practices, roles, and responsibilities of auditors were appropriate. The public was to accept that the audit profession knew best how to enhance the credibility of financial information.

Calling Upon Other Cultural Values. Other authors attempted to justify more directly the position of the profession with respect to the discovery of fraud. They attempted to convince the public (or perhaps only Congress and the SEC) that its interpretations of the role of an audit were unreasonable and inappropriate. Some pointed to the confusion regarding the definition of fraud and noted that many business failures arose from other factors such as bad management or adverse economic conditions [Catlett, 1975]. They also argued that requiring auditors to accept responsibility for fraud detection would interfere with American cultural values of "free" enterprise and "opportunity for all" [Catlett, 1975; Cooney, 1995]. By imposing such requirements on auditors, they would be reluctant to accept more risky companies as clients. As a result, these companies (often start-ups) would be unable to obtain audit services and would thereby be effectively denied access to capital markets. Following this chain of reasoning, free enterprise, and consequently competition within industries, would be hampered if auditors were required to accept fraud detection as one of their responsibilities. Stated in other words, the "traditional" responsibilities of auditors as currently defined served to promote greater economic opportunities for all.[9]

It was also argued that requiring auditors to accept this

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[9]Interestingly, some individuals attempted to employ the weight of "tradition" as a reason to maintain the status quo. They claimed that fraud detection conflicted with the "traditional" audit approach and was, in general, too costly an undertaking [e.g., *New York Times*, April 6, 1975]. However, these arguments represented an effort to construct such a tradition. The Cohen Commission later traced the steady erosion of fraud detection as an audit objective [AICPA, 1978, pp. 33-35]. See Hobsbawn and Ranger [1984] on the construction of traditions.

responsibility would sacrifice another cultural value—efficiency [Abbott, 1988]. Relative to the large number of audits conducted each year, the incidence of undetected fraud (an audit failure as defined by the public) was claimed to be small (a claim perhaps impossible to either refute or substantiate). Requiring auditors to search actively for fraud would result in the performance of additional audit procedures. But if one assumed that undetected fraud was a relatively infrequent event, then obviously such additional efforts would not be cost-effective [Hershman, 1974], but rather a waste of auditor time and client money.[10]

Outlining Expertise and Its Limits. Again, auditors maintained that the public failed to understand the particular expertise of auditors. Some expressed the opinion that an adequate answer to the question of what "good" is an audit that could not provide assurance that material fraud was detected "is exceedingly involved and probably beyond the grasp of the average user of the auditor's work" [Carmichael, 1979], the "non-expert." Others questioned the ability of such non-experts to understand the "esoteric, highly specialized professional standards and responsibilities" of the auditor [Solomon et al., 1976]. In effect, because the public was not expert in auditing, the nature and extent of the complex tasks underpinning the audit report were best left to those specifically trained in undertaking these tasks. In making these arguments, Solomon et al. [1976] criticized the actions of the trial judge in the Continental Vending case who had instructed the jury that "proof of compliance with GAAP [generally accepted accounting principles] is evidence which may be very persuasive but not necessarily conclusive that [the auditor] acted in good faith, and that the facts as certified were not materially false or misleading." The judge's instructions were to be seen as inappropriate because the professional expertise and judgment of the audit profession was being effectively supplanted by that of a less informed and knowledgeable jury. Instead, for these authors, the jury should have been instructed that compliance with generally accepted accounting principles would be sufficient to acquit the auditors. In forwarding these arguments, the authors suggested that the audit should be considered an end in itself and that the means to this end were best left to the experts, the audit profession. In deciding whether an audit had resulted in the production of reliable financial reports, one need look no further than assessing whether the statements were prepared in accordance with the established accounting rules and auditing standards.

[10]This argument echoes that made by Montgomery [1940] to explain why fraud detection was not an audit purpose.

Even as some maintained that the expertise of auditors lay beyond the understanding of the general public, others argued that this expertise also had its limits. Now, auditors were argued to possess no special powers in detecting fraud. They were not favored with hindsight and conducted audits under a presumption of honest management [*New York Times*, April 6, 1975]. As such, the audit profession could not and should not undertake responsibilities it could not successfully fulfill [Catlett, 1975].[11] Such justifications for the status quo presumed a certain fixity in the nature of an audit engagement and a self-assurance as regards its continuing relevance in the face of efforts to exclude nonauditors from any role in defining its nature and purpose. These justifications also suggested an extraordinary confidence in the continuing importance of the audit profession and its self-defined tasks.

In issuing revised auditing standards on fraud and illegal acts in the late 1970s, the profession attempted to maintain the status quo. The fraud standard repeated previous professional statements about the limitations of the existing audit process, limitations that might allow errors to remain undetected. As such, it was seen to do little more than to reiterate "traditional" audit doctrine and to emphasize that frauds do occur [*Wall Street Journal*, May 6, 1976] and might remain undetected. Similarly, the proposal on illegal acts explicitly recognized the expertise limitations of auditors and indicated that auditors could not be expected to provide legal opinions. Again, this new requirement was seen to have little effect upon existing auditor responsibilities [*Wall Street Journal*, January 31, 1977].

The articles appearing in the accounting practitioner journals and elsewhere during this period seemed to emphasize the necessity for making the public understand the auditor's roles and responsibilities as interpreted by auditors. This understanding was to be imposed upon the public by the profession. Although auditors claimed to act in the public interest, they also maintained that as "experts" they were best qualified to decide their responsibilities. They argued that the profession was best situated to decide what constituted reasonable public expectations with

[11]This lack of expertise/professional competence argument was also used to justify resistance to placing upon auditors a responsibility for the detection of illegal payments [*New York Times*, September 28, 1976]. Many illegal acts were seen as far removed from entity's financial affairs (the area of audit expertise). As such, it was unlikely that an auditor could detect them during the audit engagement (e.g., violations of OSHA or EPA regulations) [Solomon and Muller, 1977].

regards to audit performance and auditor roles and responsibilities. Auditors were to define these tasks both for themselves and the public; they were to control the activities within their professional jurisdiction and to decide whether the credibility of financial statements was being enhanced by their activities.

CHANGING THE TERMS OF DEBATE

In 1976, a highly critical Senate staff study was released about the accounting profession [U.S. Senate, 1976]. This study claimed that the professional interests of auditors were too closely intertwined with those of large corporate clients, attacked auditor claims of independence and questioned the reliability of private audits [*New York Times*, January 23, 1977]. In a cover letter, Senator Metcalf stated that the Big Eight accounting firms had shown "an alarming lack of independence and lack of dedication to public protection" [*New York Times*, January 17, 1977]. The study suggested that governmental regulation of auditors might be necessary, including the establishment of federal auditing standards [*Wall Street Journal*, January 17, 1977]. It also questioned the appropriateness of the existing process for establishing accounting standards [U.S. Senate, 1976]. Initially, the AICPA expressed dismay at the Senate staff's

> unwarranted conclusions. This effort [of the AICPA over 35 years] combined with actions of SEC results in achieving the highest quality of financial reporting and disclosure of any country in the world [*Wall Street Journal*, January 17, 1977].

Partners from Big Eight firms were reported as describing the staff study as both wrong and superficial [*New York Times*, January 17, 1977]. Despite these assertions, several auditors who later testified during the Congressional hearings about the study urged Congress to allow the auditing profession time to reform itself.

With the publication of this report and the convening of subsequent Congressional hearings, attention appeared to shift away from questions about the appropriate roles and responsibilities of auditors and towards an emphasis upon finding specific practices that could serve as symbols suggestive of the appearance of auditor independence. The threat of an increased federal role in the operations of the auditing profession appears to have been a critical element in this shift. The "new" practices installed during this period included the formation of audit committees, disclosures of disagreements between auditors and corporate clients, and the implementation of mechanisms to discipline and control the actions of auditors, such as peer review. In emphasizing the development and implementation of these practices, questions that had earlier been raised about the proper roles and responsibilities of auditors faded into the background. This shift was quite significant in that it allowed the auditing profession to continue forwarding its preferred meanings for an audit and its definitions of the appropriate roles and responsibilities for auditors. With this shift, attention was redirected from the interpretations to be accorded an audit to focus instead upon the sorts of services an audit firm could be permitted to provide and still claim its independence from clients and the types of disciplinary techniques needed to convince nonauditors that professional self-regulation was possible and workable.[12]

This shift from a consideration of roles and responsibilities to finding and installing specific practices of self-regulation occurred in spite of the publication of the tentative and final conclusions of the Cohen Commission. In its tentative conclusions, this Commission suggested that the expectations gap often described by auditors as unreasonable was apparently ". . . caused by the failure of auditors to fully assume responsibilities they are capable of assuming, rather than by unreasonable user expectations" [Seidler, 1977, p. 20]. The Cohen Commission recommended that auditors be required to provide a broader range of information about corporate clients and to expose publicly the wrongdoing of clients in certain circumstances. It further recommended that the auditors clarify their responsibility for fraud detection. In making this recommendation, the Commission commented that the users of financial statements "should have the right to assume that audited financial information is not unreliable because of fraud and that management maintains appropriate controls to safeguard assets" [AICPA, 1977, p. 36]. In other words, credible financial reporting could not be produced if auditors failed to detect material fraud.

These recommendations suggested that public interpretations of the significance of the audit and auditors' responsibilities of should supersede some definitions forwarded by the profession. While the profession was to decide how these different tasks would be implemented, the Commission explicitly accepted a role for the "public" in defining the responsibilities of auditors. In this way, its recommendations might have been seen to threaten the dominant role of

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[12] See Fogarty [1996] on peer review.

the profession in defining its own roles and responsibilities. Unsurprisingly, its recommendations tended to be ignored by the AICPA.[13]

INTEREST RENEWED

As the 1980s began, Congressional interest in accounting and auditing matters subsided. In 1981, the New York Times commented:

> Pressure for Federal regulation has waned. The Securities and Exchange Commission has shredded its letters warning of the importance of auditor independence from the companies they audit. And, perhaps most surprising, certified public accountants now occupy powerful positions in Washington [*New York Times*, October 7, 1981].

In this same article, an AICPA representative was quoted:

> For the first time in years, the accounting profession is experiencing real power in Washington not just outside influence.

Even as regulatory interest in accounting waned, articles continued to appear in the press (although with less frequency than earlier) that were critical of auditing and accounting. The media continued to report on the ways in which "slick" accounting ploys were used to improve the reported income of companies [*Wall Street Journal*, June 20, 1980], on the rise of accounting "scams" accepted by auditors without qualification [*Wall Street Journal*, July 9, 1982], about SEC charges that financial statement "fudging" was a growing practice [*Wall Street Journal*, June 2, 1983; "The SEC Turns Up the Heat," *Business Week*, 1984] and on the increasing number of corporations that fired auditors who had issued

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[13]Indeed, the AICPA was accused of responding superficially to these recommendations by studying the report intensively in small committees while failing to heed its advice [Seidler, 1979]. For example, the AICPA announced the formation of a committee to study the tentative conclusions of the Cohen Commission in 1977. This announcement also suggested the importance of the Commission for public relations purposes: "This is the type of independent study that would benefit any profession which is accountable to the public" [News Report, *Journal of Accountancy*, 1977, pp. 16, 18].

qualified audit opinions [*Wall Street Journal*, May 12, 1983].

As the prohibitions on advertising and client solicitation were either dropped or substantially reduced, competition within the auditing industry (often taking the form of price competition) increased dramatically and auditing firms entered into the "alien world of marketing" [*Wall Street Journal*, March 18, 1981]. Accounting firms were now characterized as ever more aggressively "courting competitors' clients, promising lower audit fees" [*New York Times*, October 3, 1984] and squeezing profit margins on the traditional auditing business of the large accounting firms [*New York Times*, December 30, 1984]. In this environment, concerns were raised about "whether growing competitive pressures [might] be encouraging auditors to bend the rules in favor of clients, such as keeping a questionable loan on the books to keep up the bank's profits on paper" [*New York Times*, March, 10, 1985]. Questions were also raised as to whether audits had become "loss leaders used merely to win more profitable management and tax-consulting contracts with the client" [*New York Times*, February 18, 1985]. These questions suggested that auditors were failing to carry out the roles and responsibilities which they had defined for themselves. They implied or stated outright that auditors and audits were not enhancing the credibility of financial statements in at least some instances.

Such questions arose amidst a number of significant "audit failures" occurring relatively soon after an entity had received an unqualified audit opinion ["Auditing the Auditors," *Business Week*, 1983]. In 1982, Penn Square Bank collapsed three and one-half months after receiving an unqualified audit opinion [*Wall Street Journal*, July 29, 1982]. Although the auditors had warned Penn Square directors that the bank's financial problems were growing, they issued an unqualified audit opinion because of perceived risks to depositor confidence [*Wall Street Journal*, August 17, 1982]. Similarly, three weeks before the FDIC declared United American Bank insolvent, its audit firm issued an unqualified audit opinion on the bank's financial statements even though many federal investigators had been present during the audit [*Wall Street Journal*, March 4, 1983]. In 1984, the *New York Times* listed several instances of alleged audit failures including Litton Industries, Security America Corporation, Drysdale Government Securities Corporation, Saxon Industries, Flight Transportation, Alpex Computer, United American Bank, Penn Square Bank, and Datapoint [*New York Times*, May 13, 1984]. Later, the *New York Times* [November 23, 1984] reported several lawsuits pending against a single international accounting firm arising from audit work at DeLorean Motor Company, Nucorp Energy, Seafirst National Bank, Frigitemp, the Reserve Insurance Co., and the Financial Corporation of America. Between 1980 and early 1985, the largest accounting firms paid more than $175 million in settlements and judgments over disputed audits [McComas, 1986].

Despite earlier efforts to convince the public that the profession had no responsibility to detect fraud, the significant number of instances designated as "audit failures" again raised questions regarding the significances that could be accorded to an unqualified or "clean" audit opinion. For example, the *New York Times* [May 13, 1984] commented that auditors are thought of as

> the watchdogs who will detect fraud or emerging financial problems before those problems sink a bank or make a corporation's stock price plunge.
>
> But such faith has been eroded lately through a series of incidents in which some of the most elite accounting firms have blessed a financial statements on the eve of disaster.

Were auditors fulfilling this responsibility? Did the audit enhance the credibility of financial reports?

In 1985, Congressional attention again focused upon the auditing profession and hearings were held about the role of auditors. Before these hearings began, Rep. Dingell, the Committee chair, indicated his concerns about "whether accounting is giving us a fair and accurate and truthful picture of what is going on in the industry" [*New York Times*, February 18, 1985]. His committee intended to raise questions regarding whether competitive pressures and MAS services were eroding the independence of auditors [*New York Times*, February 18, 1985] and why auditors had not provided advance warning of the deteriorating financial condition of banks and other companies [*Wall Street Journal*, February 12, 1985; February 19, 1985].

In opening the hearings, Dingell referred to a U.S. Supreme Court description of the auditor's role:

> By certifying the public reports that collectively depict a corporation's financial status, the independent auditor assumes a public responsibility transcending any employment relationship with the client....This public watchdog function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust [quoted in Miller, 1986, pp. 28-29].

The media also reported charges by the Dingell committee that the

> existing regulatory framework had not been effective in providing a warning system that might have prevented a series of financial disasters in the last few years—including the run on Continental Illinois National Bank, and the collapse of Penn Square Bank and Drysdale Government Securities. In each case, auditors gave the company's financial statements a clean opinion shortly before disaster struck [*New York Times*, March 7, 1985].[14]

Given these concerns, the Dingell committee investigated the role of accounting firms in "blessing" those accounting practices that were perceived to mask the financial condition of several savings and loan entities that later failed. Comments in the press indicated that the committee believed self-regulation was flawed: ". . . the same people write the (financial accounting) rules, interpret the rules . . . [sic] and enforce the rules" [*Wall Street Journal*, March 7, 1985]. Dingell commented:

> The present self-regulatory system permits the accounting firms to control the setting of audit standards, to apply those standards to individual clients, and to sit in judgment of themselves when an audit failure occurs. All of this is done in private [quoted in Miller, 1986, p. 32].

The many alleged audit failures raised renewed concerns about the independence and objectivity of auditors in the high-pressure competitive environment in which accounting firms also offered consulting services [Dingell, 1985; *Wall Street Journal*, September 20, 1985]. During the hearings, Dingell highlighted these concerns by referring to a newspaper advertisement that ended by saying "In fact, there's only one thing wrong with calling ourselves Deloitte Haskins & Sells & You. The You really should come first." He commented: "That doesn't sound too independent to me" [*New York Times*, March 10, 1985]. The terms employed in the previous paragraphs to describe the perceived problems with auditing are quite telling—a public watchdog function, an early warning system, "inappropriate" clean bills of health, "blessing" of misleading financial accounting practices, and concerns about the

[14]Also see *New York Times* [March 10, 1985].

"independence" of auditors. Admittedly, some of these terms might be seen as high-flown rhetoric by a Congressional committee desiring the public attention it could receive by focusing upon the perceived failures of auditors. However, by asking whether the public watchdog function of auditors was impaired, the committee suggested that auditors should serve this function. In suggesting that auditors had failed to provide advance warning of imminent corporate failures, the Committee implied that auditors had this responsibility. Further, in saying that auditors had "blessed" misleading accounting practices, the Committee claimed that auditors had failed to carry out the roles and responsibilities which the profession had defined for itself. The committee's allegations were thus doubly damning—not only had auditors failed to define their tasks properly but they had also failed to perform the work which they themselves had defined as appropriate.

The Dingell hearings challenged the definitions of roles and responsibilities advanced by the profession. These hearings suggested that the issuance of an audit report implied broader responsibilities than those previously accepted and advocated by auditors. During the 1970s, auditors had maintained that audits were not specifically designed to detect fraud. Now, they were again criticized for failing to detect fraud and also for failing to provide an "early warning" of possible corporate failures. The media, in its coverage of the Dingell committee hearings and elsewhere, appeared to define an audit failure as the issuance of a "clean" audit report shortly followed by the declaration of corporate bankruptcy or the incidence of financial problems [*Wall Street Journal*, February 21, 1985; March 7, 1985]. This definition contained no reference to GAAS and implied that an audit failure could occur even when an auditor had followed such practices, a definition that conflicted with that provided by the auditors.

Auditor Response. The auditors responded by attempting to defend their own definitions of the roles and purposes of an audit and to deny that the existing system was "broken." In testimony before the Dingell Committee, Philip Chenok, AICPA president, indicated that the incidence of audit failures was quite small relative to the large number of audits performed, claiming that of 50,000 audits performed since 1979 only 123 might be called "audit failures" [*Wall Street Journal*, February 19, 1985]. In a later editorial, Chenok again stressed the relative infrequency of audit failures noting that "audit failures can and do occur but they are rare in relation to the tens of thousands of audits conducted each year. They result from human error by individual auditors. They do not reflect the overall quality of work in the profession" [*New York Times*, March 17, 1985]. The small number of acknowledged audit failures was used to suggest that the current system was operating properly.

The audit profession and others again argued that nonauditors had failed to understand the "proper" role of the auditor and the signficances that could be appropriately assigned to audit opinions. For example, Chenok [1986] noted that the Dingell hearings were concerned with whether auditors had effectively discharged their duties. He maintained that in order to answer this question one must understand the function of the independent audit—it was to report on the fairness with which financial statements presented corporate financial position [Chenok, 1986]. The audit profession was to be judged on its own terms.

As in the 1970s, auditors maintained that criticisms of the profession resulted from the public's failure to understand the "appropriate" role of the auditor and to accept the definition of this role as forwarded by auditors. From this perspective, an unqualified audit opinion was to be seen as providing reasonable assurance that financial statements conformed with generally accepted accounting principles rather than as providing evidence of a "clean bill of health." As such, an unqualified opinion might be appropriate for a company on the brink of financial collapse as long as the financial statements "reflect[ed] a fair and accurate picture of the company's financial condition" [*New York Times*, March 10, 1985].[15] Furthermore, audits were not foolproof as the audit process relied upon a small sample of company transactions, many accounting matters were open to judgment [*New York Times*, March 10, 1985; Chenok, 1986] and fraud was difficult to detect [Chenok, 1986].

Perhaps the following quote best summarizes the audit profession's position with regard to the controversy surrounding its work:

> A number of the questions raised in your proceedings [the Dingell Committee] and in our own studies of these matters are provoked by even more fundamental questions concerning auditor performance. These questions involve not how well the

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[15]However, if an entity was seen to be on the brink of collapse, the going concern assumption would be invalid and the use of historical cost accounting inappropriate according to generally accepted accounting principles. One wonders how many financial statements of companies that failed shortly after receiving an unqualified audit opinion were prepared using a basis of accounting other than historical cost.

> auditor has performed, but whether the auditor must undertake additional responsibilities to satisfy society's needs. Repeatedly it has been asserted that the public is seeking more from auditors in the area of protection from fraud and early warnings of business failure. In these respects, it would seem that there exists a gap between public expectations of the auditor's role and that which the auditor is, in fact, today performing. It is our belief that skepticism about the work of independent auditors has more to do with this mismatch. . . than it does with actual performance failures [cited in Miller, 1986, p. 34].

Again, the profession attempted to reframe concerns about its work as evidence of rising public expectations rather than as a controversy over the meanings to be assigned to audit reports and audit work and who would decide such meanings. Although concerns about the responsibility of auditors to detect fraud had arisen previously, the profession had not substantially altered its conception of its responsibilities or accepted an explicit responsibility to detect fraud or warn of imminent corporate collapses. It was still attempting to dominate definitions of its roles and responsibilities and to resist those forwarded by the Dingell committee and the press. Again, it formed a committee amidst the controversy. This committee was to "look at the current responsibilities of management, the auditors within and outside the company to detect fraud" [*Wall Street Journal*, February 12, 1985] and to develop methods to prevent and detect fraud among public and closely held companies [*Wall Street Journal*, February 19, 1985].[16] The framing of the issue to be investigated by this panel suggested the answer desired by the AICPA. In particular, note the ordering of the individuals whose responsibilities were to be investigated: managers followed by internal auditors followed by external auditors. This ordering might be interpreted to reflect the profession's interest in maintaining that the detection of fraud was primarily management's responsibility.

Congressional Intervention? Despite the arguments of the audit profession and SEC and the tentative actions taken by the audit profession, several Congresspersons introduced legislation to require

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[16]In announcing the formation of the panel, the AICPA denied that its formation was linked to the Dingell hearings that were due to begin on February 20, 1985: "We have been considering suggesting formation of this panel since last September, and we aren't doing this in reaction to the hearings" [Chenok in Wall Street Journal, February 12, 1985].

auditors to report to Government authorities suspicions of fraud or other illegalities noted during an audit [*New York Times*, May 23, 1986]. Rep. Wyden, a bill sponsor, indicated that "We've got to have an early warning system out there" [*New York Times*, May 23, 1986].[17] Despite criticisms, the audit profession was still seen as a means to enhance the credibility of financial reporting. The bill did not propose replacing auditors with other experts. Instead, the responsibilities of the profession would be altered and expanded by this legislative action. The bill was of course, opposed by accounting firms as well as by the SEC and certain trade groups [*Wall Street Journal*, August 19, 1986].

In justifying this opposition, certain members of the profession expressed concerns that by requiring auditors to "blow the whistle" the relationship between the auditor and the client would be fundamentally altered [e.g., *Wall Street Journal*, June 20, 1986], "put[ting] us into an adversarial police-like role with corporations we currently service, and no one would benefit" [*Wall Street Journal*, May 23, 1986]. Auditors would become nothing more than "state-regulated examiners" when auditing "should be a private-sector activity, not an extension of the government's role" [*Wall Street Journal*, May 23, 1986]. Changing the role of independent auditors "to a police role" would detract from the primary responsibility of auditors—that of providing opinions as to whether corporate financial statements accurately reflect the "true" financial condition of a company [*New York Times*, May 23, 1986].

This proposed role for auditors would be "unworkable in relation to the auditor's principal objective of assessing the fair presentation of financial statements in accordance with generally accepted accounting principles . . ." [Miller, 1986]. The bill was seen as "unworkable" in part because it conflicted with the auditing profession's definition of its own roles and responsibilities. From its perspective, auditors were to assess whether financial statements fairly presented financial condition and performance, a task that did not require them to search actively for fraud even if it might result in material misstatements of financial condition and performance. These comments suggest the reluctance of auditors to alter their conception of their roles and responsibilities and a desire to dominate the definitions of tasks and responsibilities within their jurisdiction.

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[17] Wyden later introduced a watered down version of the bill to require auditors to inform management about significant fraud and then to notify the SEC only if management failed to act properly upon such information within three months [*Wall Street Journal*, August 19, 1986].

Other prominent members of the auditing profession began to advocate altering professional responsibilities to include a responsibility for fraud detection. Change was seen as necessary in light of public expectations that auditors and the financial reporting system would warn the public of impending failures [Bertholdt, 1986]. Although the auditing profession was not described as failing to meet its public responsibilities, some believed it could no longer ignore the concerns raised by Congress, courts and the public. The expectations of the public were described as changed and so the roles and responsibilities of auditors and financial reporting should also ". . . be amended to provide the 'predictive' value the public now demands" [Connor, 1986, p. 77]. Perhaps, in these changed circumstances, auditors should accept responsibility to search for conditions that might lead to materially misstated financial statements and to reduce the risk that fraud would remain undetected [also see editorial by Connor in *Wall Street Journal*, December 3, 1985].

A limited role for the public in defining auditor's roles and responsibilities was also implied by the Treadway Commission report which recommended amending the auditor's opinion to indicate that auditors could provide reasonable but not absolute assurance that financial statements were free of fraud [*New York Times*, July 13, 1987].[18] This role was further recognized with the issuance of several new auditing standards in 1988 that were intended to improve auditor performance and communications, to address the concerns raised by the Treadway Commission report, and to narrow the expectations gap. Among other requirements, these standards enjoined auditors to be alert for illegal activities during the conduct of an audit, to design audit work to provide reasonable assurance of detecting material irregularities and errors, and to inform the board of directors of any such findings.[19] These

[18] This report also recommended that all public companies be required to have audit committees and that auditors be evaluated by their peers. However, the report contained little evidence that audit committees, peer reviews, or an altered audit opinion would educe the incidence of fraudulent financial reporting. Indeed, pTL which was embroiled in financial scandal had an audit committee. However, the committee was composed of individuals with little experience, and they served primarily to rubber stamp the fraudulent activity of pTL officers such as Jim Bakker [Tidwell, 1993].

[19] Rep. Wyden criticized the new standards on the detection of fraud as he believed auditors needed to report suspicions of fraud to regulators]*Wall Street Journal*, February 10, 1988].

standards implied that, in designing audits, auditors could no longer presume that management was honest and expressed more affirmatively the responsibilities of auditors relative to fraud [Carmichael, 1988]. The audit report was also revised in an effort to articulate more clearly the responsibilities of auditors to detect errors and irregularities. In particular, the following sentence was added to the report: "Those standards [GAAS] require that we plan and perform the audit to obtain **reasonable** assurance about whether the financial statements are free of **material** misstatements" [Roussey, et al., 1988, p. 45, emphasis added]. The new audit standards also required auditors to evaluate whether there was substantial doubt about a company's ability to continue as a "going concern" and to disclose such doubts.[20]

Reactions to these standards by auditors included criticisms of the lack of clarity in detailing the extent of the auditor's responsibility to detect fraud [Neebes & Roost, 1987]. Others continued to advocate the "right" of the profession to define its own tasks and responsibilities. For example, Elliott and Jacobson [1987, p. 18] asked:

> Should CPAs judge proposed standards primarily by whether they do or do not conform to public expectations...A professional either has expertise and integrity that separates him [sic] from the public or he [sic] does not . . . That does not mean that public expectations are unimportant, only that they should not be the basic criterion used to evaluate proposed auditing standards. The appropriate criterion is whether and to what degree a proposal would improve the effectiveness of audits of financial statements. This responds to the public **need** the profession serves, not to supposed expectations. And needs and expectations can differ. (Emphasis in original)

Although Elliot and Jacobson raised some valid criticisms of the proposed expectation gap standards in the remainder of their article, their basic opposition to the new accounting standards was premised upon disagreement over who should define the roles and responsibilities of auditors. For these authors, auditors should decide the nature and content of the tasks within their professional jurisdiction. In turn, the

[20]A business bulletin that briefly described the proposal preceding this new requirement indicated that predictions of survivability were "a responsibility auditors have tried to duck until now" [*Wall Street Journal*, December 11, 1986].

public must rely upon (and trust) auditors to assess public needs rather than capitulate to unwarranted public expectations. Yet, the authors did not explicate how one could distinguish between a need and an expectation nor did they suggest any measure by which to evaluate the effectiveness of audits. Instead, they presumed that audits were essential to the economy and were capable of addressing the warranted concerns of the public by continuing on those terms previously established by auditors. In other words, the lay public was to have little role in defining this work or its expected outcomes.

In contrast to the events of the 1970s, critical attention was not deflected from the auditing profession. As the media reported on new corporate failures, questions about the usefulness of audit opinions, and, in particular, questions regarding how financial results could turn sour so quickly after the issuance of a "clean" audit report continued to be raised. Alleged audit failures included Regina Co., Allegheny International Inc., Crazy Eddie Inc., Coated Sales Inc., and American Biomaterials Corp. [*Wall Street Journal*, January 24, 1989]. The ZZZZ Best Co. collapse was thought to provide the ". . . most vivid proof that the present system for independent auditors reporting financial fraud" did not work [Dingell in *Wall Street Journal*, January 22, 1988]. This collapse was particularly troubling as ZZZZ Best had fired one audit firm and hired another shortly before its financial collapse. Although the first audit firm communicated its suspicions of financial misdeeds to the SEC within the allotted time (30 days), this communication occurred after ZZZZ Best had filed for bankruptcy protection [*Wall Street Journal*, January 22, 1988; *New York Times*, January 27, 1988].

The audit profession was also heavily criticized in the press and by Congress, the General Accounting Office and others for its perceived failure to warn the public of the impending savings and loan crisis, a warning some claimed might have reduced the costs arising from the savings and loan bailout [see e.g., *Wall Street Journal*, November 23, 1987; Jacob, 1991; Sternberg, 1992; "Big 6,"*Business Week*, 1992]. The quality of audits was criticized in almost every major savings and loan failure.[21] For example, after the failure of Lincoln Savings and Loan, one regulator commented: "Lincoln is proof positive that any thrift in America could obtain a clean audit opinion despite being grossly insolvent" [*Wall Street Journal*, November 21, 1989] and allegations

[21]Indeed, a GAO report [1989] alleged that auditors had in some instances failed to verify independently management assertions about the collectibility of loans and criticized the quality of several audits that it investigated.

were also made that Lincoln's auditors had approved transactions that were "accounting-driven" in order to generate profits [*Wall Street Journal*, August 7, 1989; November 15, 1989]. Congress held many hearings to investigate these savings and loan failures, at which auditors were frequent witnesses. Audit firms were confronted with numerous lawsuits and paid significant settlements and fines in the aftermath of the savings and loan crisis [see e.g., *Wall Street Journal*, December 30, 1988; January 24, 1989; January 27, 1989; March 2, 1990; February 6, 1991; June 14, 1991; July 5, 1991; December 6, 1992].

In the midst of this controversy and scrutiny, Rep. Wyden continued to advocate legislation to require auditors to report to regulators the uncorrected illegal acts of audit clients and to promote legislation designed to establish an early warning system to prevent future financial debacles such as that which had occurred in the savings and loan industry [*Wall Street Journal*, Sept. 14, 1990, October 5, 1990, August 2, 1991; September 3, 1991; July 29, 1992]. Various versions of this bill continued to be opposed by assorted business groups receiving on again but mostly off again support from the AICPA. This continued opposition occurred within the context of a self-described audit "liability crisis". Audit firms were reported to have expended hundreds of millions of dollars in fines, legal fees and settlements in the wake of the savings and loan crisis and as a consequence of securities fraud class action suits filed after a fluctuation in stock prices. One 1992 commentary estimated that accounting firms faced 4,000 liability suits (twice the number in 1985) and that the largest firms were spending $30 million each year in legal fees [McCarroll, 1992]. Indeed, lawsuits resulted in the bankruptcy of one major U.S. auditing firm in 1990.

Legal liability exposure was now described as the profession's top concern [see e.g., Sternberg, 1992; "Big 6", *Business Week*, 1992; O'Malley, 1993a,b; Lochner, 1993; Epstein, 1993; Fogarty et al., 1994] and it portrayed itself as a scapegoat for bureaucratic errors and investor desires to avoid losses ["Big 6", *Business Week*, 1992; O'Malley, 1993a]. Members of the profession sought liability reform as litigation was increasing ". . . at a rapid rate . . . but that would not be so bad if only incompetent or dishonest auditors were penalized by huge judgments. However, few intelligent observers believe that this is the case" [Lochner, 1993, p. 94], as "unwarranted litigation and forced settlements constitute the vast majority of claims against accountants" [O'Malley, 1993b, p. 84]. In 1992, the Big 6 accounting firms joined a coalition of professional organizations and business, the Coalition to Eliminate Abusive Securities Suits, to lobby in favor of federal legislation to curb "abusive lawsuits alleging securities fraud" [*Wall Street Journal*, September 1, 1992].

This rising incidence of litigation against auditors was interpreted as a search by the public for absolute assurance and as a threat to the ability of the financial reporting system to provide relevant, reliable and credible information. From this perspective, the audit opinion was to be interpreted neither as a "Good Housekeeping Seal of Approval" [McCarroll, 1992; Jacob, 1991] nor as suggesting that a particular company was a worthwhile or safe investment. Public expectations for audits were characterized as spiralling ever upward with regards to their ability to prevent fraud, mismanagement and business failure. Lochner [1993, p. 94] argued that "Far too much weight is being placed on accountants' work, in part because even some businessmen [sic] are ignorant of how audits are performed and what they represent. . . . audits cannot guarantee accuracy or the detection of fraud; they are not insurance policies."

In this environment, auditors expressed concern as to whether legislation such as that proposed by Rep. Wyden would open the door for additional lawsuits against auditors—now by their clients [Silverstein, 1992; O'Malley, 1993a]. Further, some members of the profession began to characterize the necessity for liability reform as inseparable from auditors agreeing to undertake additional responsibilities [e.g., O'Malley, 1993a,b; Epstein, 1993]. This connection was made most explicitly by O'Malley [1993b, p.85] who argued that "any effort on the profession's part to meet these [public] expectations . . . always seems to generate newer and even more unrealistic expectations. . ." [O'Malley, 1993b, p. 85]. He also stated point-blank that "the accounting profession will not support any further legislative expansion of the independent auditor's responsibility without meaningful liability reform—for it is our view that increased obligations that create unreasonable expectations will almost certainly produce increased litigation" [O'Malley, 1993a, p. 7]. In other words, further participation by the public in defining the roles and responsibilities of auditors would carry a price—tort reform.

CONCLUDING OBSERVATIONS

With the passage of the "Private Securities Litigation Reform Act of 1995" [Public Law 104-67], the legal liability concerns of auditors were addressed. This new legislation enacted a system of proportionate liability under which auditors will pay damages based upon the share of fraud for which they are held responsible. In exchange for this protection,[22] the new law explicitly requires auditors to include "procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts", "procedures designed to identify related party transactions . . . or otherwise require disclosure. . ." and "an evaluation of whether there is substantial doubt about the ability of the issuer to continue as a going concern during the ensuing fiscal year" [Public Law 104-67]. Furthermore, the law places a responsibility upon auditors to provide the SEC with a copy of their report of any illegal acts which have a material effect upon the financial statements when management fails to take "timely and appropriate remedial actions" and the Board of Directors has failed to inform the SEC of such a report within one business day after its receipt from the auditors [Public Law 104-67]. Auditors, in exchange for liability reform, have accepted an affirmative duty to notify regulators of illegal acts in prescribed circumstances. Auditors must still implement the requirements of this legislation and the Auditing Standards Board of the AICPA has issued a proposal providing additional performance requirements to enable auditors to meet their fraud-detection responsibility [*Wall Street Journal*, April 4, 1996].

After decades of vociferous opposition to accepting responsibilities to detect fraud, such a responsibility has now been enacted into law. Throughout much of the period examined in this paper (and before), auditors sought to dominate the definitions of their roles and responsibilities and to equate the conduct of an audit with the production of credible financial reporting. Auditors were no doubt correct in asserting that an audit could not always be depended upon to detect frauds nor to warn infallibly of imminent business failures. However, in defining their roles and responsibilities, they argued that neither of these responsibilities were elements of their tasks (at least prior to the issuance of certain auditing standards in 1988). In part, the failure of auditors to "educate" the public as to the value of an audit that excluded such tasks from their jurisdictional domain arose from cultural values with which audits were aligned. The public refused to accept that despite credible financial reporting significant fraud could remained undetected and corporations could fail soon after a "clean" audit report was issued.

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[22]It was reported that proponents of the bill including the Big 6 auditing firms ". . . spent millions of dollars on a massive lobbying campaign . . ." [Wall Street Journal, June 29, 1995] for this legislation.

Auditors had perhaps little choice in terms of the cultural values with which to align their work. While the profession benefited greatly from the Securities Acts, growing rapidly after their passage [McCraw, 1984], it was in another sense limited by these acts. This New Deal legislation did not fundamentally alter either the securities industry or public policy with respect to it. Instead, the legislation seemed designed to restore confidence in the industry and to encourage broad-based stock ownership. The legislation adhered to the "belief that shareholders are 'owners'" who could participate effectively in corporate governance through disclosure and proxy provisions [Merino & Neimark, 1982, p. 39][23] Although shareholders were not expected to participate in the day-to-day operations of corporate enterprises, they would receive information about the uses of funds, earnings, assets and liabilities of corporations. Required disclosures would provide the light ". . . so that ownership may know what is being don with its property" [Andrews, 1932, p. 354]. Auditors were closely linked to these purposes by the requirement in these acts for an "independent" check upon the representations of management and the profession was thereby connected to the provision of credible financial reporting.

The emphasis upon disclosure and financial reports as a means to control management seemed to require a third party to verify these reports.[24] This verification may be seen as an additional mechanism to suggest that measures had been taken to prevent management appropriation of stockholder property. Auditors were to be the intermediaries [Miranti, 1990] between the investing public, the claimed owners of the firm, and possibly avaricious and unscrupulous management. As a consequence, the administrators of the Securities Acts were also dependent upon auditors. This dependence perhaps partially explains why the profession was able to limit its responsibility throughout much of the period examined. While the value of "credible financial reporting" might be used to criticize and question the profession, it also limited the actions of government and closely linked the State, the SEC and the audit profession.[25] No alternatives were posed

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[23]Also see Blough [1939], who referred to shareholders as owners of the enterprise, and Ripley [1927].

[24]My thanks to Barbara Merino for her comments which have been integrated in this paragraph.

[25]See Galambos [1982] on the formation of such triocracies.

to replace auditors as monitoring devices for private property. Instead, the emphasis was placed again and again upon either questioning the auditors or upon installing particular techniques to suggest their independence from management. The profession was criticized but never threatened with replacement or extinction.

So we see the development and installation of new self-regulatory practices during the 1970s occurring amidst questions about the responsibility to detect fraud or warn of imminent corporate failures. Similar questions were raised during the 1980s amidst a myriad of corporate failures and frauds (perhaps particularly those in the savings and loan industry). Auditors were again constructed as failing to accomplish the work they had defined for themselves and were confronted with renewed demands to alter their previously self-defined tasks. Even then, the profession was successful in obtaining payment in the form of liability reform in exchange for ceding some control over the definition of its responsibilities. This paper suggests the difficulties of altering such responsibilities for an entrenched and well-organized profession even in instances where the definitions it forwards may starkly contrast with those anticipated or expected by the public.

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A REEXAMINATION OF THE DEVELOPMENT OF THE ACCOUNTING PROFESSION - CRITICAL EVENTS FROM 1912-1940

Abstract: This study reexamines the accounting profession's response to opportunities and incentives given it during three unique periods in its history to foster reliable accounting, reporting and auditing practices. By profession, we mean the auditors of publicly held companies as represented by the American Institute of Accountants and its predecessor, the American Association of Public Accountants (AAPA). We use two models of professionalism, the Functionalist and the Conflict models, to interpret the profession's response to these events. We find that both self interest and the public interest may have motivated many of the actions taken. These motivations are not, however, mutually exclusive and both may be used to interpret the same behavior.

INTRODUCTION

The accounting profession in the United States developed into its modern form by 1940. The American Institute of Accountants (AIA) was the national organization of accountants. A code of ethics was in

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place and the AIA had disciplinary authority over its members based on that code. The AIA's Committee on Accounting Procedure, forerunner to the Accounting Principles Board and later the Financial Accounting Standards Board, was responsible for setting accounting standards, albeit not mandatory at the time. A workable, sometimes uneasy, relationship existed between the profession and the Securities and Exchange Commission. The state societies had licensing control over new CPAs, setting educational and experiential requirements, although most used the national examination written by the AIA [Miranti, 1990]. Annual audits of publicly traded companies were legally mandatory.

At the beginning of the century, little of this was in place. There was no national organization of accountants of any size or influence [Previts and Merino, 1979]. The first state licensing legislation was passed in New York in 1896. Other states followed but licensing requirements varied, ranging from substantial experience, educational and examination requirements to virtually none. The minimal amount of regulation over accounting and auditing practice may be explained by the relative simplicity of accounting and a fairly small securities market.

An explosion of mergers and consolidations at the beginning of the twentieth century accelerated the growth of accountancy. Knowledgeable and competent accountants were needed to handle these complex accounting transactions and the status of the fledgling discipline began to rise [Littleton and Zimmerman, 1962; and Previts and Merino, 1979]. Growing companies and expanding manufacturing industries also needed accountants to set up financial and cost accounting systems. With the later passage of tax legislation, accountants carved out a permanent place for their skills in the tax area.

Until the passage of the Securities Acts, public corporations faced little independent oversight. Audits were largely voluntary despite spreading public ownership of stock although companies increasingly engaged auditors to attest to their annual financial reports [Merino et al, 1994]. A large portion of audit work prior to 1920 was the balance sheet audit attesting to a company's collateral and liquidity to satisfy bankers who supplied most corporate financing [Chatfield, 1974]. Companies sometimes requested auditing services for their own information [Miranti, 1990]. The auditor's role was therefore strikingly different from that of today. Francis Pixby, at the 1904 World Congress of Accountants, said that the auditor's duty was to the company not to stockholders [Previts and Merino, 1979, p. 180]. In 1933, the accounting firm Seidman and Seidman wrote that neither audits nor financial reports were for the benefit of stockholders [Letter, 4/6/33]. Many prominent people, including accounting practitioners and academics, criticized audited financial statements as unreliable for investment decisions [Smith, 1912; Kohler, 1926 & 1932; Berle, 1926; Hatfield, 1927; Ripley, 1927; Couchman, 1928; Robbins, 1929; Farr, 1933; Pecora, 1939]. Management could choose from a variety of alternative practices and valuation methods without disclosure and could count on the support of their auditors. Changes of method were not reported. Despite criticism, the business sector was not interested in promoting a stringent monitoring system over their activities and were indignant at the suggestion. "Every businessman used his own accounting principles and fought like hell to sustain them" [Previts and Merino, 1979, p. 219].

The voluntary nature of the audit, the absence of authoritative accounting rules, and the weakness of auditors worked against the presentation of financial statements in accordance with accounting conventions considered to be sound according to textbooks and other guides of the time [Montgomery, 1926].

> So long as the discontinuance of audits or change of auditors passes without comment from stockholders or creditors, the auditors are hampered in their efforts to make accounts as accurate and their certificates as complete and informative as possible. If auditors take too rigid a stand the directors will simply publish unaudited accounts or perhaps seek some more amenable auditors [May, 1915, p. 251]

Twenty years later, Littleton [1935, p. 285-6] believed little had changed: "(Q)ualified to serve these men may be, but free to serve with a real independence they are not...When their powers of persuasion are exhausted, auditors have but little choice except acquiescing or resigning."

PURPOSE

This study examines the accounting profession's response to opportunities and incentives given it during three unique periods in its history to foster reliable accounting, reporting and auditing practices. By profession, we mean the auditors of publicly held companies as represented by the AIA and its predecessor, the American Association of Public Accountants (AAPA). We use original correspondence between the AIA, the New York Stock Exchange (NYSE), and other published materials as evidence.

The profession's responses to these opportunities for change may have been motivated by self interest rather than by protection of the public interest as suggested by the rhetoric of the time and by some modern historians. Wootton and Wolk [1992], for example, offer a nonproblematic account of the development of the accounting profession that obscures the profession's battles to preserve its independence and extend its power.

EVENTS TO BE DISCUSSED

Three extended events in the profession's history provide the focus for this discussion. The first event is the reaction of the profession to the demands and regulatory threats posed by bankers, the Federal Trade Commission (FTC) and the Federal Reserve Board (FRB) from around 1912 to 1917. The second is the collaboration between the NYSE and the AIA as they worked to improve reporting practice in the face of impending regulation in the early 1930s. The third is the response of the profession to the Securities and Exchange Commission (SEC) from 1934-1939. All three events threatened accountancy's professional identity. Two models of professionalism are used to interpret the profession's actions.

APPROACH USED TO ANALYZE THE EVENTS

The functionalist and the conflict models of professionalism [Kultgen, 1988] help interpret the actions of accounting's emerging leadership within the AIA. Sociologists have used both models to study professions [e.g. Durkheim, 1957; Collins, 1979] and Hooks (1992) applied similar models in her analysis of events occurring more recently in accounting history.

The functionalist model explains and predicts the behavior or characteristics of either an individual or a group but it is group activities that are of particular interest in this research. The primary assumption of this model is that the profession is devoted to the public interest, to human welfare. The service offered is important and complex requiring extensive education, training, experience and a commitment to lifetime learning. However, mastery of technical skills is not enough. The professional must develop and exercise judgement because client needs are highly individual and not amenable to textbook solutions. The complexity of these efforts means that only a professional can assess the quality of the work performed by another (Kultgen, 1988, p. 79, 81, 91, 95).

Professional groups form to ensure quality. They determine what technical skills are needed, set standards for admission to the profession, provide opportunities for continual education and monitor the work of members through peer review and investigations of complaints. They write codes of conduct that describe the behaviors professionals should exhibit in their work and toward clients and other professionals. The desire to preserve quality leads the group to lobby for licensure to prevent the unqualified from practicing and harming the public (Kultgen, 1988, p. 74, 85).

Society gives the profession a license and a monopoly over practice because it values the service and believes that this will help the profession ensure high quality performance. Sustaining high quality is the duty of a profession that wishes to maintain its license, but it is also its desire so it willingly engages in self-monitoring activities. The benefits of monopoly are status and high fees but these are secondary to the rewards derived from a love of work and a desire to help others. The professional is judged therefore, not by the fees commanded but by the quality of the service provided (Kultgen, 1988, p. 84, 85, 95).

The conflict model, which focuses on group behavior, assumes that self interest is the dominant motivation of a profession whose purpose it is to monopolize control over practice to secure status, power and economic gain. It predicts that practitioners will organize and, as a group, position themselves as a profession to secure the benefits of monopoly.

Organizing, unrelenting promotion of the value and need of their services, writing a code of conduct and setting standards for admission are actions taken to convince those in power that a profession deserving a license is in place and, once acquired, that it deserves to keep it. Codes of conduct may be unenforceable and disciplinary mechanisms weak, but the group can point to them as evidence of their concern with the public welfare. Prohibitions of contingency fees, competitive bidding and advertising serve to create a professional appearance but also protect the elite professionals from losing market share to newcomers, even those admitted to the professional group. Limiting access to the profession through examination and other requirements is not motivated by public welfare but by securing economic gain [Kultgen, 1988, p. 122, 123, 130].

Relationships with third parties are important. "The status of the individual professional and the entire profession is tied to the status of those served" [Kultgen, 1988, p. 128]. The social standing acquired from proximity to corporate management or other influential groups, as well as the fees generated, limit the willingness of the profession to jeopardize those relationships by imposing too restrictive standards of practice upon them.

In conclusion, the key to both models is motivation. It is possible for an action to be in the public interest while at the same time be an element in the profession's negotiation for market power. Since motivation is unobservable, and the models predict behaviors that are not mutually exclusive, they may be used as alternative explanations for the same events.

THE EVENTS AND INTERPRETATIONS OF THEM

Event 1: Bankers and Federal Agencies Demand Change

Bankers in the second decade of this century asked for improvements in auditing and accounting. They accused small businesses in particular of issuing misleading and unreliable financial statements out of either ignorance or deceit without resistance from their auditors [Smith, 1912; AIA Special Committee Reports, 1912-1914]. Bankers wanted certain auditing procedures to be consistently and universally applied [AAPA, Yearbook-1913:159ff] and offered to support the AAPA in its attempts to standardize practice. Colley [1914] and Peple [1916], representatives of the banking community, strongly supported the audit of financial statements and expected auditors to examine carefully accounts receivable and inventories not only for their numerical accuracy but for their value.

Edward Hurley, chairman of the Federal Trade Commission (FTC), supported these views. Hurley called for auditing instructions: "Which would serve as a guide to accountants, bankers, credit men and the business public...that...would at least show clearly the level below which the accountant could not go and certify the alleged verity of the accounts" [Editorial, 1929, p. 357]. He [1916] also recommended to the Chairman of the Federal Reserve Board (FRB) that a federal audit bureau check the credentials and reliability of audit practitioners who wished to practice before the FRB and name those approved, zone experts.

Hurley also favored uniform accounting, believing that it would make financial statements easier to understand and comparable within an industry. Uniform accounting meant an industry-wide chart of accounts, a standard definition of what was to enter into those accounts and uniform cost accounting standards. Many anticipated that cost accounting standards would end cutthroat competition believing that businesses recklessly and ruinously cut prices because they did not know their costs [Jordan and Harris, 1921; Dohr et al., 1935].

Cost accounting standards did not disturb financial accountants but Hurley went further, he wanted to set rules for asset and liability valuations. This appalled accountants who believed that such standards would grossly misrepresent companies operating in different economic environments. They worried that standardization would degrade the profession to mere bookkeeping [Previts and Merino, 1979].

The 1915 - 1917 Minutes of the AAPA and the AIA show that the leadership resolved to deflect this potential regulation. To do so, they had to demonstrate control over the level of competence of their own practitioners. The AIA was formed (and the AAPA dissolved) in 1916 as a national organization of accountants. Practitioners could gain admission and certification by passing a qualifying examination and acquiring experience. The Institute elected a board of examiners, published "Rules of Professional Conduct," and established a committee on professional ethics to exercise disciplinary powers over the membership.[1]

To meet the challenges to audit practice, the AIA gave the Federal Reserve Board a document called *Uniform Accounting* which the Board later published in the Federal Reserve Bulletin of 1917.[2] While its title and preface suggested that it standardized accounting methods, it did not.[3] The FRB reissued the document in 1918 under the title *Approved Methods for Preparation of Balance-Sheet Statements* deleting all references to uniform accounting. As a result of these actions, Hurley dropped the idea of federal registration of accountants [Carey, 1969].

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[1]It is probably an exaggeration to assume that the FTC and FRB dropped these proposals solely because of the efforts of the profession. The Wilson presidential campaign and the entry of the U.S. into World War I necessarily deflected the interests of the administration.

[2]It was an adaptation of a Price Waterhouse internal control memorandum that dealt with auditing procedures for small and medium-sized firms [DeMond, 1951].

[3]Both Chatov [1975] and Carey [1969] believe that the AIA took advantage of Hurley's confusion over the difference between uniform accounting and uniform auditing.

Wootton and Wolk [1992, p. 6] claim that this document "hastened the establishment of minimum auditing standards by many accounting firms." In fact, *Approved Methods* reduced them [Merino et al. 1994]. It gave management an authoritative source with which to avoid procedures that many thought were vital [Carey, 1969; Chatov, 1975; Previts and Merino, 1979]. The auditor was to rely upon client assertions for most asset-related information including inventories - despite bankers' requests [Smith, 1912; Colley, 1914; Peple, 1916]. *Approved Methods* [10] told auditors to confirm accounts receivable "if time permits and clients do not object." Internal control evaluations were made optional and large companies were largely exempt because good controls were presumed to exist. Deference to management was made official.

Approved Methods recommended a short, standard audit certificate despite banking community complaints that the short form audit report conveyed little or no information about scope limitations or other deficiencies of the audit process.[4] The AIA maintained that a short form report was less confusing than the longer, unstandardized report that smaller audit firms preferred which often contained the audit procedures followed and actions taken. The AIA claimed that the excessive verbiage in these reports had at times concealed the absence of major auditing procedures.

Functionalist Theory Interpretation of Event 1

Until this time, accountancy only loosely met the definition of a profession. Under criticism by creditors and facing possible regulation by Federal agencies, AIA welcomed these incentives to professionalize practice as predicted by the functionalist model. It was unthinkable that a government agency, ignorant of accounting, might determine who was qualified. It should be noted that these were only first steps. The AIA was weak. Although the leadership of the AIA was composed of partners from the largest accounting firms, it did not represent the majority of practicing accountants and, in fact, many resented the organization for its elitism [Previts and Merino, 1979; Miranti, 1990].

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[4]The recommended report read as follows: "I have audited the accounts of Blank and Co. for the period from ___ to ___ and I certify that the above balance sheet and statement of profit and loss have been made in accordance with the plan suggested and advised by the Federal Reserve Board and in my opinion set forth the financial condition of the firm at ___ and the results of its operations for the period" [Uniform Accounting, 24].

Accounting knowledge had arrived at a level of complexity that called for education and experience. In view of the complaints of incompetency and collusion voiced by the banking community, and the wide variations in certification requirements of the state bodies, the AIA's board of examiners recommended that candidates for certification complete a 'preliminary education' (a controversial requirement left undefined), five years of experience (with exceptions) and an examination. Certification would give the public assurance that these practitioners possessed a level of competency upon which they could rely, an assurance unavailable in some states where certification standards were low. These controls may be construed as the first attempts of the profession on a national basis to contract with the state (represented by the FTC and FRB). In the long term, only licensure would ensure that the profession could control the quality of the services offered.

The AIA did not attempt to set accounting standards or to limit management choices. The leadership placed a high premium on expert judgement and expected the professional to oppose management only rarely, using powers of persuasion. Since audits were voluntary, there were few other options. There was no process in place where practitioners might debate accounting practices and find consensus. Given the AIA's lack of influence over a wide range of practitioners, limitations on management choice would have to wait until power was consolidated. Until then, the AIA could only begin to control the qualifications of its own members, build their reputations and increase the confidence of the public. As for auditing practice, the AIA again relied heavily on professionalism. *Approved Methods* offered guidelines but retained professional judgement as the preserve of the auditor who alone could act in the interest of outside users.

Conflict Theory Interpretation of Event 1

Many of the actions taken by the AIA may have been motivated by self interest, as attempts to gain market control and limit audit practice. The examination was controlled by an elite group and could restrict the number of those admitted and the type of person admitted. Indeed, there were many complaints [Previts and Merino, 1979; Miranti, 1990]. A national organization could dislodge competitors and avoid competition. By successfully negotiating with federal agencies, the profession not only avoided regulation but gained status. Though not a true license, the perception of AIA members as purveyors of higher quality service, would disadvantage those practicing outside of the purview of the national organization.

The code of ethics prohibited advertising and competitive bidding. While leading practitioners advanced compelling arguments in support of the bans [Editorial, 1914 & 1915], smaller firms viewed them as deliberate constraints on the expansion of their practices [Letter to the Editor, 1914; Shorrock, 1914]. The code, while a symbol of professional practice, functioned to preserve the market power of the elite firm.

Advocacy of a standardized short form report also worked to the detriment of the small firm. Those desiring membership in the AIA were barred from differentiating their services in a positive way. Byington and Sutton [1991] said that buyers rely on brand names as a surrogate for quality and recent research shows that a differentiation of quality is perceived by buyers of auditing services between the Big 6 and non Big 6 firms. Indeed, banker J. Cannon wrote ". . . we strongly advocate and prefer to buy the paper of those concerns whose accounts are audited by established firms of accountants" [Colley, 1914, p. 425]. The AIA effectively cut off most of the avenues available to the small firm to attract audit clients.

Claims of specialized knowledge and expertise may mask a self interest motivation. The profession cultivated the perception that they possessed information difficult to acquire and reliably exercised and monitored only by themselves. Educational requirements, examination and an esoteric vocabulary perpetuated this notion. The idea that these practices might be standardized was understandably anathema. If accounting could be standardized then it was a technical discipline which could be performed by anyone, threatening the emerging profession.

With the support of bankers and the federal agencies, the accountancy profession might have made progress in setting accounting and auditing standards. But the leadership resisted, arguing that uniform accounting practices would mislead and that uniform auditing practices would reduce audit practice to the lowest common denominator. Only the experienced professional could understand the audit requirements of a unique accounting system and pass on the appropriateness of the accounting choices made [AAPA Yearbook, 1916]. If these functions could be exercised by rote, then accountancy was not a profession.

Deference to corporate management maintained the profession's relationship with those with whom there were social and financial linkages. Claims that egregious practices would be dealt with in a period when there were no authoritative standards can hardly be taken seriously. Approved methods provided protection against liability by giving auditors a defense against non-performance of tasks and for reliance on management.

Event 2: Collaboration of the AIA and the NYSE from 1931- 1933

Although George O. May, representing the AIA, had established an advisory relationship with the NYSE in 1927 (May, 1962), it was not until it was clear that the depression was unlikely to abate and that the public anger directed towards business was rising [Krooss, 1970] that the Exchange awoke to the value of instituting change. Some form of federal regulation over corporate reporting practices appeared imminent [Kohler, 1934]. Hoxsey [1931, p. 2ff], executive assistant of the Committee on Stock List of the NYSE, wrote to the AIA and warned that "some form of regulation is inevitable. . . if we act now. . . we may retard unwarranted intrusions."

The extant correspondence reveals that neither organization was anxious to take the lead. Hoxsey [1931] asked the AIA's Special Committee on Cooperation with Stock Exchanges[5] to assume responsibility for the suitability of management-selected accounting principles and for a definition of full and fair disclosure. The AIA responded that "the primary responsibility for selection of principles and scope of disclosure must remain that of directors and officers of the corporation" [AIA, 1931].

With income statement data becoming more and more important to stockholders, Hoxsey asked auditors to insist that stockholders be advised as to the sources of income, separately disclosing extraordinary items, and to discourage management from using reserves to smooth income. The AIA Committee replied that auditors lacked the power to mandate such disclosures [Letter, 5/19/31].

The AIA Committee in turn [Letter, 9/22/32] asked the Exchange to educate the public about the limitations of financial statements, particularly their historical nature, to require that accounting methods be disclosed and be consistently applied and that extraordinary items and subsidiary income be segregated from ordinary income. They recommended an annual audit and that every company adhere to five broad principles of accounting which they believed were generally

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[5] The member of the committee included Archibald Bowman, Arthur Carter, Charles Couchman, Samuel Leidesdorf, William Lybrand, and George May—all representatives of major accounting firms.

accepted (see Appendix). The Exchange accepted all of the Committee's recommendations but one, disclosure of accounting methods. Whitney, the president of the NYSE, wrote to the presidents of all listed companies that financial statements issued in connection with listing applications made after July 1, 1933 had to be audited. He added that, to serve as useful safeguards for investors, "audits should be adequate in scope and that the responsibility assumed by the auditor should be defined" [Letter, 1/31/33]. He asked all companies to secure from their auditors a letter addressing most of the points made by the AIA's Committee:

1) was the audit as extensive as that outlined by the publication *Verification of Financial Statements* (VFS) (the 1929 revision of *Approved Methods*),

2) had all subsidiaries been audited or their relative importance to the parent company explained,

3) had the auditors received all information requested,

4) were the financial statements fairly presented,

5) were accounting methods consistently applied and,

6) did the methods used conform to accepted accounting practices? (see Appendix.)

Nine major accounting firms jointly responded to the announcement. Although supportive of the specific points outlined above, they wanted to clarify the some of the limits of the audit engagement. They reiterated [Letter, 2/24/33] that the guidelines outlined by *VFS* were not intended to uncover fraud and that to do so would require an audit so expensive as to outweigh any advantages. To avoid fraud, management was responsible for establishing and maintaining an adequate system of internal control. They reminded the Exchange that the auditor traditionally focused on the balance sheet and would continue to do so, guarding against overstatements of income not by extensive testing of income accounts but by assuring the correctness of beginning and ending balance sheets accounts. They reemphasized the importance of consistency rather than uniformity of method. The audit report stated that management's representations were reasonable, not all inclusive nor necessarily optimal, in the auditor's view. The auditor could not replace his judgement for that of management and could only qualify the report if the choices were very unsound.

Hoxsey was not satisfied by these circumscriptions of responsibility. He insisted that auditors "should satisfy themselves that the system of internal check provides adequate safeguards" and "accept the burden of seeing that the income received and the expenditures made are properly classified in so far as the facts are known to them" [Letter, 10/24/33]. He also asked the AIA to develop a clearer and more informative auditor's report.

The AIA found Hoxsey's income statement requests reasonable but were careful in their response to the question of internal control [Letter, 12/21/33]. "It is always a matter of executive judgment to weigh the risks against which safeguards are desirable against the cost of providing safeguards." Claiming that accountants evaluated internal control as a integral part of the audit, they cited *VFS*. "The scope of the work indicated in these instructions includes. . . an examination of the accounting system for the purpose of ascertaining the effectiveness of the internal check." It is noteworthy that the adverb "incidentally" which appears in *VFS* in place of the three dots is omitted in the letter to the Exchange. The use of the word "incidentally" weakened the guidelines. It suggested that checking controls was likely to happen during the examination, but not that it must happen.

The liability that might rise out of the wording of the audit report worried accounting firms. May sent a draft of a revised report to the major firms for comment and received responses from Leidesdorf, from Barrow, Wade and Guthrie, Haskins and Sells, and Peat, Marwick, Mitchell. Leidesdorf [Letter, 11/17/33] wrote that the statement "supplied with all the explanations and information which are necessary" be replaced by "based on our examination and information furnished to us." He warned that the former did not recognize the possibility that management might have withheld information leaving all responsibility with the auditor. Carter of Haskins and Sells [Letter, 11/24/33] wrote that the report should clearly state the relationship between the auditor and the client.

> I refer particularly to the theory of relationship which holds the client to be the author of the financial statements and regards the accountant as the reviewer of such statements..This position, in addition to having possible legal value, is, as we have learned . . . , an invaluable one when controversies arise with clients as to the disclosures which should be made.

The format of the standard unqualified audit report was finally approved at the beginning of 1934 after considerable debate.

Functionalist Theory Interpretation of Event 2

Affiliation with the NYSE gave the leadership a rich opportunity to serve the public. With the support of the NYSE, they could resolve some of the major issues of accounting practice and presentation and begin a process of expanding public knowledge. The leaders of the AIA knew that some investors misunderstood the nature of the financial statements and the audit report, assuming that the current valuations comprised the balance sheet and the report testified to an enterprise's future success. Understanding their historical nature was an important component in becoming an informed investor. However, the profession needed the Exchange's help in publicizing this perhaps because of a lack of funds or a lack of access to the public. Whether the Exchange actually embarked on a program of educating the public is unknown.

The profession's unwillingness to expand its responsibility for accessing internal control and the detection of fraud was not unrealistic, reflecting its knowledge that both were controlled by management. To ensure either exceeded their ability. It would not be in the public's interest to suggest otherwise. The AIA strongly preferred disclosure and consistency of accounting method over uniformity for two reasons. They believed that firms were unique and that corporate management could best determine which methods most clearly reflected performance and condition. Disclosure of methods should provide sufficient information for the informed user. They also argued that, taken over time, differences between accounting methods were unimportant if those methods were consistently applied. Although the AIA only convinced the Exchange to require a statement of consistency, at least they minimized a common method of manipulating financial statements. The Exchange also supported the AIA's opinion on significant issues, such as limiting the practice of smoothing income by using surplus accounts to bypass the income statement (see Appendix). In this way, the profession could protect the investing public from significant and common misrepresentations.

Conflict Theory Interpretation of Event 2

Collaboration with the NYSE benefitted the AIA considerably. First, the formal association with the Exchange was prestigious. Second, the NYSE's annual audit requirement granted a contract to accountants ensuring future income. Although the Exchange did not limit audits to AIA members, it is likely that its relationship with the AIA bolstered member firm's relative power in the accounting market, at least among listed corporations. Third, recognizing *VFS* as the auditing standard distinguished the AIA as the authoring institution. Fourth, despite the rising profile of the AIA and auditing services, there was no increase in auditor responsibilities beyond those supported by the NYSE and therefore, no substantive change in the auditor-client relationship.

The public collaboration with the NYSE created a perception that the profession was working to improve the financial reporting function. However, little changed. The accounting principles agreed to were few, and although 'few' in and of itself is not negative adjective, many of the most controversial issues of the period including the treatment of depreciation, bond discount and no par stock remained unsettled and no mechanism for resolving these issues was put in place. Audits, though required, still left major tasks optional and corporate management retained the prerogative of preferability choices without disclosure. The profession had raised its profile, potentially increased the market share of major member firms, and appeared to be working in the public interest while minimizing any expansion of its own responsibility.

Event 3: The SEC and the AIA 1934-1939

The years 1934-1939 were critical ones. It was possible that the traditional practice of accountancy would not survive and the profession had to work to maintain its identity. The Securities and Exchange Commission, created in 1934, had absolute authority over accounting matters. It could determine who could practice before it. It could set accounting standards and could require auditors to take responsibility for the choice of accounting methods.

SEC members, inexperienced but determined to put the Act into operation, decided that the best approach was to work with existing professional bodies. They solicited the profession's help in designing the forms needed to satisfy the Act's regulations, in appointing suitable commissioners, and encouraged them to set accounting standards. The AIA was slow to act on the latter. Consequently, the SEC frequently and publicly criticized the profession for the accounting treatments found in submissions [Landis, 1936; Blough, 1937a]. Members [Landis, 1936; Blough, 1937c; Mathews, 1937; Healy, 1938] threatened that the SEC might have to standardize accounting.[6] They displayed irritation at the profession's inability to monitor management, its unwillingness to take responsibility for accounting presentations, and its repeated issuance of uninformative or misleading audit reports. They complained that the often-cited generally accepted accounting principles did not exist and questioned the qualifications of some appearing before them [Blough, 1937a, 1937b, 1938; Werntz, 1939]. The SEC began issuing Accounting Series Releases (ASR) in 1937, setting accounting rules for registrants.

The AIA fought these encroachments. It supported corporate assertions that disclosure of sales, cost of sales, gross profit, and salaries would give too much information to competitors. The AIA's Committee on Cooperation with the SEC reproached the SEC for not accepting these claims. Chairman Wellington argued that this information "might be damaging to the company and therefore of injury to the stockholders" [AIA Minutes, 1936, p. 53].

Despite its threats of standardization [Landis, 1936; Healy, 1938], the agency eventually settled for consistency and disclosure of method [Merino and Coe, 1978]. Curiously, the SEC did not mandate that a statement of accounting policies appear in the annual reports to shareholders. Although such a statement was required in the 10K, the latter was not usually mailed to shareholders. Enforcing fair disclosure of accounting methods therefore made no sense [Kaplan and Reaugh, 1939].

The SEC's ASRs #1-3 were not new accounting standards but rather formalizations of the accounting rules written earlier by the AIA in agreement with the NYSE (Coffey, 1976). In 1938, they issued ASR #4. This stated that financial statements filed with them would be deemed misleading if they lacked substantial authoritative support and left the determination of authoritative support to the accounting profession. The SEC adopted the role of endorser and enforcer of the AIA rules (Coffee, 1976, p. 220).

Regarding audit practice, the AIA issued *Examination of Financial Statements* [1936]. It did not expand audit procedures over internal

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[6]"The impact of almost daily tilts with accountants, some of them called leaders of their profession, often leaves little doubt that their loyalties to management are stronger than their sense of responsibility to the investor. Such an experience does not lead readily to acquiescence in the pleas recently made by one of the leaders of the accounting profession that the form of statement can be less rigidly controlled and left more largely to professional responsibility alone" (Landis, 1939).

control, inventories or accounts receivable. Samuel Broad, Chairman of the AIA Committee charged with revising *VFS*, said that *VFS* had been criticized as "too mandatory in its presentation" a defect eliminated in this document which emphasized flexibility and judgement [Broad, 1936, p. 58-9]. The document reasserted the profession's position that disclosure was a management prerogative and that the auditors would only rarely issue qualified reports. The audit procedures, the extent of disclosures and the accounting principles and practices set out in this document were "only those which we believed were pretty generally agreed to. . . we did not try to break new ground" [Broad, 1936, p. 59-60].

The AIA remained committed to the short-form standard audit report [Letter, 1935; Couchman, 1939]. The AIA Committee on Cooperation with the SEC debated the wording extensively [AIA Minutes 1939, p. 166, 170, 172]. The Committee wanted a format acceptable to the SEC which limited auditor responsibility. The Committee on Auditing Procedure made only a few cautiously worded changes to the audit report approved in 1939 (Kohler, 1941). The report minimized liability more than it provided information to investors.

Why did SEC abdicate its power? Some historians insist it did not. McCraw [1982] is persuaded that the SEC was entirely successful in negotiating substantive change on behalf of stockholders with both the accounting profession and the NYSE. Coffee (1976) is slightly less sanguine but overall remains confident that the results of the SEC and AIA collaboration were successful. Others, more informed about accounting, insist all changes were merely symbolic [Merino and Neimark, 1987; Chatov, 1975].

One reason is that the AIA strengthened itself. Attacked by the American Association of University Instructors in Accounting (AAUIA) [see Kohler's scathing 1934 editorial] which, with the blessing of SEC commissioner Robert Healy [1938], might have preempted the AIA in setting accounting standards, the AIA decided to reassert its leadership in this area. In 1936 the AIA completed a difficult merger with the rival American Society of Certified Public Accountants (ASCPA), a national accounting body of about the same size thereby deflecting a potential alliance between that group and the academics of the AAUIA. Now larger, representing about a third of accountants nationwide, and with a claim to expanded self-monitoring, the new AIA could act from strength. They formed the Committee on Accounting Procedure in 1938 to study and write accounting standards [Previts and Merino, 1979; Miranti, 1990]. Thus, the AIA acted in accordance with the agency's wishes.

Another reason may have been that the political tide was shifting to the right. Business found that it was again gaining power. The economy appeared to be improving, if slowly, and the Supreme Court had declared major New Deal legislation unconstitutional. All of business wanted to avoid further government regulation. In this atmosphere, it may have been expedient for the SEC to back off.

The AIA now represented a broader constituency and established a standard-setting body. The SEC retained their declamatory speeches keeping their real power as a constant threat. They continued to issue stop orders if particularly egregious accounting presentations were filed but, as of 1938, they left accounting matters to the accountants.

Functionalist Theory Interpretation of Event 3

The functionalist model predicts that professionals will actively protect the public interest but does not require the existence of a formal professional organization. The AIA, up until this point, trusted in the professionalism of individual practitioners, attempting only to ensure that they had been effectively educated and were experienced. Circumstances forced the AIA to move the profession to another level. The SEC could legally appropriate control over audit practice and accounting matters, a possibility which threatened placing nonexperts in the position of judging a complex discipline. To protect the public, it became necessary for the AIA to convince the SEC that it was best to keep auditing and accounting in the hands of professionals. To do so, it was imperative that they be able to influence and monitor practitioners since the status quo projected disunity and carried the stigma of competition. Unlike other businesses, competition in a profession is viewed negatively, suggesting that profits are more important than public interest. The merger with the ASCAP doubled the AIA's membership and probably included most of those who audited public companies. This gave the AIA the ability to monitor those likely to appear before the SEC.

The profession believed that unique environments call for varied accounting methods and that standardization across dissimilar industries would be misleading at best. Consequently, the leadership first fought the SEC's threats of regulation by arguing convincingly for consistency and disclosure of methods, which the SEC soon required, as opposed to uniformity.

The Securities Acts did not give power to the profession, but did confer on it responsibility and substantial liability. If the profession were to act in the public interest, it needed power. This it received, when the SEC delegated that authority in ASR #4. With few exceptions, the agency has supported the AIA and the decisions of its successor bodies. With this in hand, accountancy's governing bodies could seek consensus on matters of general interest and this they tried to do by establishing the Committee on Accounting Procedure. Though in hindsight this Committee may not have been wholly effective (Previts and Merino, 1979, 269), its formation and purpose was in the public interest.

Conflict Theory Interpretation

The conflict model is also informative. The 1934 Securities Act handed accountancy a market.[7] The AIA wanted to monopolize it and it did so by professionalizing its image. The merger strengthened the AIA's negotiating position with the SEC. It now had influence over and appeared able to monitor a substantial constituency. Although often openly criticized by members of the SEC, the AIA turned some of the criticisms to their advantage. They requested, and the SEC agreed [Report, 1937], that questionable accounting questions and misleading audit certificates be forwarded to them for comment and resolution. This gave the AIA additional authority, bringing unsatisfactory reports of both member and non-member audit firms under their jurisdiction.

The formation of the Committee on Accounting Procedure was a unifying one. It included AIA members, ex-SEC commissioner Carmen Blough, and members of the AAUIA who had frequently criticized the AIA. The AIA thus eliminated by incorporation, its challengers to accounting setting while creating a body too large to come to consensus on controversial issues thus retaining many alternative practices (i.e treatment of bond discount and of gains or losses on retirement of bonds) and maintaining management freedom. They avoided proactive, positive improvements in audit practice. Improvements were to come subsequent to the embarrassment of McKesson-Robbins. No significant changes appeared in the auditor's certificate. The AIA therefore negotiated a successful relationship with the SEC, an agency that posed a definite threat and in doing so increased its prestige and consolidated its power without altering accounting, the audit function or the relationship of auditors with corporate management.

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[7]It is possible that the audit requirement was added as a result of back room lobbying [Miranti 1990].

Postscript: McKesson Robbins Expands Audit Procedures

Until the McKesson Robbins fraud came to light in 1939, auditing guidelines were ambiguous regarding receivables, inventories and internal controls. Even sophisticated users were unaware that auditors did not physically inspect inventories. Hoxsey, the Secretary of the NYSE, was furious to learn that the auditors had used the "testing" phrase to limit the scope of audit with respect to receivables and inventories [Correspondence, 1939].

> . . . it simply did not occur to me to doubt that inventories and receivables were spot-checked to a sufficient degree to make the auditors feel warranted in giving the financial statements approval...I did not know that the statement 'but we did not make a detailed audit of the transactions' covered such omission [Correspondence, 2/22/39].

The McKesson Robbins case resulted in increasing auditor responsibilities significantly. For the first time, a professional pronouncement, "Extension of Audit Procedures" (adopted by the AIA council on May 9, 1939) instructed auditors to go beyond the books requiring inventory verification, accounts receivable confirmation and an assessment of internal control.

CONCLUSIONS

Historical evidence can be interpreted in a variety of ways. Motivation is not observable and formal statements may not be taken at face value. Certainly an interpretation that assumes that all change is evolutionary and that evolutionary change is progress towards the good must be challenged. So it is with the development of the accounting profession. One may interpret the adoption of a code of ethics, the establishment of educational standards, the creation of a national organization with power of self regulation as actions taken to promote the public interest. At the same time, these actions do control the profession, limit entry to it and secure high economic rents from so doing.

There is no doubt that accounting and auditing are learned skills that require the exercise of judgement. But the profession rarely articulated what audit services were meant to accomplish stressing instead what could not be done and repeating, rather unsatisfactorily, that audit judgements were nothing more than opinions. The AIA was not proactive in setting audit standards for critical areas, resisted setting accounting standards, declined to clarify the responsibility of the audit firm and deferred to the desires of corporate management. Whether these choices were made because the profession sincerely believed that the auditor's professional judgement must always predominate over standards and regulations to ensure reliable reports or whether they were chosen in order to sustain the status quo in regards to relationships with corporate management is a matter of interpretation.

Accountancy today is without doubt a profession, carrying with it all the characteristics that one might choose to define a profession. It is also true that accountancy faces similar criticisms to those it received in the past. What is the auditor's responsibility? Has the auditor failed if a firm collapses and he or she issued an unqualified report just before the collapse? Are the battles to deflect liability attempts to avoid responsibility or efforts to restore justice in an unjust system? Should the accountant 'blow the whistle' or are quitting or issuing a qualified report still the only options available? There is still some doubt about the identity of the client. The responses to these questions made by the profession, as similar responses were made in the past, will likely be claimed by the profession as in the public interest and by critics as in the interest of the profession itself. The truth, whatever it may be, is likely to lie somewhere in between.

APPENDIX

Statement of Certain Accounting Principles Recommended by Committee of American Institute of Accountants on Cooperation With Stock Exchanges

1. Unrealized profit should not be credited to income account of the corporation either directly or indirectly, through the medium of charging against such unrealized profits amounts which would ordinarily fall to be charged against income account. Profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that the collection of the sale price is not reasonably assured. An exception to the general rule may be made in respect of inventories in industries (such as the packing house industry) in which owing to the impossibility of determining costs it is a trade custom to take inventories at net selling prices which may exceed cost.

2. Capital surplus, however created, should not be used to relieve the income account of the current or future years of charges which would otherwise fall to be made there-against. This rule might be subject to the exception that where, upon reorganization, a reorganized company would be relieved of charges which would require to be made against income if the existing corporation were continued, it might be regarded as permissible to accomplish the same result without reorganization provided the facts were as fully revealed to and the action as formally approved by the shareholders as in reorganization.

3. Earned surplus of a subsidiary company created prior to acquisition does not form a part of the consolidated earned surplus of the parent company and subsidiaries; nor can any dividend declared out of such surplus properly be credited to the income account of the parent company.

4. While it is perhaps in some circumstances permissible to show stock of a corporation held in its own treasury as an asset if adequately disclosed, the dividends on stock so held should not be treated as a credit to the income account of the company.

5. Notes or accounts receivable due from officers, employees, or affiliated companies must be shown separately and not included under a general heading such as Notes Receivable or Accounts Receivable.

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ARCHIVAL RESEARCHERS: AN ENDANGERED SPECIES?*

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In recent years accounting historiography has been enriched by a considerable volume of debate surrounding the chronology and evolution of accounting theory and practice. By virtue of their attempts to explain the processes of change, accounting historians have become identified with a paradigm or world view that constitutes the theoretical context within which their research findings are couched. Scholars have either self-avowed their paradigmatic affiliations or have had their work so classified in the writings of others. Fleischman et al. [1996a], for example, trichotomized the field of industrial revolution cost accounting into three "schools"—the Neoclassical (economic rationalist), the Foucauldian, and the Marxist (labor process). A dichotomized schemata might be employed to distinguish "critical" and "traditional" historians. Critical historians tend to question the objectivity of much primary source material, particularly accounting documents, which can serve the self-interest of those in positions of power. Traditionalists have more faith that surviving business records provide a less partisan approximation

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of some sort of objective reality. A distinction can likewise be made between the "new accounting history" and older approaches, typically with a narrower focus. The new genre casts a wider net, deploying a variety of contexts to coexist with those economic aspects traditionally privileged in much accounting historiography. Many new accounting historians attempt to amplify the voices of suppressed groups (women, the poor, the illiterate) which have not been heard in mainstream literature.

The current authors believe that recent historiography, be it labeled "critical," "new accounting history," or "postmodernist," has greatly enriched traditional, mainstream, archive-based offerings and has significantly increased our knowledge of the past. On most occasions historical reinterpretation has been achieved in a positive fashion. However, when the way forward threatens to marginalize archival research, disenfranchise various categories of scholars on non-ideological grounds, or to restrict methodologies and theoretical approaches, the current authors, as contemporary descendants of the Neoclassical tradition, feel the need to urge restraint.

Our discomfiture with the current environment in accounting history scholarship is discussed in three sections that follow. First, we address the question raised by Miller and Napier [1993] that historians must attempt to eliminate from their narratives references to practices and terminology that exist only in the present. Second, we consider the place of archival researchers in an historiographic environment characterized increasingly by attention to paradigmatic frameworks. Finally, we conclude by identifying the various groups of historians seemingly marginalized in some critical scholarship. We are particularly concerned with the status of archival researchers, potentially an endangered species.

THE PRESENT IN HISTORY

Miller and Napier's article, "Genealogies of Calculation" [1993], has become the catalyst for debate between traditional and critical historians, e.g., Keenan [1996] and Scorgie [1996]. The article has also proven to be a positive contribution from the perspective of engendering fundamental rethinkings about historical methodology. The authors featured four case study genealogies to articulate a comprehensive theoretical approach for describing and evaluating the past.

The discourse in this article reflected Foucauldian rhetoric throughout although the authors assiduously avoided labeling the approach as such in the narrative or including Foucault's works in the references list. This ancestry was evident in their stress on the discontinuities of history; their viewing of historical epochs in terms of "ensembles of practices and rationales;" and their attention to the symbolic aspects of institutions, "the language and vocabulary in which a particular practice is articulated" [Miller and Napier, 1993, p. 633; for similar Foucauldian phraseology, see particularly Foucault, 1980, pp. 146, 162; Gane, 1986, p. 24]. In "Genealogies of Calculation," Miller and Napier not only advanced a Foucauldian approach for viewing history, but critiqued certain underpinnings of more traditional accounting history. In general, they suggested that conventional accounting historians are so overly absorbed in centemporary practices and procedures that their interpretations of past events suffer anachronistic tendencies. In a section entitled "bookkeeping practice and decision making" [pp. 636-638], Yamey [1949, 1964] was taken to task for linking early bookkeeping practices to business decision making, when in reality "the notion of decision making, a concept which, despite its seeming self-evidence, was only recently invented, is used to make past events and practices intelligible, without acknowledgement of its recent emergence and historically localized applicability" [p. 638].[1] In the succeeding section on "early management accounting," Edwards [1989], Edwards et al. [1990], Edwards and Boyns [1992], and Fleischman and Parker [1990, 1991] were similarly criticized for introducing a present-day vocabulary into their evaluations of British Industrial Revolution cost accounting methods [pp. 638-640]. Miller and Napier [p. 639] charged specifically that "within the traditional evolutionary model, the now is always present, if only *in utero*, in the then." This provocative observation requires response, both to what was said specifically and to what might be inferred. The current authors do not dispute Miller and Napier's questioning the Whig interpretation of history, the idea held by some historians that the past marches inexorably into the present with a step that is evolutionary and progressive. In our view the past conveys neither lessons nor predictions for the present. However, the tenor of the "in utero" phrase does suggest the possibility, nay the positive desirability, that the present can be extirpated from historical narratives as though the historian wields a surgeon's knife. Is it realistic to imagine that historians can so envelop themselves in the

[1]It was perplexing to one reviewer of this paper that "decision making [could be] a new invention." Apparently the phrase "decision making" as used to describe a technique of management is of modern vintage.

past that references to contemporary conventions, idiom, and prejudices can indeed be eliminated? If so, would not historical writing lose some of its relevance in the process?

Noted scholars have argued that past and present events are inexorably linked. Bloch [1953, p. 27] defined historical time as "a concrete and living reality with an irreversible onward rush." He warned of a "modernist climate" wherein the past is construed as unconnected to the present [ibid., p. 36]. Muller [1952, p. 33] argued that "the past has no meaningful existence except as it exists for us, as it is given meaning by us." Nevins [1962, p. 18] expanded the horizon of these past/present linkages to include the future when he observed that history "is more than a guide for men in their daily round; it is a creator of their future." Finally, Commanger [1965] included on a list of the uses of history how expanded perspectives and an enlarged variety of experiences provide valuable aid in coping with the problems and concerns of the present.

The insights of these distinguished historians have been replicated in the work of accounting historians as well. Previts and Bricker [1994] and Carnegie [1994] have both written about the way in which historical research in accounting can provide a greater understanding of contemporary practice and institutions [see also Previts et al., 1990a]. Confirmation of these synergies has also come from the published pronouncements of important U.S. practitioner and academic groups, such as the "white paper" of the Big Eight managing partners [1989] and the position statements of the Accounting Education Change Commission [1990, 1992; see also Fleischman et al., 1996b; Fleischman and Tyson, 1996].

Another facet of the past/present linkage central to certain philosophies of history is the obligation of each new present to rewrite history to enhance its meaningfulness. At a very basic level, the historian must bear in mind his/her contemporary audience. Relating the historical narrative to the idiom of the present renders the account more meaningful and comprehensible to the reader, although the risks of distortion should be managed as carefully as possible. Hill [1986, pp. 15-17], a leading Marxist historian, articulated a method by which the historian attempts to discover those questions that the personalities of past ages were attempting to answer. He went on to suggest that:

> This would help to explain why history has to be rewritten in every generation. New bits of experience in the present open our eyes to questions that man had to answer in the past. . . . Experience in the present helps the historian to

> sharpen and refine his account of the questions so as to get better answers.

From a more philosophical point of view, Gadamer [1989, p. 24], a leading exponent of hermeneutics, wrote:

> Likewise, in the experience of history we find that the ideal of the objectivity of historical research is only one side of the issue, in fact a secondary side, because the special feature of historical experience is that we stand in the midst of an event without knowing what is happening to us before we grasp what has happened in looking backwards. Accordingly, history must be written anew by every new present.

Miller and Napier had little patience with historians whose narratives employ modern language and vocabulary, as well as with those who reference contemporary conventions and practices in describing the past. Miller and Napier seemingly assumed that historians have the responsibility to exercise the care necessary to consider only those factors and institutions chronologically specific to the age under their investigation. While within limits we would applaud the caution they espoused, disassociation with the present can be a tricky endeavor. Scorgie [1996] accused Miller and Napier themselves of an anachronistic pitfall of the very genre for which they have castigated others in their genealogy on "discounted cash flow." Phrases such as "principles of compound interest" and "actuarial practice" had no relevance to the chronological periods Miller and Napier were addressing.

Rather than pillory Miller and Napier for that peccadillo, it would be more fruitful to debate with them the legitimacy of using the present as a yardstick for measuring the accomplishments of the past. References to the present permit the reader a more profound understanding of the past and, perhaps, a greater appreciation for its relevance. While there is no law that effective history must engage the contemporary reader, the efforts of those historians who attempt to do so by examining links to the present should not be denigrated. We concur with Miller and Napier that danger exists that those historians who assume progress as the past evolves into the present may distort or even marginalize the past. However, all traditional historiography does not make such assumptions. Johnson and Kaplan [1987], for example, did not construe the present as representative of best practice. Rather, they used history to demonstrate how current practice is badly in need of reform. Another effective point was raised by Tosh [1984] who pointed out that those who search the past for precedents of present practice have almost unfailing tend to stress similarities at the expense of differences. Traditional historians must be careful to avoid this imbalance.

One final parameter of Miller and Napier's cautions with regard to the present in history requires discussion—the stance they took on the issue of historical origins. With reference to their own genealogical investigations, they averred that "we focus on the outcomes of the past, rather than looking for the origins of the present" [p. 632]. This important distinction is clearly a major tenet of Foucault's philosophy of historical writing. Variously Foucault proclaimed that historical beginnings were lowly, that knowledge was not the quest for origins, and that a purpose of genealogy was to destroy the primacy of origins [Dreyfus and Rabinow, 1982; Foucault, 1980; Smart, 1983]. Notwithstanding, several noted advocates of the paradigm have subscribed to the notion that our knowledge of the past is enhanced by investigating the origins of contemporary events and practices. For example, Hoskin and Macve [1988, 1994], in their insightful study of the Springfield Armory, unabashedly sought the genesis of modern managerialism [see also Ezzamel et al., 1990; Fleischman et al., 1995; Hoskin and Macve, 1986]. Miller and Napier have dismissed out-of-hand a substantial quantity of research centered on the search for origins. While the democratic ideals of the new accounting history do not mandate that all research protocols be accepted as equally compelling, the spirit manifested in Miller et al. [1991] did suggest that rival approaches should be respected sufficiently for a fair hearing and possible ensuing dialogue [Fleischman et al., 1996a]. The very interest that some historians and readers share in the exploration of origins should establish its legitimacy although investigations of this type will not be viewed as equally valuable by all participants.

This response to Miller and Napier is in no way intended to be disrespectful of the Foucauldian view of history. Neither the Foucauldian aversion to the search for origins nor the paradigm's focus on the discontinuities of history suggests that Foucauldians are disinterested in drawing upon the past to illuminate the present. What we are urging here is an alternative philosophy of history. At the same time, we are hopeful that our critique does not cast us in the mold of the traditionalist caricature so vividly described by Carnegie and Napier [1996, p. 8] as one:

> . . . who celebrates progress and thereby subtly denigrates the past, who explains everything by reference to neoclassical economics, who at worst sets out on a 'treasure hunt' merely to establish the earliest, the oldest, the strangest, at best views the past entirely from the perspective of the present.

PARADIGMATIC HISTORIOGRAPHY

Writing to or within a paradigm or world view has become a feature of much critical scholarship in the past two decades. This trend, which is to be welcomed most wholeheartedly, has become a facet of the new accounting history. Miller et al. [1991], often regarded as a testament of faith in the new history, noted how the definitions and assumptions of historical objectivity changed, with the 1960s as the watershed. Prior to the 1960s, the authors contended, there had been a confidence that historical truth (facts) existed and that these truths were "unitary rather than perspectival." Subsequently, lines of demarcation between facts and values became blurred, and the premise of "letting the facts speak for themselves" gave way to a greater emphasis being placed on interpretations tested by the facts rather than derived from them [p. 397]. It is indisputable that this change in direction has occurred. The impossibility of historical objectivity gives importance and legitimacy to the explanatory paradigms that comprise critical scholarship and the new accounting history. At the same time, the evidentiary requirements resulting from this enhanced contextualism strengthen the importance of archival research.

A number of philosophers have supported the premise that historical writing is necessarily subjective. Hegel [1975] observed that in all discourse, whether philosophical or historical, everything depends upon prior perceptions and points of view. For Hegel, the historian is "a part of the process he is studying, has his own place in that process, and can see it only from the point of view which at this present moment he occupies within it" [quoted in Gadamer, 1986, p. 468]. Ricoeur [1965, pp. 26, 31], in detailing how history is reflective of the historian's subjectivity, labeled the "judgment of importance" the selection of those events and developments to chronicle. "History wishes to be objective but it cannot" [ibid., p. 76]. Historical relativism is also a key principle in hermeneutics. Gadamer [1986, p. xx] emphasized how history becomes old-fashioned to succeeding generations as "people read the sources differently because they are moved by different questions, prejudices and interests." Gadamer glorified the differences in the social milieux and circumstances of historical observers, while fighting against, as Francis [1994, p. 240] neatly put it, "the Enlightenment's prejudice against prejudice." In a similar vein, Habermas [1990, p. 27] observed how the value judgments of historians are represented as facts in discourse, "because the theoretical framework for an empirical analysis of everyday behavior has to be conceptually integrated with the frame of reference within which participants themselves interpret their everyday lives."

The subjectivity inherent in the historian's craft is likewise appreciated in the historical literature. Bloch [1953, p. 20] warned that "it is dangerous and foolhardy to pretend that man can fully eliminate the inescapable reality of our biases." Since our knowledge of the past is necessarily indirect, it must be "filtered through our understanding of the present" [ibid., p. 46]. Hill [1986, p. 14] chastised historians who believe that they are providing an objective account for they are "ignoring the distorting lens through which they observed past history."

Given the subjectivity of historical writing, an attention to paradigmatic frames of reference logically follows. Historical data are always incomplete and must be supplemented by conjecture. Himmelfarb [1987, p. 100] noted the attractiveness of the new history to "the brightest and the more ambitious," who, based on whatever facts they can "ferret out," are then able to submit the data to "deduction, generalization, extrapolation, supposition, intuition, and imagination." Kuhn [1970, p. 146], with Dobb [1973] and Chalmers [1978] similarly, observed the logical transition to paradigmatic analysis given the nature of historical subjectivity:

> If, as I have already urged, there can be no scientifically or empirically neutral system of language or concepts, then the proposed construction of alternate tests and theories must proceed within one or another paradigm-based tradition.

Accounting scholars have also confronted the issue of subjectivity, both with regard to source materials and the personal biases of historians. Tinker and his collaborators have frequently cautioned that accounting historians, like accounting practitioners, can achieve neither neutrality nor objective reality [Tinker et al., 1982; Tinker and Neimark, 1988; Tinker, 1991; Tinker et al. 1991]. Merino and Mayper [1993, p. 245 fn.] observed that the dangers of "belief transference," ascribing current concepts to past historical figures, "increases exponentially when researchers use a theoretical framework to explain a particular historical phenomenon." Though we have no wish to silence the historian's voice, we urge that historians should expose their own biases whenever possible to allow the reader to judge whether it is the past or the historian speaking at key junctures. We concur with Muller [1952, pp. 29-32] that since "a historical fact never speaks for itself" and that every historian has some philosophy of history, "however vague or unconscious," that determines the selection and evaluation processes, the historian does best who makes his/her philosophy "clear, conscious, and coherent" and overtly declares these biases. We also aspire to Hill's [1986, p. 17] definition of a good historian as one who "questions his own assumptions and prejudices," though the task is difficult and the way unclear.

Exposure to primary source material is one way in which readers of historical narratives can begin to grapple with the issue of whether they are listening to the historian's voice or to the persona of the times. By gauging the historian's interpretation of archival materials, in combination with knowledge of the historian's frame of reference, the reader can evaluate how well the historian has done in offering a persuasive account within the context of his/her personal paradigmatic view.

There can be no doubt that archival evidence may be misinterpreted, manipulated, culled out, or selectively included in order to bolster a particular perspective. In the absence of primary sources, readers may place undue reliance on the historian's personal bias and interpretation. Thus, although there are critical questions regarding the objective reality of evidence, the complete substitution of data with theory, language, interpretation, and contextualism is even more problematic. Zagorin [1990, p. 274] described shortcomings of historical writing unsupported by archival materials:

> they have rarely disputed the reality of the historical past. . . . historians, working historians, have traditionally assumed some correspondence between interpretation and fact, between language and reality.

It is also the case that to ignore archival evidence assaults one cornerstone of historical research and scholarship. To fail to listen to the words with which the past attempted to speak to us is an affront to the individual men and women who cared enough about the future to document events and preserve an archive. Himmelfarb [1989, pp. 667-668] described the deleterious impact of this insult:

> What is being deprivileged and deconstructed is not only history as traditional historians have understood it but the past as contemporaries knew it...it is condescending or demeaning to make them bear witness not to their own experiences but to those of the historian.

Of course, it may serve no useful purpose for us to recognize the past as it was or perhaps we ought to concede that efforts to do so are fruitless.

In conclusion, we wish to offer a partial disclaimer lest it would appear that we overstate the case either for the dangers of paradigmatic historiography or the necessity of archival research. A distinction can be made between an historian writing "to" a paradigm (generally conceived as an unwarranted intrusion of bias) and writing "within" a paradigm (generally welcomed for providing an explanatory context). We are not prepared in this paper to attempt a demarcation of the two realms. Also, we appreciate the paradox in that we are arguing for the virtues of archival research into primary sources, while at the same time espousing the theory that facts do not speak for themselves. Here we suggest that primary materials can be helpful in supporting an explanatory theory, although they are not an imperative. Much critical scholarship is based on archival research; other extremely valuable critical offerings have been accomplished without direct reference to these materials. It is our personal preference to use primary sources to support historical theorizing and interpretation, but we do not feel such recourse to be a prerequisite for good scholarship.[2]

THE ENDANGERED SPECIES

Miller et al. [1991] not only served as an introduction to a collection of papers from the Second Manchester Interdisciplinary Perspectives on Accounting Conference, but as a concise and readable preamble for the "new accounting history." It augured a greater

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[2]We are indebted to an anonymous reviewer who suggested the distinction between writing to and within a paradigm, brought to our attention the paradox of calling for sources that cannot speak for themselves, and felt that former drafts of this paper marginalized the contributions of critical scholars, many of whom did archival research.

eclecticism through its inclusion of political, social, behavioral, and environmental contexts to accompany more traditional economic explanations for particular practices and processes of change in accounting's history. The article was replete with welcoming phrases such as the "pluralization of methodologies" [p. 395] and the "heterogeneous range of theoretical approaches" [p. 400] which promised not only an expanded universe in accounting historiography, but a more democratic one as well.

However, all has not been halcyon in the world of accounting history. While a heightened attention to paradigmatic issues has created an interpretive richness and a faster pace of change absent in past generations, the process has occasionally been carried out against a backdrop of dysfunctional hostility. One participant elegantly referred to this disharmonious environment as "academic antler-clashing" before lowering his own head to engage in a theoretical contretemps [Hoskin, 1994, p. 59]. We have argued elsewhere [Fleischman et al., 1996a] our conviction that dialogue and collaborative effort will harness the synergies and additive value forthcoming from the interactions of differing paradigms.

If it be true, as Gadamer [1986, p. 465] observed, that "even a master of the historical method is not able to keep himself entirely free from the prejudice of his time, his social environment and his national situation etc.," are we faced with paradigmatic anarchy in accounting historiography because all interpretations of the past are equally valid? We think not. Although the new accounting history democratically welcomes the full gamut of theories and promises a hearing for all, those efforts that are more cogently argued and those that more convincingly use source material to reinforce arguments will be more compelling.

The welcoming spirit of the new accounting history notwithstanding, a place at the table does not appear secure for certain categories of scholars. Earlier in the paper it was documented how aspersions have been cast on those historians who find value in utilizing contemporary reference points in their evaluations of the past [Miller and Napier, 1993, pp. 632-640]. Likewise, those historians who have interest in seeking the origins of accounting practices in history have been soundly criticized, particularly in Foucauldian scholarship [Miller et al., 1991, p. 398; Miller and Napier, 1993, p. 632]. In this concluding section, we consider the plight of other classifications of accounting historians who seemingly stand at the periphery of the new accounting history or, in a worst case scenario, appear to be disenfranchised. Our main concern, as the title of this article conveys, lies with archival researchers whose contributions have been marginalized when they attempt to stand apart from the paradigmatic debates that have both expanded and factionalized contemporary historiography. These scholars are ultimately the endangered species.

Many traditionalist historians, very much aware that seemingly objective evidence is value-laden, have appreciated that the mere reporting of data derived from archival investigations may not serve a useful purpose in the absence of interpretation. Typical is the remark of Previts et al. [1990b, p. 146]: "Historians, . . . influenced by the research traditions of the social sciences, champion the view that explanation is inherent to history and thus interpretation, more than just the factual story, must be undertaken." A substantial majority of traditionalists do evaluate the documents they have unearthed in their archival research, usually within the context of an economic rationalist paradigm [e.g., Edwards, 1989; Edwards and Newell, 1991; Fleischman and Parker, 1991, 1992, 1997; Tyson, 1990; 1993]. In this regard, their methodology, although not their chosen paradigmatic grounding, parallels the efforts of critical scholars [e.g., Hoskin and Macve, 1988, 1994; Walsh and Stewart, 1993]. Others, however, feel more comfortable presenting research findings with little or no interpretive analysis, leaving such evaluations to others possessed of a more theoretical bent. While these researchers may not be the objective reporters of data they might consider themselves to be because of the partisan nature of their selection processes, their contribution to the historical process ought not be minimalized.[3]

Critical scholars have repeatedly told traditional historians that their work suffers a major shortcoming when revealed data are unaccompanied by explanation and evaluation. There is value in quoting this perception at length from the classic statement of the new accounting history's philosophy [Miller et al., 1991, p. 398].

> However, the fortunes of accounting history are likely to depend on more than the tenacity of researchers in uncovering new facts or dating the initial practice of this or that accounting technique. The questioning and debates that have generally taken place around the objectivity question in history more rudely impose themselves within

[3]Although one reviewer urged that citations to work of this genre be provided, we decline to do so lest the scholars so identified be embarrassed by this categorization.

> accounting. A concern with language, with the rationales and ideologies for accounting practices, comes to assume a prominent role in the new accounting history. But this is not the same as saying that the analysis of particular accounting events can be conducted with disregard for chronology, national specificity or the key actors or institutions. Far from it. However, these important issues of archival enquiry only gain their significance within a particular theoretical or explanatory framework.

The critique of archival researchers disinclined to analyze their findings has not always been so kind. Napier [1989, p. 241] charged that the reporting of historical records without interpretation was "simple antiquarianism." Stewart [1992] used the same word to describe approaches which emphasized facts rather than explanations. Hopper and Armstrong [1991, p. 405] branded as "accounting antiquariansm" the efforts of those researchers concerned more with the discovery of accounting origins than with the articulation of theories of change. While these critics may not feel they are disparaging the research efforts of their colleagues in using this phraseology, the epithet "antiquarian" conveys a greater pejorative connotation among North American historians (perhaps as distinct from accounting historians) than in U.K. academic circles. We must be cautious not to brand archivist colleagues as drones whose only job is to provide grist for the paradigmatic mills.

The new accounting history has been characterized by a substantial expansion in the variety of influences collectively investigated in the ongoing effort to explain past developments and patterns of change. The panorama has now come to include social, political, ideological, and cultural contexts, as well as the voices of suppressed peoples. At one time many traditional historians in accounting were deserving of an economic reductionist label, sharing that identity with early Marxist scholars ("vulgar" Marxism). While many traditional historians have broadened their horizons, influenced perhaps by the exponents of critical history, some have not. Some traditionalists continue to privilege the economic environment as the motivating force behind institutional change. Notwithstanding, these scholars have a substantial contribution to make in bringing new information to light. The issue for them should not be a blanket indictment of their methodological choice, but rather the danger that their contributions might not be remembered since their more limited focus diminishes the possibility for a compelling narrative.

It is our view that the regard with which archival research is held by traditional historians is not paralleled in postmodernism. Postmodernists are skeptical of the tendency of some archival researchers to consider historical documents as bias-free representations of reality. Many of those who do archival research typically fit those categories marginalized in recent literature, including those who gather facts which are allowed to "speak for themselves," those who investigate the origins of contemporary practice, those who believe that historical figures are essentially motivated by economic influences [Tyson, 1995], and those disinclined to write to a paradigm. Napier several years ago appeared more sympathetic to archival researchers of various stamps than in his more recent work with Miller. He perceived a dichotomy of function in the accounting history craft. Traditional archival researchers would feel most at home in "the discovery stage" in which original accounting sources and documents are studied. These investigations constituted an essential precursor to the "contextualising" function so as to "avoid the erection of theoretical superstructures on inadequate foundations" [Napier, 1989, p. 239]. Napier staked out a niche for traditional archivists, observing that "the contextualisers are likely, however, to wish to rely on the traditionalists to generate much of the raw data for their theorising" [ibid., p. 250].[4]

We would urge the contextualizers to be mindful that the flow of data used to support the theorizing must continue. Summary articles relating the findings of archival research should not be minimalized lest scholarly articles of the new history genre come to be written and rewritten without bringing new information to light. This plea in no way intends the suggestion that the discovery and contextualizing functions are mutually exclusive. Many practitioners of the new accounting history, particularly critical and postmodernist historians, have done both extraordinarily well. However, the research protocols of the new accounting history seemingly allow academics the freedom to choose their research agendas in confidence that both discovery and

[4]In a recent article with Carnegie, Napier has returned to the traditionalist fold that typified his archival research over the course of the past decade. Carnegie and Napier [1996, p. 8] acknowledged that "historical research in accounting gains its strength from its firm basis in the 'archive,'" though they do define that term in its broadest possible sense. Moreover, they observed that historians who rely upon secondary sources open themselves for others "to challenge these conclusions by reference to primary archival material" [ibid., p. 20].

contexualizing contribute value to our knowledge and understanding.

Miller and Napier should be keenly aware of the importance of archival research based on their own past experience. One of the four genealogies Miller and Napier [1993, pp. 641-642] narrated to illustrate their approach was the emergence of costing at Wedgwood pottery. Our knowledge of accounting at Wedgwood comes almost entirely from the archival research efforts of Professor McKendrick [1960, 1964, 1970]. The Wedgwood archive at the Keele University Library is largely uncatalogued to the modern day. It took painstaking and meticulous effort to generate the source material vital for later analyses by Hopwood [1987], Fleischman and Parker [1991], and, last but not least, Miller and Napier [1993]. Two of the most prestigious contributions to critical scholarship have been Miller and O'Leary [1987] and Hopper and Armstrong [1991]. Both these substantial theoretical undertakings were done without reference to primary sources. The debt owed to those who provided the archival background should be obvious. We would ask the further question, by what standard is it more acceptable to write an interpretive piece without doing archival research than it is to report the results of archival research without accompanying interpretation? We subscribe to the belief that effective history comes in multiple forms—well-researched archival investigation, well-reasoned interpretation and evaluation, and combinations thereof. We conclude by challenging critical and traditionalist historians alike to recall the democratic tenets espoused in Miller et al. [1991, p. 400]:

> It is inappropriate to specify criteria that would exclude certain types of research on the basis of their methodological protocols or the time period they address. It is also highly inappropriate to specify the methodological protocols that stamp a particular piece of research as a part of the new accounting history.

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INFORMING HISTORICAL RESEARCH IN ACCOUNTING AND MANAGEMENT: TRADITIONS, PHILOSOPHIES, AND OPPORTUNITIES

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Abstract: Historical research in accounting and management, hitherto largely neglected as a field of inquiry by many management and accounting researchers, has experienced a resurgence of interest and activity in research conferences and journals over the past decade. The potential lessons of the past for contemporary issues have been rediscovered, but the way forward is littered with antiquarian narratives, methodologically naive analyses, ideologically driven interpretation and ignorance of the traditions, schools and philosophy of the craft by accounting and management researchers as well as traditional and critical historians themselves. This paper offers an introduction to contributions made to the philosophies and methods of history by significant historians in the past, a review of some of the influential schools of historical thought, insights into philosophies of historical knowledge and explanation and a brief introduction to oral and business history. On this basis the case is made for the philosophically and methodologically informed approach to the investigation of our past heritage in accounting and management

Accounting and management research has proliferated in both volume and variety in recent decades, yet much of it remains curiously ahistorical. Many contemporary research journal articles for instance contain all but the briefest allusions to prior practices and knowledge, often confining themselves to the almost obligatory but cursory review of the previous ten years' literature. Not only do many contemporary accounting and management researchers risk leaving themselves without a sense of tradition, but they also risk revisiting earlier solved issues or making decisions about the future in isolation from the past. The problem does not end here. It is not difficult to locate in the extant accounting and management literature, examples of historical research

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that varies from theoretical naiveté to doctrinaire predisposition, and from archival neglect to antiquarianism, or that simply appear to be methodologically uninformed. The value of such material to practitioners, policy-makers and researchers may therefore be doubtful or at least suspect.

This paper aims to address some of these issues by offering a selective overview of the theoretical and philosophical traditions that have informed historical research and writing generally. It therefore sets out to acquaint the accounting and management reader with theories and methodologies adopted and advocated by a sample of significant historians in human history. Also briefly reviewed are some of the most influential schools of historical methodology as well as historical philosophies of knowledge and explanation that have informed interpretive historical research. In addition, two particular areas of accounting history research extension, oral and business history, are highlighted. Finally some implications for future historical research in accounting and management will be discussed.

PURPOSES, BENEFITS AND DIRECTIONS

Why should we concern ourselves at all with undertaking studies of accounting and management history? One pragmatic answer can be offered by Alfred Chandler's (1977) work. His are arguably the books on business history most often consulted by business executives and possibly the reason is that they have "explained the sea to the fish who swam within it" (Smoler, 1992).

In general, history offers a variety of potential uses. It may be employed to build a view of the past from which professional consciousness and cohesion can be manufactured. It can reveal and render visible parties, practices, and outcomes previously ignored. Alternatively it can challenge and overturn fallacious beliefs and unfounded traditions or offer some indicators of precedents and previous experiences that may affect future actions and policies (Tosh, 1991). Management and accounting policy and practice are often discussed and applied ahistorically. Historical research can offer a prologue to deliberations on contemporary issues and provide insights into not only precedents but also conditioning factors (economic, political, social, and institutional) and possible outcomes (Previts et al, 1990a, b).

Identifying Benefits

Accounting and management history can help us identify within our particular nations and cultures, what has worked in the past and what hasn't. It also helps us understand why we have had our successes and failures over long periods of time. It offers the prospect of accountants and managers learning from ignored or forgotten past experiences, both successful and unsuccessful. Chandler himself argues that our focus on quantitative tools and analyses have been the source of many of our present day difficulties in accounting and management, in that they have emphasised what is measurable but not necessarily what is important, and that they have lead to a short-term decision making focus rather than a long term decision making orientation. A better understanding of the histories of accounting, management and business may assist us to avoid these pitfalls.

The study of accounting and management history also offers the prospect of researchers operating in particular cultures (such as Asian versus Western cultures) being able to discover the unique features, impacts and potential advantages of the cultural contexts within which their organizations and professions operate. This may for example avoid the tendency towards wholesale adoption of Western management and accounting practices in Asian or Middle Eastern contexts and organizations within which they may prove to be inappropriate and therefore unsuccessful (Parker, 1994). So there are strong arguments to suggest that we should indeed bother with history. It helps us put our present into context and better informs and sensitises the accounting and management decisions we must make tomorrow.

Accounting and Management Directions

Napier's (1989) overview of recent research directions in accounting history argues that examination of original accounting documents gives our contemporary theories and generalisations some empirical content. Despite invariable limitations in availability of historical evidence, historical analysis of accounting and business records can reveal much about techniques and processes as well as what has been accounted for in the past. Historical analysis can provide us with information as to accounting choices taken in the past and as to the interaction of accounting considerations and business decisions. Napier correctly points out that accounting records are not the only sources that are available to the historian. Further sources include publicly available documents such as legal cases, journalistic writings and also private documents such as minute books of directors meetings, correspondence between owners and managers, managers notebooks and so on. However he notes that much historical accounting research has been aimed at assembling primary and secondary historical evidence, which has been much needed but at times accused of antiquarianism. Further benefits from historical research in accounting include the contextualising of accounting history. This implies that the researcher studies the history of accounting not as a technique in itself but as one element of a social, institutional and organizational context over time. This can be provided by interpretive, critical or postmodern approaches.

Goodman and Kruger (1988) have provided an informative review of the potential contribution that historical research can make to the management literature. They recognise that historiography (the body of techniques, theories and principles associated with historical research) has been attacked for lacking objectivity but argue that as a research method, historiography is no more subjective than many other social science methods. Historiography has also been criticised for data dredging but generally, historiographic research examines sources with the intention of providing explanations and generating substantive theory. Goodman and Kruger argue that historical research has three major potential applications in management research:

1. Variable selection and evaluation.
2. Theory construction.
3. Hypothesis generation.

In all the above areas historical research has the strong potential to make major contributions through its evaluation of multiple sources, its addressing of questions such as "what happened?", "what was?", and "why?", and through its emphasis upon multiple influences and multiple hypotheses that enables the researcher to set hypotheses within a broader context. An example of that broader context which management historiography offers can be found in Pindur et al's (1995) global review of the history of management in which they argue that to understand and apply contemporary management principles and techniques effectively, an understanding of historical theories, models and processes is required. To that end they traverse the scientific management, administrative management, behavioural management, quantitative management, as well as systems, contingency, strategic and "Japanese" management movements.

The potential utility of a historical perspective in accounting research has already been argued by such writers as Baladouni (1979), Baxter (1981), and Parker (1981). Contributions to accounting historiography have also been gradually emerging in the research literature since the 1970s (Goldberg, 1974; Baladouni, 1979; Parker, 1981; Gaffikin, 1987, 1988a, 1988b). With the accumulation of such writings, particularly in the accounting literature, there has developed a growing appreciation that history in this discipline, as in others, is a cultural product reflecting social, economic, and political environments (Lister, 1983; Previts, 1984; Hopwood and Johnson, 1986). In addition has emerged the understandings gained from the perspectives offered by critical accounting history researchers that accounting is an influencing activity that creates its environment at least as much as it may reflect that environment. From such studies, our understandings of accounting have broken away from its previously assumed characteristics of neutrality, objectivity and technicist isolation (Gaffikin, 1987, 1988a).

Recent Reflections

A number of historians have been more recently adding to the historiographic literature in the field of accounting research, expanding upon the themes of history's nature, utility, methodologies and ongoing developments. Previts et al (1990a,b) produced two papers which commenced by distinguishing between narrative and interpretive history, and considering the relevance of extant accounting history research to accounting teaching, policy and practice as well as outlining some of the limitations of historical research. Their review included some of the major areas of accounting history inquiry, including biography, institutional history, development of accounting thought, general history, critical history, data base development and critical history. Their consideration of historical method extended to general methodological issues, cliometrics, empirical and statistical studies, content analysis, and case studies.

Even more recently, Carnegie and Napier (1996) provided a significant analysis of the state of the art with respect to critical and interpretive history research in accounting in which they addressed the roles of accounting history in conferring status upon the discipline of accounting, serving functionalist policy informing purposes, and providing bases for critiques of past and present practice. As Previts et al (1990b) had done, but with differing selections, they highlighted a variety of areas of ongoing accounting history research including studies of surviving firm records, accounting records in business history, biography, prosopography, institutional history, public sector accounting and comparative international accounting history.

From a more strictly methodological "primer" viewpoint, Fleischman, Mills and Tyson (1996) revisit the concept and definition of history, and discuss issues of subjectivity, evidence types, historical construction, and historical versus social science perspectives. They also briefly outline some significant accounting historians of the 20th century as well as research journals currently publishing accounting history and comment on the emerging critical history research perspectives as opposed to interpretive and narrative, archival traditions.

This paper builds further upon these foregoing historiographic works by returning to a somewhat broader canvass in providing an introduction to the work, philosophies and methodological perspectives adopted by some of the leading historical writers of the past. The intention is to illustrate the wealth and variety of theoretical and methodological sources available for accounting and management historians to consult. This also provides a backdrop to some of the pervasive schools of thought that have been influencing historical scholarship in the 20th century. Some of these foundation philosophies are reflected in methodological elements such as historian's attitude, objectivity, events, facts, ideas, causation, interpretation, explanation and discovery through writing. Indeed even in such growing areas of historical research innovation as oral history, faint but perceptible traces of the work and approaches of very early historians can be detected.

SIGNIFICANT HISTORIANS FROM THE PAST

In some respects accounting and management historians could be accused of deficits in their appreciation of the predecessors in their own historical writing craft. Yet there is much to be learned and appreciated in terms of perspective, theory, and methodology from the work of significant historians from the past. What follows is a very brief and admittedly selective review of the contributions to methodological thought made by some of these historians (Barker, 1982; Gooch, 1952; Thomson, 1969; Tosh, 1991; Goetz, 1986). These brief overviews provide an insight into the methodological foundations and debates in historical thinking and offer the management and accounting historian a variety of issues to consider and a range of potential research approaches that might be adopted.

Herodotus was born in approximately 484BC and wrote the first great narrative history of the ancient world, the history of the Greco-Persian wars. He is considered to be the first historian in that he recorded what happened and tried to show how the two peoples involved, came into that conflict. His work brought a new principle of critical enquiry in asking why the war had occurred. His histories were designed to be read aloud and included features still common to the discipline of history, namely critical enquiry, prose narrative, popular presentation and cultural significance. Herodotus employed a then new method of historical enquiry that first asked a question, looked for information relevant to that question and then drew a conclusion from the data collected.

Thucydides was born around 455BC and wrote the history of the Peloponnesian War. He wrote a contemporary history of events through which he lived and attempted to explain impartially the intricacies and complexities of the events that he observed. Like Herodotus, Thucydides wanted to enquire into the origins of the war and to distinguish precipitating from underlying causes. He was also concerned to answer the question "what actually happened?" and grappled with the questions of "what is the nature of power?" and "what lessons can history teach?". His methods included cross checking between witnesses' accounts before recording and establishing a reliable chronology. His work had three definable stages:

1. Notes he made of events as they took place.
2. The arrangement and rewriting of those notes into a chronicle (consecutive narrative).
3. The construction of a final elaborated narrative.

Pan Ku was born in China in approximately 32 AD. He was one of China's most notable historians. He was an official and scholar of the Eastern (later Han) dynasty and his Han Shu (History of the Former Han Dynasty) became the approach most frequently employed by later Chinese historians. Carrying on work commenced by his father, he spent over 16 years compiling and editing the history. Pan Ku attempted to represent the Han dynasty and empire as factually as possible through an organised compendium of existing documents. He founded the so-called Han style of prose - simple, lucid, not particularly vivid and avoiding elaborateness. His work has been admired for its thoroughness and apparent objectivity.

Voltaire was born in Paris in 1694. His historical works ranged over the whole field of culture and society. His approach to history had four major characteristics:

1. A scientific methodology which included a critical appraisal of evidence.
2. Treatment of the past on a universal scale.
3. A view of the Reformation as a social and political as well as religious phenomenon.
4. A concentration on the history of the human mind.

Voltaire hoped to establish a fundamental historical law - to explain the historical process and benefit the human race. He developed a law that humanity had never progressed without guidance of strong enlightened persons in positions of authority.

Gibbon (Edward) was born in Surrey, England in 1737 and was regarded as a rationalist, historian and scholar. He broke from the 18th century belief in God's will being the primary explanator of past patterns. His historical writing was characterised by rational argument and the employment of irony. Gibbon adopted an analytical, secular attitude favoured by most historians today. The influences upon events he chose to investigate were not divine or miraculous, but the interplay of personality, ideas, conditions and events. His *History of the Decline and Fall of the Roman Empire* (1776-88), a continuous narrative from the 2nd century AD to the fall of Constantinople in 1453, is regarded as a masterpiece of philosophical historiography. It realised his ideal of writing history that was related to and explained by the social institutions in which it is contained. He was motivated to write it by his worry about the possible collapse of Western civilization. He sought to unravel the causes of the Roman empire's collapse so as to argue that Western civilization had reached a superior state of development and was, therefore, immune from similar collapse. Gibbon, untiringly industrious and accurate in consulting his sources, demonstrated a sense of fairness and probity, and employed a literary writing style that exhibited both flair and acumen.

Ranke (Leopold von) was born in Saxony, Germany in 1795. Ranke is considered to have founded modern historical professionalism. He introduced the critical approach to sources into mainstream historiography and founded a new breed of historians trained in the critical evaluation of primary sources. He attempted, by applying his skills of textual criticism to history (working on original documentary sources) to "show the actual past". He perceived history as drawn solely from original documents, critically examined and authenticated. The facts were to speak for themselves. Ranke's concern to portray, as objectively as possible, the past as it really was, represented a protest against the moralising history commonly being written in the early 1800s. Indeed a Rankean scholar exhaustively explores the small area of the past in which he or she is an expert, asking limited questions and then producing a reliable report for other historians to use (so that there will be no need for the evidence to be inspected again). Ranke believed that history evolves in the development of the individual, peoples and states which together constitute the process of culture. For him, continuity was a prerequisite for the development of a culture and its underlying historical reality. His approach to historical research also emphasised the role of contemplation and intuition required for addressing the variety and unpredictability of individual human behaviour. Ranke is regarded as the founder of Historicism and has exercised a major influence over Western historiography.

Karl Marx was born in Germany in 1818. He developed his ideas starting from the classical economists, believing he had discovered a science of human society in which politics, economics, philosophy and literature as well as history, interacted to create the social structure from which it sprang. He learned from the German Idealist philosopher G.W.F. Engel that the past could exhibit a pattern and a destination. Marx chose to envision these as a class war between those who own the means of production and those who are limited to selling their labour. In his view, humanity's beliefs reflected primary physical needs and everything in the human world had grown from humanity's attempts to satisfy those needs. His concept of history is called historical materialism or economic determinism. His work accelerated the trend of history away from memoirs and letters towards documentation provided by public records, charters, parish registers and the like.

Marx saw history as being about the growth in human productive power. Once humanity had satisfied its basic needs, then it could pursue self-fulfillment and achieve its potential in all other spheres. Thus he contended that the only true, objective view of the historical process is rooted in the material conditions of life. He therefore chose to reject nationalism, freedom and religion as major defining themes of history. Instead he believed that people are the victims of material forces, but under the right conditions can be the agents of historical change. Classes were not defined by him in terms of wealth, status or education, but in terms of their role in the productive process. Thus each mode of production was seen to result in the emergence of classes with antagonistic interests, each successive stage producing its own dominant class.

In proposing his theory as a guide to the study of history, Marx rejected the historical methods employed by the leading historians of his day, considering Ranke and others to be captives of the dominant ideology of the age being studied by them. That dominant ideology (of each period being researched) was in Marx's view, a cover for the material interests of the dominant class. The dialectic between the forces and participants in production was for him, the principal driver of long term historical change. However it is arguable that Marx never developed his own clearly specified methodology of historical research.

Trevelyan (George Macaulay) was born in Warwickshire, England in 1876. He was Master of Trinity College Cambridge 1940-51; liberal by training and temperament, he demonstrated an appreciation of the Whig tradition in English politics and thought. Trevelyan wrote history for the general reader as well as for the history student and campaigned for the revival of a literary style of history - elegantly presented and able to interest a wider public readership. He spearheaded a reaction in England against scientific approaches to history that had almost stifled the reading of history. For example he wrote *English Social History* (1942) which portrayed the life and pursuits of society via a powerful literary style. Trevelyan was not so concerned with explanatory history, preferring to argue that the appeal of history is, in the final analysis, poetic. He did make the telling observation that for the historian it will always be difficult to tell the story as it really was because inevitably the historian *has* to select from all the available facts in compiling his or her account.

Collingwood (R.G.) was born in Lancashire, England, in 1889. He was an English historian and philosopher who attempted to reconcile philosophy and history. He was a tutor in philosophy at Oxford University from 1912 till 1941 and was regarded as the leading authority of his day on Roman Britain. In his last work, the posthumously published *The Idea of History* (1946), he argued that all history is essentially the history of thought and that the role of the historian is one of re-enacting in his/her own mind the thoughts and intentions of individuals in the past. According to Collingwood, only by immersing oneself in historical events participants' mental processes and rethinking the past in the context of one's own experiences, can the historian discover the significant patterns and dynamics of cultures and civilizations. As the most sophisticated exponent of the Idealist position Collingwood made a contribution to setting history on a new path, eschewing the desire to provide a synoptic vision of the entire historical process and the idea of proposing universal laws to explain historical occurrences. Instead he advocated an analytical approach to historical research, focussing upon concepts, methods of classification, justification of interpretations and the logic of explanations proffered.

Toynbee (Arnold Joseph) was born in London in 1889. His monumental 12 volume work, *A Study of History* (1934-61), proposed a philosophy of history based on the analysis of the cyclical development and decline of civilizations, demonstrating an awareness of the relativity of historical thought. He also produced volumes on world religions, western civilization and world travel. He was a traveller and observer of international affairs and asked the broadest of questions (often those asked by laypersons). Toynbee was obsessed with humanity's necessary choice between self-subordination and self-extinction. He was preoccupied with the task of explaining historical change (e.g. how did the laws of civilised warfare become overthrown in the 20th century?). He was a historian of the Thucydidean kind - scientific in his methods, thorough in his investigations and detached in his conclusions. Unlike Marx, Toynbee saw history as governed by spiritual forces subject to the law of God. His *A Study of History* is essentially a 20th century condemnation of the idea of progress and of the historians who produced that idea. It is a personalised, holistic and subjective interpretation of history which argues that under the leadership of creative minorities, civilizations grow by responding successfully to challenges and decline when leaders fail to react creatively. He is considered therefore to be a historical system-maker, repudiating the idea that history is chaotic and fortuitous, revealing no discernible pattern or rhythm Toynbee encouraged a recognition that large scale patterns of behaviour have always been with humanity and are enshrined in myth and legend. While his work has been criticised for its ambiguous definitions, its assumptions, its large scale system building and its according to myths and metaphors, equality of status with facts, his work has also been praised as a stimulating response to the specialising tendency of modern historical research.

Carr (Edward Hallett) was a British political scientist and historian, born in London in 1892. He was assistant editor of *The Times* from 1941 to 1946 and was subsequently a tutor and fellow of Balliol College, Oxford and fellow of Trinity College, Cambridge. His major contribution to historical thought came from his book *What is History* (1961). He argued for a distinction between the facts of the past (limitless and unknowable in their entirety) and the facts of history (a selection made by historians in order to reconstruct and explain history). He regarded any attempt to reconstruct the past from the inside as misconceived, preferring to apply a standard of significance to the past based upon a sense of the direction of history including the trajectory of contemporary events, thereby approaching an understanding of the future. Carr argued that all historians reflect to some degree the outlook of their own age but advocated that historians should read and write simultaneously in order to better understand the significance and relevance of what they find. For him, facts without explanation and interpretation leave history that is unappealing to the reader and of limited use. Facts and explanation should be in constant interaction in the process of historical research and writing.

Drawing Lessons For Today

While the above historical writers by no means constitute an exhaustive list of major contributors to the field of historical scholarship, they give us a brief insight into both the commonality and variety of their approaches to historical research. There is much from which we can select to inform the conduct of our own historical research projects. Both narratives and interpretations of past events and circumstances have been of vital concern to historians and continue to offer alternatives for investigating periods and practices in the accounting and management past. In studying history, many historians have been drawn to the search for patterns of events and behaviour as well as relationships between institutions, people, events and general contexts. We are invited to first discern what are significant (rather than trivial) questions that researchers in this field should be addressing and then to impose rigorous standards of critical enquiry in our investigation of evidence, depth of interpretation and logic of argument.

Since historians are inevitably faced with the task of dealing with the complexity and sheer volume of data involved in past events, thoroughness and detail should not be sacrificed in pursuit of interpretation and explanation. Both have an essential part to play in the telling of the story and the revealing of its undercurrents. We are called on to search for the dynamics of change and its conditioning influences, being alert to the potential discovery of direction and destination in historical events and seeking to portray the interplay of people, ideas, conditions and events. One important challenge to accounting and management historians is to immerse themselves in the literature of the period they select to investigate so that they can gain a broader and deeper appreciation of the perceptions, behaviour and context of the historical participants of that period themselves. Finally, as historians we are challenged to rediscover the value and power of more adventurous and engaging styles of writing history in accounting and management so that readers will be attracted and drawn into investigation and debate of the issues historians seek to raise and contribute to the enhancement of knowledge and practice in the accounting and management disciplines.

The above albeit brief insights demonstrate the opportunities for informing the theoretical "lenses", methodological approaches, interpretive approaches and styles of presentation that contemporary accounting and management historians have available for their selection. Revisiting the works and critiques of leading historians from the past offers a rich and hitherto inadequately tapped resource for this purpose. Some of this resourcing of contemporary historians' theoretical and methodological approaches to their research has been provided via particular methodological schools of thought that have gained support and adherence from groups of historians this century. For example Ranke's work provided the underpinning impetus for the historicist school of thought, while Marx provided the basis for the school of historical materialism. By way of contrast however, we must also recognise the contemporary popularity of the Foucaultian school of thought in historical research which is based upon the work of the French philosopher and sociologist Michel Foucault, who would not have considered himself to be a major historian and has not primarily been recognised as such. Others such as Herodotus, Thucydides, Gibbon, Collingwood and Carr provided the methodological foundations for the more general interpretive historiographic tradition represented in this paper's discussion of philosophies of historical knowledge and explanation. These complex linkages cannot be explored in any detail here, but they lend further support to the argument that our historical research in accounting and management would be well served by a revisiting and appreciation of the perspectives and methodologies of leading historians of the past. For now, we turn to a brief review of some historical schools of thought that are pervasive amongst contemporary historians.

METHODOLOGICAL SCHOOLS

Considerable debate continues between various schools of historical thought as to the relative merits of their philosophies of and assumptions about historical knowledge and methodology. What they do offer is an increasingly rich array of historical perspectives, each offering potentially new insights into or critiques of our past. For a detailed assessment of the debates between three particular schools in relation to interpretations of industrial revolution firms' cost management practices, Fleischman et al (1996) provide a useful case in point. What follows here is a brief outline and summary of critical aspects of five particular schools that have been influential amongst contemporary historians - historicism, the Annales school, historical materialism, the Foucaultian school and postmodernism. As the works of leading individual historians from the past offer contemporary historical researchers a useful theoretical and methodological resource, so do these following schools of thought.

Historicism

As already pointed out earlier in this paper, Leopold von Ranke was pre-eminent in establishing historicism as the dominant mode of contemporary historical research beginning early in the 19th century in Germany. Historicism started as a conservative reaction to the excesses witnessed in the French revolution. Their observations of what happened when radical elements turned their backs on their country's past led to their rejection of previous beliefs in history as progress. The fundamental premise of historicism is that each age is a unique manifestation of the human spirit, having its own culture and values. Thus present-day values must be set aside and an earlier age seen from the inside (that is from the standpoint of its own time-bound context and beliefs). Accordingly historicism argues that the culture and institutions of a particular period can only be understood from the standpoint of that period itself (Tholfsen, 1967).

Historicism does not simply aim to reconstruct the events of the past but to also reconstruct the atmosphere and mentality of the past - trying to ascertain why people acted as they did by stepping into their shoes and attempting to see the world of their day through their eyes and hence gaining a better understanding of their perceptions and judgements. Thus historicism tries to elucidate what is durable and what is transient or contingent upon our present condition or unique situation at a particular point in time. This recreating of the past in context or from the inside is regarded as a necessary precursor to explaining the past. Explanation requires the identification of trends, influencing and conditioning factors, consequences and an understanding of history as a process. In these respects historicism lays claim to a legitimate facilitating role (Goetz, 1986; Tosh, 1991).

There are qualifications and criticisms that have been levelled at historicism. If historians try to examine a social grouping from their own perspective, whose standards of judgement should be adopted? - manager or employee, accountants or marketers, regulators or shareholders? It is certainly arguable that the historian can be subject to the influence of the priorities or assumptions of those who created the sources of evidence and by his or her own values (consciously or subconsciously). So objectivity for the historicist remains an elusive ideal. It is also argued that we can never recapture the complete impression of a historical moment as it was experienced by people at the time, because with the benefit of hindsight, we know what happened next and therefore our interpretations of the events and the significance we ascribe to them are unavoidably conditioned by that knowledge. However that same hindsight offers the historian an opportunity in two particular respects. It assists in identifying conditioning factors of which the historical participants were unaware and it enables the comparison of actual with originally intended consequences (Tosh, 1991).

Annales School

It is important for accounting and management historians to be aware of the work of the Annales School of historical research which was founded in 1929. Its founders were Marc Bloch (a mediaevalist) and Lucien Febvre (a 16th century specialist) who established a historical journal known as *Annales d'Histoire Sociale et Economique.* Febvre called for a "historical psychology" to be developed by historians and psychologists working together in order to avoid psychological anachronisms (the assumption that the mental framework by which people of earlier periods interpreted their world was the same as our own contemporary mental framework). This school demanded that historians learn from other social sciences such as economics, sociology, social psychology and geography in order to make them aware of the full range of questions that they could ask of their sources of evidence. They attacked *l'histoire evenementielle* which was a narrative approach to history that sought to identify grand causes of events and situations. Instead the Annales School argued for more detailed and specific analyses of events, their interrelationships and influencing factors.

Annales historians called for an end to compartmentalisation in history. They aimed to write "total history" (histoire totale or histoire integrale) which would recapture the great variety of human life and events (Stanford, 1987). This aim also oriented them towards the ideal of integrating physical and human geography, economic and social life, and political structures. Such an ideal remains difficult to achieve without some degree of compartmentalisation. The Annales School considered that historians who specialise in one branch of history risk attributing too much to one kind of factor in their explanations of historical change. Hence their advocacy of interdisciplinary considerations in historical study and their affinity for the methodologies of the social sciences. Historians of this school have continued to refine and broaden historical content and methodology and new directions in history over recent decades owe much to their influence (Stanford, 1986; Tosh, 1991).

Historical Materialism

As referred to earlier, this historical school of thought emanated from the writings of Karl Marx (Goetz, 1986; Tosh, 1991). From this perspective, events and structure are central to the understanding of historical process and action and structure of society are reciprocally related. The tensions between classes in a class ridden society are therefore a focal point of concern for historians of this school. Historical materialism contends that people engaging in social production enter into relations of production that are independent of their will and that the sum total of these relations of production constitute the economic structure of society. On that foundation, the legal and political superstructure are built. The mode of production in material life determines the general character of the social, political and intellectual processes of life. Thus political, legal and social structures and relationships are all based upon and dependent upon material production.

In this conceptualisation, society is conceived of as comprising three levels:

1. Underlying the other levels are the forces of production (tools, techniques, raw materials, labour).
2. The relations of production (the economic structure of society, being the division of labour and forms of co-operation /subordination sustaining production).
3. The superstructure (the legal and political institutions and their supporting ideology).

The interplay of these and certain long term structural factors are considered to make some historical events inevitable in the long term and constitute defining limits to the actions of groups and individuals.

Over time, Marx's materialist concept of history has been applied, expounded and extended by many subsequent authors who have sought to refine and elaborate his approach to the past. The growth of Marxist historiography in recent decades has been diverse in nature although the bankruptcy and fall of some communist governments, the rise of renewed forces of conservatism in western societies, and a postmodern reaction against Marxism and other grand theories has produced a more acute appreciation of the limitations of historical materialism. Nevertheless, while subjecting history to such a doctrinaire theory risks producing interpretations of historical events that ignore or distort the complexities of the historical processes involved, this approach can produce challenging and illuminating hypotheses that raise important questions not previously considered by scholars bring some of the big questions of history more insistently to the centre of the arena (Tosh, 1991).

Foucaultian History

Another emerging tradition of historical scholarship in more recent times has been informed by the work of the French philosopher Michel Foucault. In studying the history of asylums, prisons and other closed institutions, he developed a theory of power and knowledge that has been taken up as an approach to historical investigations and analysis by historians concerned to discern these factors as underlying explanators of events and patterns of behaviour (Stewart, 1992). From the perspective adopted by this school of thought, power and knowledge are closely interconnected, power being viewed as a network of relationships that operates from below as well as from above, being both potentially repressive and productive. Historians of this persuasion consider that from the late eighteenth century onwards, industrialists developed economic surveillance systems that constituted a new form of disciplinary power (Fleischman et al, 1995). Thus from the Foucaultian perspective, management and accounting systems are not simply rational economically driven mechanisms designed to facilitate economic efficiency and market competitiveness, but are systems of surveillance that render human activity subject to measurement and control. The Foucaultian historian is not particularly concerned with the origins of practices or events under study, nor with their patterns of development over time. Instead, the focus is upon the exercising of power and control within the historical situation being investigated.

Arguably then, for Foucaultian historians, the central question is one of diagnosing the present by asking "How did we reach the present position?". They reject notions of evolutionary progress, of continuity in history (although Foucault became uncomfortable with being characterised as advocating the discontinuity of history), of the primacy of origins and economic forces (Fleischman et al, 1995; Stewart, 1992).

Marxist historians have been the most vocal critics of the Foucaultian school, accusing them of ignoring power at the level of the State and being averse to economic and class structure variables in their analysis and explanations. They point to the Foucaultians' concern with language as diverting attention from materialist concerns and to the problematical nature of a universalist view (at the micro level) of power being allegedly common to all disciplinary regimes regardless of organizational differences. At the general level, the Foucaultian school has been criticised for undertheorising material, economic and political realities (Neimark, 1990, 1994; Armstrong, 1994).

Postmodernism

Foucault reflects a trend in some more recently constructed historical methodologies to reject the notion of grand theories and long term patterns of development in favour of diverse and eclectic approaches to and reinterpretations of historical events and practices (Tosh, 1991). Postmodernism seeks to problematise conventional explanations of history and to break away from an alleged unidimensional picture of historical development (Stewart, 1992). Such theorists as Foucault and Derrida have been identified with the movement towards discourse analysis which attempts to overturn any notion of a privileged reading of history, instead choosing to reappraise discourses such as philosophy, politics, linguistics and history (Tosh, 1991; Jenkins, 1991; Francis, 1990).

So a growing number of historians of the postmodernist school reject what they see as the privileging of various centres (eg. Eurocentric, ethnocentric) and metanarratives. They represent a group that is post-liberal, post-Marxist, post-western, post-industrial, but do not represent some cohesive, unified alternative group of scholars. They operate from a variety of perspectives but have reached a common view that neither their own positions nor anyone else's have an identifiable foundation. Instead they see history as "willed" and historical interpretations as entirely contingent upon the varying mix of epistemological, methodological and ideological assumptions adopted by the historian or reader. Thus instead of allowing "professional histories" to exercise hegemony, a whole range of distinctive histories are being constructed, including black histories, feminist histories, revolutionary histories, oral histories etc. Thus the postmodernists see history not as aiming at a real knowledge of the past but as a discursive practice that allows contemporary people to investigate the past and to reorganise it and reinterpret it according to their contemporary interests. The intention is one of making the previously invisible (eg. activities of women and previously ignored ethnic groups) become visible and developing fresh insights into the past that can be utilised to emancipate the present (Jenkins, 1991).

A Rich Tapestry

The above schools exhibit an array of widely varying philosophies of and approaches to the study of history. Together, they offer the contemporary historian a rich tapestry of divergent images and colours. Depending upon their particular research subject and objectives, historians acquainted with such schools have the opportunity to select from their theoretical perspectives, focal issues of concern, and preferred methodological and interpretive schemes in designing and executing their research. While research conducted upon the same archival material from perspectives of differing schools may yield alternative and at times conflicting historical stories and interpretations, such diversity in approach and outcomes should be celebrated rather than feared. This argument has recently been made by Fleischman et al (1996) in the form of advocating the potential advancement to knowledge through dialogue between historians of different schools concerning their variant findings. The revisiting of archives from these differing perspectives affords us the opportunity to accumulate incremental knowledge concerning different dimensions of particular historical events, situations and periods. Some may be additive and complementary and others may conflict and thereby challenge previously held views that may have previously been uncritically accepted.

While the various schools do differ in their philosophical, theoretical and methodological assumptions and underpinnings, it is arguable that accounting and management historians should have due regard for fundamental elements of historical knowledge and explanation. While there are divergent views concerning these elements, it is incumbent upon historical researchers to be familiar with the fundamental approaches to such matters as researcher beliefs and attitudes, the question of objectivity, the conceptual nature of historical events, facts and ideas, the attribution of causation, the process of interpretation and explanation, and the discovery role of historical writing. Without familiarity with these elements, historical researchers risk making methodological assumptions and/or selections that are inappropriate to the subject of study and incompatible with the school of thought to which they wish to adhere. What is being advocated here is not a slavish subservience to a set of methodological principles, but an awareness of some of the fundamental methodological choices which researchers should consciously consider and decide upon before embarking upon each project.

PHILOSOPHIES OF HISTORICAL KNOWLEDGE AND EXPLANATION

As a rich and distinctive field of research, history, like other disciplines, searches for events, relationships, values, significance, causation, and explanation. Philosophers of history have been primarily concerned with examining the significance and truth of historical statements, the plausibility of objectivity, and the process of interpretation and explanation (Atkinson, 1978). What follows is a selective excursion into approaches to the creation of historical knowledge that have informed traditional interpretive historical methodology. The approaches are reflective of "traditional historiographic" understandings which nonetheless have exhibited a great degree of variance between historiographers and philosophers of history over time. Nevertheless both in their commonalities and diversity, they offer a fertile source of methodological approaches to investigation and analysis from which accounting and management historians can draw. That drawing may occur in a variety of ways. For example, a historian of the labour process school may not consider the question of researcher objectivity to be as desirable or achievable as might a historian of the historicist school, but can still benefit from an understanding of the traditional historiographic concern for the pursuit of objectivity. The benefit takes the form of making an informed choice about the degree of prior theorisation admitted to evidence interpretation and the clarification of the grounds upon which that variance from the pursuit of objectivity is to be justified. The traditional interpretive historian benefits from exposure to methodological choices which can facilitate greater rigour in the accessing and interpretation of primary sources and can lift the ensuing analysis above the level of naive antiquarian narrative. What follows does not represent a set of uncontroversial general principles but rather, key areas of historical understanding and explanation that have concerned historiographers over time and about which they have debated and advocated a variety of views and arguments.

The Historian's Mental Attitude

The mental attitude of the historian is both conditioned and disciplined by a number of elements and factors. They influence the historian's "angle of vision", define the approach, questions posed and avenues of inquiry utilised (Tholfsen, 1967, p.258). Arguably, the attitudinal characteristic most vital to the historian is historical understanding. This is produced by a combination of accumulated knowledge of the field and era, maturity of judgement and sufficient experience for the tasks of assessing probability, determining influences and consequences and assessing the relative significance of immeasurable forces (Thomson, 1969). Historical understanding is particularly assisted by the historian's general knowledge of the age within which his or her particular study is situated. This is essential if the historian is to identify and understand the governing presuppositions, assumptions, values and characteristics of people, institutions and organizations in the period under study (Stanford, 1987).

The historian is of course subject to a variety of influences that affect his or her investigation, analysis, interpretation and conclusions. This has been well recognised by those interpretive historians well versed in their philosophical underpinnings and methodological craft (and well before critical historians voiced their concerns in this area). The historian's own psychological makeup, personal life experiences, areas of education, and contemporary social environment all influence his or her work. Further influences include the informal relationships and interchanges with colleagues and the current dominating philosophies and methodologies of relevant academic and professional disciplines (Stanford, 1987). These influences cannot all be recognised by the historian, but as far as possible the historian should aim to be self-aware, identifying and declaring any particularly significant potentially hidden assumptions or sources of bias (Barzun and Graff, 1985).

While searching for relationships, patterns and trends, the historian should be alert to the risks of unjustified system building and simplistic generalisations. Diversity in time and place, change and continuity and discontinuity over time are all possibilities for discovery. Individuality, situational uniqueness and change are all elements of any age and their discovery and assessment requires the tracing of their relationships (whether continuous or discontinuous) with prior and subsequent periods and the appropriation of knowledge and insights from other disciplines such as literature, philosophy, politics and other areas of the social sciences. In this way both the uniqueness and the evolution of events, practices and beliefs can be more fully penetrated (Tholfsen, 1967; Thomson, 1969).

For both the historian and the reader, history is a vicarious experience - a "second life extended indefinitely into the dark backward and abysm of time" (Barzun and Graff, 1985, p. 40). The practice of the craft requires imagination in determining the types of desirable sources before seeking and finding them, and in the reconstruction of a past world. The documents and artifacts of themselves have no life and never did have. What gave them life was the part they played in the activities and interchanges of people, so that to give meaning to these dead things, the historian must utilise imagination as well as judgement and argument in reconstructing the personal, organizational, social, economic and/or political world in which they were utilised (Barzun and Graff, 1985; Stanford, 1987).

Still, essential disciplines of historical investigation and writing include the continual striving for accuracy in recording, order in assembling supporting notes and documentation, logic in tracing and making sense of sources, and intellectual honesty in confronting evidence and declaring its implications, regardless of whether they support or shatter one's hypotheses. Traditional interpretive historiography calls for independence of attitude from creed, regime or orthodoxy so that the historian remains focussed upon the pursuit of truth, to the extent that it can be determined (Barzun and Graff, 1985; Thomson, 1969). As Thomson (1969, p. 104) has said;

> a vigorous and flourishing historiography is a symptom , and evidence, of a free society and a free culture. To fear the truth even about the past is a mark of true despotism.

The Quest For Objectivity

The past can never be seen or experienced "as it was" because historians can only access it via documents, artifacts and other people's recollections. Even then, objective knowledge of the past can only be approached via the subjective "experiencing" of these sources by the historian (Stanford, 1987). Historians in turn, are influenced in their selection and interpretation judgements by their contemporary social culture, interpretive framework and world-views (*Weltanschauungen*) (Tholfsen, 1967; Stanford, 1985).

Atkinson (1978) points out that concerns about historical objectivity do not all arise at the same level. First, there is the issue of selection, for it is impossible to write down all valid statements about even the most narrowly defined past period or topic - such an exercise would fill untold volumes and never be read ! Further up the scale is the issue of interpretation and explanation. How is this informed and upon what questions (eg. conscious intent versus unconscious class interests) is it focussed ? Yet selection and interpretation need not be automatically condemned as incompatible with objectivity. Different selections or interpretations of elements of a situation or event may prove to be complementary or supplementary, providing a greater composite picture of a complex "whole".

What positivist researchers in the scientific tradition often fail to recognise is that the concept of objectivity is subject to multiple interpretations. For example it may be referred to as corresponding to fact or external reality, or alternatively it may be referred to as capable in principle of being agreed upon by any rational person. These two meanings may be divergent. Mathematical or scientific statements may be objective in the latter rather than the former sense because they are too abstract and idealised to correspond with reality in any external, independent sense. Biographical statements drawn from oral histories may be objective more in terms of the former than the latter sense. When two or more historical accounts of the same event diverge, they may differ in terms of only one of the above meanings of objectivity and not always both. Historical objectivity might be asserted as increasing when the inevitably subjective judgements of a number of historians about a particular train of events or circumstances are found to be in agreement. This is characteristic of the social sciences where we seek to understand and explain people's thinking and behaviour by observing what they do across cumulative cases or repeated observations (Atkinson, 1978; Stanford, 1987).

In both scientific and historical research domains, the terms "subjective" and "objective" are at times used quite loosely to imply "opinion" versus "fact". This is a serious mistake. Barzun and Graff (1985) argue that every living person is automatically subjective in all his or her sensations, whether experiencing sensations of objects or his or her feelings relating to those objects. Objects are no more real than the sensations attached to them because objects can only be known by persons who subjectively experience them. Therefore they contend that:

> An objective judgement is one made by testing in all ways possible one's subjective impressions, so as to arrive at a knowledge of objects. (Barzun and Graff, 1985, p.175)

For the historian then, the quest for objectivity is not the impossible challenge that scientific researchers might assume. Values and experiences of historians and historical subjects are not automatically obstacles to be overcome, but are useful tools in the rendering of historical accounts and explanations. To at least some degree, the determined historian can step outside his or her own time and its influences to study and empathise with the past, utilising inherited language, concepts and techniques of that period. At the same time, historians must recognise that they cannot entirely avoid the influence of their contemporary environment upon their selection and interpretation of facts.. Objectivity for the historian assumes a different meaning to that of the scientist or positivist. It represents the desire and continuing attempt to see things as they really were, striving to remove as far as possible the colouring of understanding by personally held intellectual presuppositions, political persuasions, and moral or philosophical principles. This requires self-criticism and declaration of the possible personal predispositions by the historian. Thus objectivity, variously defined, and admittedly difficult to attain (or even closely approach) nonethless represents a challenge that can be addressed by critical and traditional historian alike—even if in different ways. Both can pursue historical objectivity via self-awareness, commitment to truth, and capacity for critical thinking and analysis (Tholfsen, 1967; Atkinson, 1978; Stanford, 1987).

Events, Facts and Ideas

Stanford (1987, p.30) has argued that "What men and women do and suffer, make up the events of history." In turn, a selection of these events "make history" in their own right or in the judgement of a historian. Events can be variously conceived from the historian's perspective. They can be conceived as being the effects of causes and the portents of events to come (Oakeshott, 1983), patterns of experience that are brought into focus by individuals, groups, institutions and ideas involved in the event's organization (Porter, 1981), and happenings that do not survive but which are judged by observers to be important occurrences (Stanford, 1987). Events are divisible into smaller parts which may range in duration from a split second to a period of years. Thus the notion of time is derived from events. It is not an absolute but is comprised of the interaction between events (Stanford, 1987; Porter, 1981). Thus the historian reconstructs the past from an assemblage and interpretation of events. History-as-account (the historian's reconstruction) emerges from history-as-event (events preserved in verbal and written forms) via the process of selection, analysis, creative imagination, interpretation and argument (Stanford, 1987; Oakeshott, 1983).

In selecting and assembling facts about events, we face another issue of conceptual specification. Facts are connected both to the world of things and the world of words, being neither wholly one or the other but always part of both. They are formulated only when a human mind judges that the world part and the word part of a fact fit one another. That is to say, the existence of facts depends upon human judgement about events and states of affairs and the words to appropriately represent them (Stanford, 1987). Any tendency to assume that facts speak for themselves must be studiously avoided. As Thomson (1969, p. 39) puts it, "They speak only when spoken to and when asked the right questions". Facts very rarely can be found to occur independently of ideas or interpretation and even if they could, their assemblage would amount to no more than an unintelligible chronicle of little interest or intellectual merit (Barzun and Graff, 1985; Thomson, 1969). Indeed

Stanford (1987) argues that the term "fact" is best left unmentioned, given its "slippery" conceptual nature.

Causes and Conditions

In the most simple historical narrative there can be found embedded causal inferences or assumptions even when the authors were not ostensibly concerned with explaining what they were describing. What the writer may have intended as a factual observation, may prove to be an implication concerning causation to a reader (Atkinson, 1978). So for historians and their readers, the question of ascertaining causation is unavoidable and its nature and manner of approach is therefore crucial to the historian.

When dealing in human affairs, it is almost impossible to uncover *the* cause of any particular event or circumstance. We can only hope to identify some of the conditions that lead to the emergence of the observed event or circumstance. Formalising causal analysis or assigning a dominant cause implies a capacity to model and measure which history rarely affords (Barzun and Graff, 1985). Thus multiple causes or preconditions are the likely background to any event, though the historian may be able to ascertain and justify some hierarchy among those conditions (Carr, 1987). These attendant conditions are the interaction of ideas, personality, environment, and events that yield some explanation of historical change (Thomson, 1969). Historians then, tend to offer a variety of conditioning historical factors, including states of affairs, events, actions and reasons for actions. Such conditioning factors tend to be offered in specific terms rather than as general causes although there is a willingness to attempt to identify more important conditions, as just stated. In addition, the historian may elect to distinguish between longer term fundamental conditioning factors that may have rendered an event more likely than more immediate factors (Atkinson, 1978).

Thus historians are faced with the task of selecting conditioning factors of significance, just as they do when selecting from the sea of facts available to them. Carr (1987) argues that the standard of historical significance is whether the selected conditions can be fitted into a pattern of rational explanation and interpretation. That selection and determination is of course influenced by a variety of elements such as the historian's primary discipline (eg. economics, politics, accounting, management, sociology), or the focus of the overall study of which a particular event being explained forms part. Even the length of time between the event and when the historian studies it may influence this selection, given comparisons with subsequent events (Atkinson, 1978). Thus it is a virtual dictum that historical assertions about factors that have conditioned events must be made not in terms of possibility, nor in terms of plausibility, but only in terms of probability. The probability of conditions leading to a particular event must be weighed up and critically judged by the historian. Those that are judged to have been significant must pass the test of having had a significant and highly probable influence upon the event under study and capable of having a logical and rational case made for their probable influence (Barzun and Graff, 1985).

Once again, the notion of causation in history can be said to differ from the natural sciences. The field of study and multiplicity of events, environments, conditioning factors and outcomes with which the historian must inevitably deal, is far too complex and variable for containment in any scientifically testable model requiring "necessary and sufficient under all circumstances" conditions to be met before any causal inference can be made. Intuitive but disciplined causal judgement is a necessary part of the historian's world. Partly this is also the result of evidence rarely being available in appropriate or sufficient form for a scientific approach to theory testing. Attempts to replicate the scientific approach in this regard may lead the historian to draw conclusions about conditioning factors well beyond the scope and justification of the data available. Thus judgement regarding conditioning factors is to be improved through a disciplined understanding and application of the concepts and tools of the historian's craft and by recourse to as much reliable evidence as can be located and analysed (Atkinson, 1978).

Interpretation and Explanation

Interpretation and explanation are closely related historical activities. Interpretation attempts to render an account of what really happened rather than what appears to have happened, thereby penetrating the manifest history of the conscious and stated intentions to reveal a latent history of underlying values, economic, social, cultural and political influences of which participants at the time were unaware (or only partly aware). The role of explanation is to clarify the minds and intentions of the historical participants and to elucidate the linkages between conditioning factors, events and outcomes (Stanford, 1987; Tosh, 1991). Historical explanation, Atkinson (1978, p. 138) argues, has "achieved the highest level of sophistication and professionalism, *without becoming theoretical*; without to any significant extent developing a technical vocabulary of its own. . . ." Historical thinking, with its precise and subtle content, stands in contrast to the relative simplicity of its forms of expression. In Atkinson's (1978, p.139) view then, history has developed into "an impressive exemplification of what can be achieved by the careful use of very ordinary intellectual tools".

Explanation in history operates along a gradient, from implied explanations that underpin a purely narrative historical account to studies that focus upon rational evidence-based explanations of observed events. Some historians concentrate their efforts upon presenting a seamless narrative, pruned of methodological scaffolding and posing questions or relationships by implication. Others present the narrative as part of a broader canvass that clearly paints the questions left unanswered from prior studies or new questions raised by the discovery of new evidence. The latter choose to tackle historical questions directly by way of detailing processes involved in the events portrayed in the narrative, making them intelligible to the reader, and accounting for the reasons why the process appears to have occurred, taken its observed shape and produced its observed outcomes (Atkinson, 1978).

Historical interpretation and explanation have their limitations. For example, readers often expect historians to explain how and why events occurred as they did. So explanations may be in part conditioned by the focus of the study and the historian's own background and perspectives but also by the historian's perceptions of the readers' own expectations (Stanford, 1987). The standing of historical explanations is somewhat more limited than those to be found in the sciences. Scientifically derived and tested hypotheses may be subject to change as new evidence emerges, but at any one point in time, they can be found to attract a wide range of support and agreement among scientists. Consensus can be rather more difficult to find among historians in relation to some historical events and their associated explanations. Diverse explanations can be brought about by the number and complexities of factors to be considered and assessed, the multiple elements involved in historical change, and the variety of overlapping environments that may have been at work. Each historical situation is unique in that it represents a confluence of environmental variables, people, situations, circumstances and events that will never be exactly repeated. Thus each historical situation must be investigated anew, with the attendant possibility of different findings, all subject to the already discussed limitations of being able only to ascribe probable conditioning factors and their relative importance (Tosh, 1991).

That no historical explanation can be valid or reliable because it is always capable of being rewritten ten or twenty years on, misses the point and value of historical explanation. That explanations can and do change offers clear evidence of the usefulness of the exercise. History should and does respond to the demands that society makes upon it. Successive revisions of past explanations do not necessarily negate former explanations but are potentially additive, revealing more and more about our past, gradually eliminating those views that are clearly untenable and offering us a richly textured picture of a complex past (Barzun and Graff, 1985).

Revelation Through Writing

The discipline of writing is probably nowhere more important than in the course of historical research. History is a way of using language and language has many different functions including recalling the past, conveying information, enabling imagination, stimulating emotion, provoking action, and giving form to life. History addresses and represents the world almost completely by means of language, in both linguistic and literary senses. Thus history has the capacity at the one time to be descriptive, analytical, philosophical and poetic (Stanford, 1987). Historians therefore can enhance their analysis and final product greatly by attention to the organizing of sections, chapters etc.; the words and idioms employed; the emphasis, tone and rhythm of their sentence construction; the art of quoting and citing; and the modes of presentation employed (Barzun and Graff, 1985).

But the task of writing history of itself offers the prospect of revelation. Sources and the complexity of conditioning factors and interrelated events may prove so difficult to penetrate at the stage of primary analysis that only through the discipline of writing historical prose does the researcher begin to more clearly identify and more fully comprehend the interconnections between different elements and experiences. Thus for the historian, the task of writing is a creative one. This stands in marked contrast to the scientific or positivist researcher whose research and analysis has usually yielded its findings and conclusions before writing commences. For the latter, writing is a task of clearly expressing and summarising what the researcher has already discovered before commencing the writing up process. Quite a different experience awaits the historian who commences writing with a partial understanding of the sources of evidence and their possible implications, but who travels further on a voyage of discovery that invariably yields new insights and understandings progressively as the composition of the prose proceeds (Tosh, 1991).

In addition, for the historian, writing represents a crucial tool for conveying a mental reconstruction of the past to the readers. The historian's construction of the past stands between the past events and the present book or article and the book or article stands between the historian's construction and the reader's construction. Thus the writing of history is a disciplined and demanding art, attempting to meet the challenge of conveying the intended meanings of the historian's construction of the past intact to the reader, thereby achieving a similar construction in the readers' minds. It is a task of securing the readers' intellectual and imaginative co-operation (Stanford, 1987). Thus history emerges as hybrid discipline that requires the simultaneous application of disciplined technical and analytical procedures with imaginative and stylistic skills, implying a composite application of scientific, critical and artistic methods (Tosh, 1991).

Historical Discipline

The above excursion into elements of traditional interpretive historiography offer the intending accounting and management history researcher a set of disciplinary philosophies, reference points and tools which can be considered, selectively employed and modified according to the school of thought or particular methodological perspective adopted by the researcher. Regardless of the school of thought or perspective adopted, they offer a disciplined starting point that can enhance the rigour and credibility of the investigation and its resulting findings. That such methodoligical discipline is facilitative and adaptive is best demonstrated by the emerging extensions of accounting history into interdisciplinary areas such as oral and business history (oral history being sociologically oriented and business history being economics oriented). Once again methodological issues common to traditional interpretive historiography and unique to the characteristics of these other fields of study are apparent. As is depicted in the following brief outlines of these two fields, they present both challenges and opportunities.

EXTENSIONS INTO ORAL AND BUSINESS HISTORY

Oral History

Oral history provides us with first-hand recollections of participants in events or situations being studied. Their recollections are obtained by interviews (normally taped) which are archived in electronic form or written up in print form (Tosh, 1991). Early historians such as Herodotus and Thucydides utilised oral sources as major primary sources of evidence for their work, as did historians and chroniclers in the Middle Ages. From the Renaissance to the 19th century, while written sources grew in importance, oral sources were still regarded as a valuable supplement. In the 19th century, oral sources were largely abandoned, until they regained a measure of popularity in the late 1960s, particularly among social historians. That resurgence has been further stimulated by historians' investigations of groups such as women, the working class, immigrants and ethnic minorities who have been omitted from recorded history (and until more recent times, thereby silenced).

Oral history interview techniques generally follow social science field research interview techniques (Collins and Bloom, 1991; Thompson, 1988). Background literature requires consulting for familiarising the researcher with context, issues, terminology and to assist the formulating of interview questions. Decisions must be made regarding the degree of structuring of the interview (versus unstructured) and some pilot interviews may assist in testing, determining and refining the appropriate approach. Even when a structured set of interview questions have been developed, the interviewer may find it necessary to allow the interview to digress into unplanned matters due to unexpected observations being made by the interviewee. Generally, questions should be framed in as simple, straightforward and neutral a style as possible. Complex issues should be tackled via a hierarchy of questions. The language employed in questioning should be familiar to the interviewee and leading questions must be avoided at all costs. The interview is generally located in a place where the interviewee feels at ease and generally the person is interviewed alone (to help avoid any peer pressure for socially acceptable answers). Interviewer comments are restricted to questions, prompts, acknowledgements and encouragement. Oral history can be assembled as a single informant's narrative story, a collection of stories or as a cross sectional or longitudinal analysis.

Oral history allows us to penetrate how events, structures and contexts were *experienced*. Indeed, it allows us to penetrate perceptions, motivations and beliefs. In explaining past actions, what participants believe happened can be just as important a contribution to our understanding as the "facts" of what happened (Thomson, 1969). Impressions, symbols and even myths are all inextricably mixed in individual and collective human perception and can shed light on change processes, past decisions, attitudes and relationships. In this way, oral history offers the historian the prospect of getting a little closer to entering into the experience of people in the past, penetrating the deeper structures and processes at work in the activities of participants in historical events and their environments (Tosh, 1991). Of course oral history carries its own limitations. The interviewer may have unintentionally (eg. even by relative social status to the interviewee) affected interviewee responses. The interviewee in a sense shares in the creating of new evidence. Interviewees' recollections may be contaminated by information they have absorbed from other sources, nostalgia for times past or some sense of past grievance. The researcher's topic may not be of great interest to the interviewee or they may not be willing to tell the truth about certain events. Assertions may be made with less care than if they had been written and recollections may be a combination of past memories and contemporary reinterpretations in the mind of the interviewee (Thompson, 1988; Collins and Bloom, 1991). As Tosh (1991) puts it, the notion of an absolutely direct encounter with the past is an illusion, since the voice of the past is the voice of the present too. Nevertheless, oral history provides us with history that is more personal, more socially oriented and more immediate than traditional written sources. It has the potential to add significant new dimensions to published history.

Relatively recent examples of oral history research in the field of accounting include Spacek (1985), Mumford (1991), Hammond and Streeter (1994), and Parker (1994). Most recently, a critical appraisal of methodological issues in oral accounting history has been provided by Hammond and Sikka (1996). They challenge the notion of apolitical and objective histories and focus their attention upon oral history's potential for giving a voice to individuals and groups who have been underrepresented in the accounting literature and hence effectively silenced. Their methodological discussion extends our understandings of the unique potential, methodological characteristics and interpretive challenges of oral history research.

Business History

The foregoing methodological dimensions apply equally to the research and writing of accounting, management and business histories. While critical and postmodernist historians would debate the applicability of some dimensions to their particular approaches, the perception, rigour, and defensibility of all historians' work stands to gain from greater attention to such dimensions. Duke and Coffman (1993) have provided a detailed methodological guide to the writing of business histories and their observations are equally applicable to accounting and management historians who may be contemplating or engaged in such a task. They address important practical issues such as the contract of access and work between the company and the researchers, defining the scope of the project, interviewing and transcribing, writing and rewriting, and the employment of photographs and images. The role and methodologies of business history are critically reviewed by Gourvish (1995) who addresses the problems of developing theory, the relationship between business history and the social sciences, and argues for the retention of case study method.

Armstrong (1990) has provided a comprehensive discussion of approaches to dealing with archival materials in the writing of business histories (with specific reference to British archives).. These offer a foundation for accounting and management historians dealing with any research topic involving the investigation of archival sources. The premier examples of business history research can be accessed in the journals *Business History* (UK) and *Business History Review* (USA). The potential uses and problems in business history have been discussed and critiqued by Coleman (1987). He summarises the problems as those histories which are manifestly anecdotal, unreadable, purely narrative (lacking any analysis), and public relations exercises. The potential he ascribes to scholarly business histories are a more profound understanding of the most important unit of organization in our contemporary economies, ascribing equal importance to the business and political past, and rendering assistance to the process of contemporary economic change. In the business history domain, researchers are beginning to appreciate the potential for cross fertilisation between the work, foci and concerns of business and accounting historians. This is evidenced in the accounting research being published in business history journals (eg. Edwards and Newell, 1990; Parker, 1991). This potential relationship between business and accounting history is more explicitly discussed by Mathias (1993) who argues that synergy exists between them with potential advantages accruing to both.

IN CONCLUSION

The foregoing discussion has painted a broad canvass that offers a "grand tour" view of the foundations of historical research. It reiterates the case for the importance of historical research in the fields of accounting and management, introduces some of the significant historical writing traditions in the history of humanity, outlines some of the schools of thought that have governed historical research and writing in the past, and identifies dimensions of historical philosophy that inform historical investigation and writing. While each of these areas of discussion have generated and warrant whole fields of literature in their own right, they have been assembled here to give the reader an outline of the overall context within which accounting and management history studies must find their place.

Historians' purposes include the identification of patterns, the analysis of causes and consequences, and the interpretation and explanation of historical events. They aim to make visible past situations, activities, groups, issues and contexts. Arguably, the analysies and interpretations offered by historical researchers of all philosophical and methodological persuasions will be better informed by an appreciation of the variety and wealth of philosophical traditions that to date have underpinned historical scholarship. Such familiarity should permit a selection of approach from among these traditions that is appropriate to the purpose of study and defensible. Similarly, a consciously articulated position on historiographic concepts such as objectivity, reconstruction of events, causation, interpretation and explanation, can better position and inform the construction of narrative, the explanation of events and the arguments concerning outcomes.

The responsibility of accounting and management historians is to provide a historical perspective that can bring new insights into our understanding of the past and inform debate rather than producing historical interpretations simply aimed at servicing or supporting a particular predetermined ideology or strategy. For accounting and management historians it is also important to remember that an excessively single-minded preoccupation with a narrow set of technical issues may lead to evidence being taken out of context and misinterpreted. Indeed we must be wary of the temptation to develop histories that are exclusively or narrowly technicist focussed. Accounting and management issues, concepts and practices may be equally effectively investigated in the broader context of organizational, social and political studies. Furthermore, the historian must be sufficiently flexible and broadly focussed to modify objectives in the light of questions generated by the sources themselves rather than imposing predetermined ideas on the evidence itself.

Nevertheless we must recognise and welcome the emerging contribution of critical and postmodernist historians. Through their particular theoretical lenses, they offer fresh perspectives and insights into "old" issues, and challenge previously accepted assumptions and interpretations. By the questions they raise, accounting and management researchers are forced to reconsider their taken-for-granted assumptions, to confront previously invisible or silenced constituents of accounting and management. Finally, critical and postmodernist historians compel us to grapple with contemporary questions of ethics and equity in the light of newly revealed historical understandings.

History is a craft that offers a voyage of discovery in the process of consulting sources of evidence and in analysing discourses. This also occurs in the very act of writing, when the historian is confronted by new understandings and insights that emerge from the process of detailing situations, events, relationships and their contexts. In their "scientific" pursuit of knowledge, the majority of contemporary accounting and management researchers have chosen to ignore the heritage of the past, failing to see its potential relevance to contemporary issues and avoiding the challenge of dealing with its investigation. Yet there are encouraging signs of an upsurge in accounting history, and more recently, management history papers and texts in the research literature. Researchers of various theoretical and philosophical persuasions are beginning to discover that historical reservoir of untapped knowledge. We have an opportunity to press ahead in that voyage into the past and a duty to equip ourselves adequately for the journey.

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In MEMORIAM

MARY ELLEN DECOSTE

And he will raise you up on eagle's wings, bear you on the breathe of dawn, make you shine like the sun. . .

Mary Ellen DeCoste, a doctoral student at UNT, served as Associate Editor of *AHJ* from 1994 until her untimely death on April 15, 1997. She brought the same indomitable spirit to that task, despite trying circumstances, that she did to all of her work. *Mary Ellen* was trained as a mathematician and worked as a research scientist at MIT for many years until the death of her oldest son in the Gulf War prompted a career change. She brought a keen analytic mind, a love of learning, and a pure joy in teaching to our doctoral program. She brightened everyone's day with her boundless enthusiasm. She is sorely missed by all who worked with her; but she has left a rich legacy of resiliency and pursuit of excellence that will not be forgotten.

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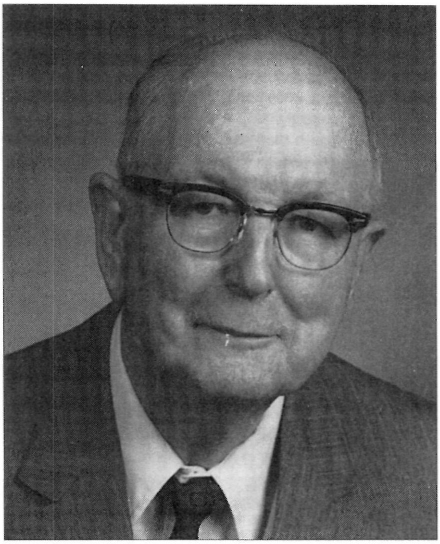
S. PAUL GARNER: ACCOUNTANCY'S AMBASSADOR TO THE WORLD



Abstract: Samuel Paul Garner spent nearly seven decades, as a student, professor, administrator, leader and visionary, enhancing the understanding and development of our academic community. Born in 1910, he studied at Duke University, then briefly as a non degree student at Columbia before teaching and then entering the Ph.D. program at the University of Texas at Austin. At Texas, under the direction of George Hillis Newlove, he focused upon accounting. His interest in history had been kindled by a noted economic historian Earl J. Hamilton, under whom

Garner had studied at Duke. His first post doctoral appointment would be his lifelong assignment, as a member of the faculty of what is now the Culverhouse School of Accountancy at the University of Alabama. Starting in 1939 he served as a faculty member, next as department chair, and then for seventeen years, from 1954 to 1971, as dean of the College of Business. His career achievements are many and include being the only person to serve as President of both the American Accounting Association [1951] and the American Assembly of Collegiate Schools of Business [1964-65]. His post-retirement activities identified with the quarter century from 1971 through 1996 permitted members of subsequent generations to benefit from his knowledge and counsel. Garner's work as a scholar, a historian, an institutional developer and a visionary—especially in the area of international relations, are told in this paper. A special appendix, which contains the last known curriculum vita prepared by Garner, is also provided.

Si Monumentum - Requires Circumspice/If You Seek His Monument, Look Around You.

Paul Garner died October 16, 1996, at the age of 86. In this paper, we present some of his many achievements. However, this is but a "glimpse" of the accomplishments of this remarkable human being. Paul was perhaps the last of the leaders of an age when the academic and professional community were driven to new levels of size and activity during the economic expansion of the post World War II period. Garner worked with and knew well the individuals who comprise a list of Accounting Hall of Fame members, including William Paton, Carman Blough, Eric Kohler and David Solomons. His involvements spanned the six decades following his doctoral work at the University of Texas, which was completed in 1940. Although he "retired" in 1971, he enjoyed good health most all of his life, and he remained a presence in events, including the Accounting Historians Seventh World Congress in Kingston, Ontario in August 1996 and being in attendance at research seminars and Ph.D. student presentations until shortly before the brief hospitalization which preceded his death.

This paper is presented in six sections. The first provides a biographical review, followed by a section which profiles Garner's view of scholarship. The third and fourth sections consider his research and institutional contributions. The final two sections address his international activities and role and his legacy of wisdom. An appendix is also provided which reproduces curriculum vita, believed to the last one completed by Garner. It contains many details which are beyond the scope of the text of this paper.

BACKGROUND

Paul Garner was born August 15, 1910, in Yadkinville, North Carolina to a family of moderate means, a factor that proved repeatedly important in shaping his life. He was the oldest of seven children and fond of telling stories about these times and the lengthy walks required to get to school, or to anywhere for that matter. His younger brother Thad, [who died in 1997], with whom Paul was very close, and advised, became a local business legend in the Carolinas for making "Texas Pete Hot Sauce" which is one of the best selling products of is kind in the nation.

Garner did undergraduate study in the field of economics at Duke University where he had earned a scholarship. He tutored football players, waited tables and worked in the library and during the summer, drove a cab for his father who owned a taxi business, so as to pay part of the cost of his college education. He even managed to save. From his savings, Paul paid for a graduation trip to Europe in the summer of 1932. This six week trip was the prelude to his becoming a famous global traveler and the "ambassador" of academic accountancy from the U.S. Paul returned to Duke and, in 1934, earned a Master's degree in economics. With the support of Dr. Earl J. Hamilton, a graduate of Mississippi State University, under whom Garner had first studied business history at Duke, Paul was hired to teach at Mississippi State for two years, 1935-37. Among the five courses he taught each semester were several courses in accounting. He became aware that accounting professors were relatively better paid than those in economics. Realizing that a doctorate in accounting would provide him a better return, he decided to specialize his advance studies in the accounting discipline. Garner entered the University of Texas in the Fall of 1937 to pursue the Ph.D. Working under the direction of, and with materials available from George Hillis Newlove, he completed a dissertation, *Evolution of Cost Accounting to 1925,* in 1940.

Prior to defending this dissertation, he chose his most rewarding offer, of an appointment at the University of Alabama, in 1939. He and his wife, Ruth Bailey Garner, who he had married in 1934, and later traveled the world with and had three children by, settled in to make Tuscaloosa their home. At the University, he achieved full professorship in 1943 and became department chair in 1949. In 1954, Dean Lee Bidgood, who served 35 years in that office, retired and Paul succeeded him as dean where he would serve until his retirement at age 60 in 1971.

GENTLEMAN SCHOLAR

Perhaps the quality which was universally attributed to Paul Garner by all who knew him well was that he was a gentle man, the truest gentleman. His presence at conferences and seminars constantly reminded all of gentile consideration and behavior of a time gone by. Paul was always constructive in his comments at seminars, glowing in his praise when he heard a new idea, supportive of scholarly efforts irrespective of direction, conclusion or paradigm. He was genuinely interested in all areas of accounting and he read widely to support his ability to understand issues. Above all, Paul continuously, but gently, sought to keep research presentations focused on the application to current, practical problems facing accounting. In Paul's world, it was not scholarly to demean another's work as a tactic in attacking a different paradigm. His world of scholarship involved growth, expansion, new ideas and new insight and breadth of understanding and knowledge. In this world, no person and no research was omniscient. No one possessed all the answers to a particular question. Research was exciting because of its promise of discovery. In this sense, his pursuit of knowledge was a lifelong scholarly endeavor.

RESEARCH CONTRIBUTION

Paul Garner published over forty scholarly papers which appeared in a variety of languages from 1940 to 1980. Several of these papers were published in the *Accounting Review [TAR]*. The subject matter included historical and biographical topics, papers on accounting education and papers on practice issues such as cost accounting for government contracts.

His last major publication activity was to serve as co-editor with Atsuo Tsuji for the Greenwood Publishing volume *Studies in Accounting History—Tradition and Innovation for the Twenty-First Century*, which appeared in 1995. A reviewer, writing in the July 1996 volume of the *CPA Journal*, observed that while "reading this book one is reminded that some of these situations have occurred in other countries over an expansive period of time." In this regard, the volume had served its purpose to provide perspective for today's practitioner!

In addition to this extensive variety of publication, Paul served as originating editor of the "Teacher's Clinic" a popular section of *TAR*, from 1947-1950.

Paul's most notable contribution to the literature of our discipline stemmed from his dissertation. With the support of his mentor, Newlove, Garner revised and updated the doctoral project and published it in 1954. *Evolution of Cost Accounting to 1925* has been reprinted in paperback and hardback and has consistently been used by scholars into a third generation. It has been translated and published in Japan [1954] with a version in Chinese [1989] as well. In 1996, with the support of The Academy of Accounting Historians and an alumnus of the University of Alabama, Garner gave permission for the book to be "published" it is entirety on the Academy's website, without any fees or charges to be assessed. It was to be his final legacy. The work appeared in full text in June 1996. It is now available instantaneously around the world; the first accounting book known to be so published. In this way, Paul Garner was the visual, living and symbolic link between classic accounting theorists such as William Paton and A.C. Littleton and cyberspace. A. C. Littleton's comprehensive tome *Accounting Evolution to 1900*, first published in 1933, provided both a guide and a challenge to Garner. Littleton's work was recognized and acclaimed, but seemingly overlooked cost-managerial accounting's role in the development of industrial capital market accounting. Paul undertook his research project with materials provided by Newlove during this early period of academic historical research development in the United States. Garner meticulously traced numerous examples of cost accounting for labor and materials in job cost systems in the 14th through 16th Centuries in Europe and thereby established the "provenance" of what was becoming known as management accounting. He observed that these early cost techniques were not widespread, perhaps due to secrecy as required in the business, for such techniques were valuable to managing complex enterprises. He also observed that, despite evidence of books published on financial accounting for trade and agriculture, no texts on cost accounting appear until the mid-Nineteenth Century, thus limiting the dispersion of cost practices. Cost accounting during the Renaissance arose, Garner noted, because "owners of small central workshops found themselves competing now not only against guilds, but also among themselves" [pp. 2-3]. More accurate records of costs became necessary as a factor of success. An incentive was provided then for careful study of many phases of practice which had previously been neglected.

After examining why, where and how cost accounting was used in the centuries before the Industrial Revolution, Garner then devoted the major portion of his work to the examination of various topics in cost accounting such as overhead allocation, transfer pricing among departments, byproduct and scrap accounting. As noted above, Paul's work was just as Littleton's, a general history. Furthermore, Garner begins and ends his work with quotations from Littleton's "Evolution" [pp. 1; 349].

In addition to this major treatise, Garner's other major writings included authorship of textbooks and teaching materials with his mentor, George Hillis Newlove and others. *Elementary Cost Accounting* [1941] written with Newlove and revised in 1949 was adopted by the United States Department of Defense during World War II as a basic instruction manual to train defense contractor personnel in the Educational Defense Program. Thousands of managers and engineers of companies dealing with the Defense Department learned cost accounting via the Newlove-Garner book. With the revision in 1949, the text was translated into Spanish and distributed throughout Latin America by the U.S. Agency for Assistance in Development.

Another major Newlove-Garner project was a two volume advanced accounting text written in the early 1950s which received excellent reviews in *TAR*. [16 (Fall 1950) p. 47 for Vol. II 17 (Spring 1951) p. 60 for Vol. I]

BUILDER OF INSTITUTIONS

Paul Garner will be remembered not only for his scholarship but also because he was instrumental in the development of several important institutions. Paul's skill as a leader and visionary have benefited a wide range of organizations. This legacy will be felt into the 21st Century. His involvement, for instance, in the American Accounting Association [AAA] began in the early 1940s. Paul assisted in the 1948 founding of the Southeast Region of the AAA, including annual regional meetings. The Southeast was the AAA's first region and served as an important example for the formation of other regions. Paul served as national president of the AAA in 1951. Under his leadership, regionalism was promoted and regions expanded. Paul visited many locations and gave support to the idea of regions, which critics argued would divide the association. One of Paul's legacies is the success which the regions have achieved in building the service base for the AAA. Decades later, Paul also assisted in the formation of both the International and Public Interest sections of the AAA.

When the American Assembly of Collegiate Schools of Business [AACSB] initiated an international outreach program in the mid 1960s, Paul was an influence, especially during his term as President of that organization in 1964. In the 1950s, he had begun to "invest" in his personal balance sheet by traveling to business and academic conferences throughout the world. Accompanied by his wife, Ruth, he thus came to be recognized as the unofficial ambassador of the U.S. academic accounting community. His network was supported by a "pen pal" correspondence list which numbered in the hundreds. An active correspondent, Paul's letter's, dictated, typed but then most often hand addressed, were a common link before the rise of e-mail. He continued this activity until immediately before his death. His worldwide contacts and his standing among not only accountants, but also business school deans and business leaders, especially in countries which were developing management education, continued to grow until the very end. His interest in international subject matter was an important catalyst in the eventual development of an accreditation rationale for the subject.

In the 1970s, Paul supported the formation of The Academy of Accounting Historians, which held its formative meeting in Quebec during the 1973 annual meeting of the American Accounting Association. Although the Academy did not become a special interest section of the AAA, it predated and modeled the special interest movement, and early Academy leaders counseled with the founders of the American Taxation Association, for example, when the latter group held its formative meetings in 1974 at the AAA meetings in New Orleans. In 1984, Garner served as founding President of the International Association for Accounting Education and Research [IAAER]. This organization presently serves as a unifying force to enhance global relations among accounting academic organizations worldwide.

Perhaps the institution which benefited the most from a long association with Paul is The University of Alabama. During his years, as enrollments grew from post World War II expansion, Paul was instrumental in preparing the foundation for the future of management education in the state through supporting program development. Student enrollment in the College of Commerce grew from a small base to more than 700 annual graduates at the time of his retirement. Graduate and undergraduate program faculty grew and, in turn, improved curriculum and performance. Under Paul's leadership as accounting department chairman, the College's first two Ph.D.s were awarded to Catherine Miles and Robert Seiler in 1953. Paul had actively supervised their accounting research. These were the sixth and seventh Ph.D.s granted by the University of Alabama which had begun offering Ph.D.s in selected areas only three years before. Catherine Miles was not only the first Ph.D. from the College, she was the first female at UA to earn a doctorate. In 1965, Vivian Malone Jones, the first black student to receive a degree from the University, graduated in management. Paul had played a role in opening new programs and in opening doors in other ways as well.

Soon after Paul was appointed to the faculty, he and Chester Knight, the chair of the accounting faculty, formed the CPA firm of Knight and Garner. It was the first such firm in Tuscaloosa. In his CPA capacity, Paul served as the external auditor for the city, and later, as its financial advisor over many decades as the city grew substantially in the 1970s through the 1990s. Up to the time of his death, he maintained a small tax clientele and continued to serve on boards of directors of several businesses. From this perspective, Paul made his contribution to the financial and professional infrastructure of his community, serving as a counselor, guiding new practitioners and a developing city.

During the early 1950s, Garner became involved in continuing professional education. This concept had been popularized in the literature following World War II as CPAs returned from either military or government services and required "refresher" courses. Paul led to the effort to teach the first course of this type in Alabama. He presented a course on "How to Set Fees" in Birmingham in 1954 which was subsequently used in other states across the country. Also, at about this time, following the departure from the University of Alabama of Professor Ralph Russell, one of Garner's Ph.D. classmates, Paul "inherited" the fledgling CPA Review Course, and invited others on the faculty to participate. Fifty years and over 10,000 candidates-students later, the program continues as a hallmark of continuing education activity at the University.

ACCOUNTANCY'S AMBASSADOR

At the time of his death, Paul was continuing his "pen pal" correspondence and was in active communication with scores of the individuals who were a part of his letter writing network at home and abroad. In several places, especially the Far East, his role and influence is widely recognized. Indeed it was in the Far East where Paul and Ruth first traveled extensively—continuing to "invest" in the personal balance sheet asset of professional contact development. Citizens of South America, Africa and Europe also were his neighbors. Paul, in fact, visited many of the principal countries in these regions not once, but several times. For example, South Africa alone was visited by the Garners on six separate occasions. In the 1970s, following his "official" retirement from the University, Paul would respond with interest to inquiries about a travel map in his office, a wall map of the world with pin and string routes leading from Alabama to all the parts of the world he had traveled. It was an impressive "website."

Beginning with the six week, $500 graduation trip to Europe in 1932, to which he treated himself from savings from his college work, Paul enthusiasm for travel was unbounded. More significantly, the travel had a mission of meeting scholars, exchanging ideas and building a network. He attended innumerable world conferences in the 1950s and 1960s. In a video taped interview in 1992, Garner suggested that his desire to continue to travel and develop the international accounting community had been a reason for his decision to retire just before his sixty-first birthday in 1970. And travel he did! When someone from the U.S. visited a country and met with accounting faculty there was likely to be the question asked of the American "Do you know Paul Garner?"

REMEMBERING HIS LEGACY OF WISDOM

Paul was as unassuming as he was courteous, almost to a fault. These personal traits will be emulated and remembered. He will be remembered for his research and his writings, for his colleagueship and mentoring, for his leadership and for his genuine hospitality. Paul's example of fellowship, international friendship and historical scholarship will not likely be surpassed. It serves as a model to us at a time when the truly global nature of our profession is being defined and the nature of teaching and scholarship in this environment is being designed in daily exchanges on the Internet and by e-mail.

In conversation with Paul shortly before his death, one could not help but be impressed with the clarity and purpose with which he would become engaged in a discussion. There was a sense of graciousness about his commentary which might lead the unwary or pretentious to ignore the wisdom which would unfold in the short commentaries he provided. One example which comes to mind involved Paul's concerns about the limits of human perception and ability to adapt characteristics of human nature which he had studied his entire career. Paul, appearing sincerely perplexed, observed: "It is difficult to perceived the average person grasping all the implications, on a day to day basis, of a truly global economy. And yet that is what will be required because that is what it has become." He wondered aloud whether an individual's ability to think in global terms...beyond regional and national boundaries... would be the principal restraint to achieving lasting global harmony.

This was the type of issue, beyond mere accounting, which Paul challenged his friends and colleagues to consider. In this manner, his sense of intellectual curiosity served to stimulate us to exercise our own capacity for thinking about the future. His investment to our discipline, our professional community and to international fellowship has provided the downpayment for future generations.

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CURRICULUM VITAE

Born Yadkinville, North Carolina, August 15, 1910.
A.B. Duke Univ. 1932, A.M. 1934; student Columbia Univ. 1936.
Ph.D. University of Texas, 1940; D. Ec. (Hon.), Busan National University (Korea), 1966;
LL.D. (Hon.), University of Alabama, 1971.
CPA, Texas, 1938; CPA, Alabama, 1942.

Married Ruth Bailey, August 25, 1934.
Children: Thad Barclay, Walter Samuel, Sarah Jane.

Instructor, Duke University, 1934-35.
Instructor, Assistant Professor, Mississippi State University, 1935-37.
Instructor, University of Texas, 1937-39.
Associate Professor of Accounting, University of Alabama, 1939-43.
Professor of Accounting, University of Alabama, 1943-71; Professor Emeritus, 1971-
Head, Department of Accounting, University of Alabama, 1949-55.
Dean, School of Business Administration, University of Alabama, 1954-71.
Member, firm of Knight and Garner, CPAs, University, Alabama, 1942-49.
Consultant on Education, Comptroller General of U.S., 1955-61.
Consultant on Management Education, U.S. Dept. of Defense, 1965-70.
Consultant on Graduate Education, U.S. Office of Education, 1965-70.
Member, Advisory Board on Education, American Management Association, 1964-68.
State Accountant, U.S. Office of Price Administration, 1942.
Comer Foundation Lecturer, University of Georgia, 1957.
Price Waterhouse Foundation Lecturer, Georgia State University, 1964.
Visiting Faculty Lecturer: Texas Western University, 1963; University of South Dakota, 1963; East Carolina University, 1965; Virginia Polytechnic Institute and State University, 1966; Texas Tech University, 1970; International Training Center, ILO, Turin, Italy , 1971; University of Tennessee, 1972; Texas A&M University, 1972, 1973; University of Plano, 1972; University of Tennessee (Martin), 1973; Alabama A&M University; Appalachian State University, 1973; University of South Africa, 1973, 1983; University of Southwestern Louisiana,1973; Florida International University, 1974; Georgia Southern College, 1974, 1983; Oklahoma City University, 1974; University of South Carolina, 1975; Florida Atlantic University, 1975; Wake Forest University, 1976; Western Carolina University, 1976; University of North Carolina, 1976; Judson College, 1977; University of Texas (Dallas), 1977; University of Santa Clara, 1978; Auburn University, 1978; London

International Center, 1978; University of Costa Rica, 1979; Arizona State University, 1980; Mississippi State University, 1980; University of Wollongong, Australia, 1980; University of the East, Manila, 1960; Far Eastern University, Manila, 1960; University of Santa Tomas, Manila, 1960; Wasada University, Japan, 1960; Yonsei University, Korea, 1966; Busan National University, Korea, 1966, 1969; North Georgia College, 1982; Illinois State University, 1982; DePaul; University, 1982; University of Zimbabwe, 1982; University of Cape Town, 1982; University of Stellenbosch,1982; University of South Africa, 1982; Georgia Southern College 1983.

Alpha Kappa Psi Foundation Award and Prize, 1962.
Dow Jones Award and Prize, 1976.
Beta Alpha Psi Award, 1975.

U.S. Delegate to International Congresses on Management: Paris, 1957, Sydney and Melbourne, 1960; Buenos Aires, 1962; Copenhagen, 1964; Amersfoort, 1964; Paris, 1964; Munich 1965; Nurnburg, 1965, Montreal, 1967; Fountainbleau, 1967; Helsinki, 1968; Vienna, 1969; Tokyo, 1969; Bergen, 1970; Brno, 1971; Turin, 1974; Caracas, 1975; Berlin, 1976; Rio de Janeiro, 1976; Paris, 1977, Gent, 1978; Stockholm, 1979; Paris, 1980; Amsterdam, 1983.

U.S. Delegate to International Congresses on Accounting: Amsterdam, 1957; Melbourne and Canberra, 1960; Wellington, New Zealand, 1960; New York, 1962; Paris, 1967; London, 1967; Wellington, New Zealand, 1968; Sydney, 1972; Atlanta, 1976; Berlin, 1977; Munich, 1977; Rotterdam, 1979; London, 1980; Monterrey, Mexico, 1982; Pisa, Italy, 1984.

U..S. Delegate to Congresses of Society for International Development: Delhi, India, 1969; Baltimore, 1982.

Founding President, International Association for Accounting Education and Research, Toronto, 1984.

U.S. Delegate to 4th Euro-Economic Congress; Tilburg, Netherlands, 1965.

U.S. Delegate to International Congresses on Public Administrative Sciences: Paris, 1965; Dublin, 1968; Rome, 1971; Mexico City, 1974.

U..S. Delegate to Partners of Americas Conference, Guatemala City, 1979.

U.S. Delegate to 1st and 2nd World Congresses on University Education for International Business: Lusanne, Switzerland, 1966; Torino, Italy, 1969.

U.S. Delegate to Conferences on International Education, Washington, 1969; 1978.

U.S. Delegate to 1st World Seminar on International Accounting Standards, Torino, Italy, 1971.

U.S. Delegate to International Insurance Seminars, Madrid, Spain, 1973; San Francisco, 1976; Rio de Janeiro, 1981.

Conducted Special educational assignments for U.S. State Department, the U.S. Council for International Progress in Management, the International Organization for Economics Cooperation and Development, and other agencies, in Turkey, 1959; in Far East, 1960, 1966, 1968, 1969; in Europe, 1957, 1960, 1961, 1963, 1964, 1965, 1966, 1967, 1969, 1970, 1971, 1980, 1983, in South America, 1962, 1965; in Africa, 1964; in Russia, 1968; in Hungary, 1969; in Norway and Spain, 1970; in South America, 1973, 1981.

Member, Regional Export-Import Council, U.S. Department of Commerce, 1969-74.

Life Member, American Accounting Association: vice-president, 1948, President, 1951. Member, Committee on Cost Concepts, 1946-48. Member, Committee on Standards Rating, 1949-54. Member, Executive Committee, 1948, 1951-54. Member, Committee on Faculty Personnel, 1955-57.

Member, Committee on International Accounting, 1964-67. Chairman, Committee on International Relations, 1966-67. Chairman, Committee on Distinguished Faculty Lectures, 1976, 1979.

Member, Board of Directors, International Committee for Accounting Cooperation, Inc., Washington, DC, 1966 to 1878.

Member, Nominating Committee, 'Accounting Hall of Fame', 1950-55,

Member, National Association of CPA Examiners: Chairman, Special Projects Committee, 1953-56.

Member, Committee on Examinations, 1957-60. Chairman, Committee on Education, 1960-61.

Member, Committee on Long Range Planning, 1963-64. Member, Committee on Examination Requirements, 1972-73. Member, Committee on Education, 1973-74.

Corresponding Member, Society of Expert Accountants of France, 1958 to present.

Institutional member, American Association Collegiate Schools of Business: Member, Executive Committee, 1959-66. Chairman, Committee on International Relations and Cooperation, 1965-71. Member, Committee on Long Range Planning, 1962-64. Secretary-Treasurer, 1962-64. Vice President and Program Chairman, 1963-64. President, 1964-65.

Member, Editorial Board, *The Accounting Review*, 1966-68.

Member, Editorial Board, *Essays in International Business* (Annual), 1967-69.

Member, Board of Directors, U.S. Council (AIESEC) for International Exchange of Commerce Students, 1965 to 1978.

Member, Council of Educational Advisers: American College of Chartered Life Underwriters, and American Institute for Property and Liability Underwriters, 1961-69.

Life member, Academy of Accounting Historians, 1973 to present. Trustee, 1973-76; member, Corporate Board, 1973 to present.

Member, Society for International Development, 1969 to present.

Member, European Accounting Association, 1977 to present.

Member, European Foundation for Management Development (Brussels), 1971 to present.

Member, United States Council for International Progress in Management, 1961 to 1971.

Member, National Board of Directors, 1965-68. Member, Committee on Program and Activities, 1965-68.

Member, International University Contract for Management Education (Rotterdam), 1963-71. Member, Governing Council, 1970-71.

Member Editorial Advisory Board, *Management International Magazine*, 1964-76.

Member, Beta Gamma Sigma National Executive Committee, 1961-66.

Fellow Member, Academy of International Business, 1962 to present. Official historian , 1977 to present.

Member, Advisory Committee on Relations with Universities, Federal Government Accountants Association, 1961-65.

Member, Financial Executive Institute of America, 19955 to present.

Member, National Committee on Education, 1956-1971.

Member, American Institute of CPAs, 1939 to present.

Member, Committee on Accounting Personnel, 1953-56.

Member, Advisory Committee on CPA Examination, 1956-58. Chairman, Committee on Professional Statistics, 1960-62.

Member, Committee on Management Services, 1964-67.

Member, Advisory Committee on Intercorporate Investments Research Project, 1962 to present.. Honorary Life Member, 1979—.

Member, National Association of Accountants, 1945-62.

Member, National Commission on Standards of Education and Experience for CPAs, 1952-58.

Member, Alabama Society of CPAs, 1942 to present. Secretary-Treasurer, 1949-58. Member, Committee on Education, 1945-49; 1967-68. Chairman, Committee on Accounting Research, 1959-61. Member, Committee on Accounting Research, 1962-67. Member, Committee on Long Range Planning, 1974-79. Member, Committee on Government Accounting, 1980-83. Chairman, Committee on Society History, 1983—. Member Board of Directors, Tuscaloosa Chamber of Commerce, 1969-72; 1975-78.

Member, Board of Directors, Ames Bag and Packaging Corporation, 1969 to 1974,

Member, Board of Directors, Hardin's Bakery, Inc., 1970 to present.

Member, Board of Directors, J. Oviatt Bowers Co., Inc., 1970 to present.

Member, Board of Directors, Tuscaloosa Hotel, Inc., 1960-63.

Member, Board of Directors, First Federal Savings and Loan Association, Tuscaloosa, 1963-75.

Member, Board of Trustees, Alpha Kappa Psi Foundation, 1960-68.

Member, Sigma Alpha Epsilon, Phi Beta Kappa, Beta Gamma Sigma, Beta Alpha Psi, Omicron Delta Kappa, Alpha Kappa Psi, Pi Tau Chi, Pi Gamma Mu, Omicron Delta Epsilon.

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BOOK REVIEWS

Jonathan Barron Baskin and Paul J. Miranti, *A History of Corporate Finance* (New York: Cambridge University Press, 1997, 350 pp., $29.95).

Reviewed by
Raj Aggarwal
John Carroll University

This book is a study of the role of institutions and organizations in the historical development of corporate finance in Western Europe and North America. A major goal of this book is to "demonstrate the need for greater recognition of path dependence and historical evolution in the modern theory of finance" [p. 3]. In addition, a number of writers have argued that the study of economic and financial history can be useful in understanding contemporary developments [North, 1978; Braudel, 1982]. However, there are relatively few books on the history of corporate finance and, thus, this book is a particularly welcome addition.

This book consists of a preface and an introduction, seven chapters organized into three parts, and an epilogue and two appendices. The introduction notes that business institutions represent constraints that "are, in effect, the rules of the game for pursuing opportunity...and their value lies largely in their ability to reduce uncertainty" [p.4]. It is also noted that "firms bolstered efficiency through financial innovation" [p. 5].

The introduction goes on to explain how finance contributed to business efficiency and growth. First, finance allowed firms the time and stable funding to exploit economies of scale and scope. Second, financial innovation often helped firms cope with and even take advantage of external economic shocks. Financial innovations also lowered perceived risks faced by investors and allowed better monitoring of managers. Finally, financial innovation also allowed better management of corporate resources and gave firms the ability to overcome market imperfections by internalizing high-cost market transactions. The rest of the introduction describes the development of the modern theories of asset pricing, agency costs, asymmetric information, and corporate debt policies. Curiously, in discussing the random behavior of market determined asset prices, this book cites the

1953 study by M.G. Kendall as the beginning of this recognition, ignoring the well-known and much earlier (19th century) work of Louis Bachelier and others (e.g., Bernstein, 1996).

Part I consists of three chapters that review finance in the pre-industrial world (actually just Europe). The two chapters in Part II cover the development of European finance during the era of industrialization. Part III traces the evolution of finance in Western Europe and North America into the modern era.

Chapter one describes the development of finance in Italy in the late middle ages and the early Renaissance period. This chapter has some excellent descriptions of international banking and how business financial structures in Florence and Venice of the thirteenth and fourteenth centuries were used to diversify risk and leverage returns on equity. However, it has very little about business financial arrangements prior to that period.

Chapter two covers the fifteenth through the eighteenth centuries and traces the rise, along with international trade, of the Joint Stock Companies, like the East India Company, as precursors to modern limited liability corporations. Chapter three covers the early development of public securities markets in England and western Europe in the eighteenth century.

Part II consists of two chapters and covers the development of corporate finance in the age of industrialization (late eighteenth to the mid twentieth centuries). Chapter four covers the financing of canals and railroads especially in the United States and chapter five describes the rise of equity markets and managerial capitalism in the first half of the twentieth century.

Part III also consists of two chapters and traces the evolution of corporate finance into the modern era. Chapter six focuses on the financing of large US companies in the post-war era until the oil shock of 1973, while chapter seven covers the rise of the conglomerate firm and the leveraged buy-out phenomenon in recent years. The epilogue is an essay on the relationships between environmental and firm-specific factors in explaining the evolution of corporate finance.

While this book does not break much fresh ground, it is a fairly comprehensive review of the history of Anglo-Saxon corporate finance. It is well written and seems reasonably well researched. In fact, as is the case with any other good book, it leaves us wanting more. For example, the focus on post-Renaissance Anglo-Saxon corporate finance in this book means that there are at least two important areas that are omitted.

First, there is relatively little on finance in times before the Renaissance. This is unfortunate especially since many aspects of modern finance were developed in the so-called Dark Ages (see for example Braudel, 1982; or the footnotes in Tuchman, 1978). Second, while even the English language literature has many excellent sources (e.g., Banerji, 1995; Chandler, 1990; Cizakca, 1996; Hirschmeier, 1964), there is practically nothing in this book on the development of Indian, Islamic, Ottoman, or Asian corporate finance. This latter omission is particularly unfortunate given that it is widely contended that even the non-Japanese Asian economy is on track to be larger than the North American or European economies in the next few years (e.g., Aggarwal, 1991; Kennedy, 1993). While North American hearts and minds are likely to remain largely in Europe, its wallets are increasingly in Asia, and it is necessary that American books and other publications include Pacific Asian perspectives.

On balance, these limitations are relatively minor quibbles, and this book is recommended for scholars and others interested in the historical development of modern corporate finance. In addition, this book would also be useful reading for any student of corporate finance. It could be, and perhaps should be, required reading for advanced undergraduate and graduate students in finance and accounting. In conclusion, this book is recommended reading as it is an excellent and very readable review of the extensive scholarly literature on the historical antecedents of modern North American corporate finance.

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Garry D. Carnegie and Peter W. Wolnizer, Eds., *Accounting History Newsletter 1980-1989* and *Accounting History 1989-1994* (New York: Garland Publishing, Inc., 1996, 416 pp., $80).

Reviewed by
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This anthology is a tribute to Robert Gibson, a foundation editor of the antipodean newsletter from which the 25 articles were drawn. Gibson retired from Deakin University in 1993 where he had encouraged others to conduct accounting history research. Noteworthy amongst those at Deakin were the joint-editors of the anthology, Garry Carnegie, the present editor of the new series of *Accounting History*, and Peter Wolnizer. Gibson's interest in accounting history was undoubtedly stimulated during the 1960s when he worked with Lou Goldberg at the University of Melbourne.

The compilation of a worthwhile anthology is not an easy task particularly if the source(s) from which articles may be drawn is limited. Such was the case in this instance. Yet, Carnegie and Wolnizer succeeded because their anthology demonstrates that humble beginnings combined with Gibson's dedication provided stimulation not only to established scholars but also to those who sought to enter the field of accounting history. Carnegie and Wolnizer classified the articles selected into five sets, each comprising four, five or six items. The sets are: Early Accounting Systems; Twentieth Century Accounting Thinkers; Professional Associations; Accounting and Auditing Standards; and Accounting Education. The names of some of the authors, Willard Stone, Ray Chambers and Lou Goldberg are well-known. Others such as Warwick Funnell, Dale Flesher and Garry Carnegie may yet reach the same heights.

The first set classified as Early Accounting Systems comprises four items that might be summarized by key words: Werner Sombart; medieval estate management and accounting; charge and discharge; and mining cost accounts. Similarly the second set of six items grouped under the heading Twentieth Century Accounting Thinkers can be reduced to: Stephen Gilman; Ray Chambers; G.E. and A.A. Fitzgerald; Henry Sweeney; Paton and Littleton; and Kenneth MacNeal. In contrast to the somewhat international flavour of the second set the last three sets that deal with professional associations, standards and education are devoted to the Australian experience. Yet, the form and content of the items will be useful guides to those elsewhere who seek to document, describe and interpret the history of the accountancy profession in other countries.

In conclusion, anthologies were designed for browsers long before surfing the internet became a popular pastime. In this regard Garland's contribution has been outstanding. Their catalogs list a number of anthologies such as *Accounting in France*, *Accounting Research 1948-1958* and *Milestones in the British Accounting Literature* that in effect are companion volumes to Carnegie and Wolnizer. Volumes that ought to be acquired by every university, college and professional library that aspires to be known for its research collection.

Alfred W. Crosby, *The Measure of Realty: Quantification in Western Europe, 1250-1600* (New York: Cambridge University Press, 1997, 245 pp., $24.95).

Reviewed by
Richard K. Fleischman
John Carroll University

The title of the book, coupled with the vivid reproduction of Barbari's famous portrait of Pacioli on its jacket, conveys the impression that the reader will be treated to a monograph on the European origins of accounting. That expectation is not realized, however, as only the last chapter before the conclusion ["Bookkeeping," pp. 199-233] is dedicated to accounting history topics. Furthermore, that single chapter deals only with the famous friar (at considerable length) and Datini (more briefly). Although the dates provided suggest an inclusion of the exploits of the Medicis, Plantin, the Bracci, Francisco del Bene, the Fuggers, and others, these early pioneers are scarcely mentioned. Moreover, this chapter suffers a diminution of the high research standard that characterizes the remainder of the volume. As the author himself admits, the analysis of the *Summa* is based almost entirely on the work of Taylor [1980] and Brown & Johnston [1984]. Consequently, Crosby's interpretation lacks the breadth and cogency of other recent work of this genre, as, for example, Macve's chapter on Pacioli in Lee, Bishop, & Parker [1996].

It is unfortunate that the book's weakest chapter would be the very one of greatest interest to accounting historians. Indeed, the background Crosby provides through the remainder of the book describing the intellectual climate within which Pacioli wrote is of great value. The author demonstrates convincingly the remarkable transition in Europe from a society almost without hope to one that based its emerging culture, culminating in the Renaissance, on the calculation and quantification of its reality. This transition is richly illustrated in chapters dedicated to changing European perceptions of time and space, accompanied by resultant achievements in mathematics, music, painting, and, last but sadly least, bookkeeping.

Crosby writes with a vibrant style that has earned him high honors for previous books and perhaps for this offering as well. His research for the chapters other than the one on bookkeeping is impressive and reflective of his pedigree as a history professor at the University of Texas, Austin (visiting at Yale). The number of historical actors that appear on his stage is staggering. Though having myself instructed medieval history for many years, I confess to knowledge of only about half of the figures encountered in this historical panorama. The book was a humbling but valuable learning experience for me. I marvel at its flowing style and erudition.

In conclusion, I accord the book my highest recommendation for readers with considerable background in medieval studies who wish to grapple with a thought-provoking, yet highly entertaining masterpiece of historical narrative. However, within the more limited confines of pure accounting history, aficionados will find less of value.

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Reviewed by
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For evidence of the vibrancy and potential of historical research in accounting, colleagues need only turn to Richardson's impressive collection of papers from the recent 7th World Congress of Accounting Historians, held in Kingston, Ontario, Canada. The breadth and vigor of current historical research is well represented in a collection which brings together a range of topics and national perspectives. As Richardson observes in the introduction to this volume, "the papers published here and presented at the Congress provide a fascinating snapshot of the current state of the global economy and the range of issues which are in the collective conscious" [p. 2]. Given this diversity of work, it is impossible to do fully address the range of topics covered in the collection. Instead, I provide a broad overview of what is available here, and of the body of work represented.

The papers are organized into six sections: Cost and Management Accounting; Education; Financial Accounting and Auditing; Professional Organizations; Taxation and Texts. A variety of approaches are represented, including the more traditional scholarship as well as emerging research paradigms inspired by work in other disciplines.

In the Cost and Management Accounting section De Beelde explores aspects of the Belgian experience, while Okano revisits Emerson's work on cost accounting. McNair and Vangermeersch provide a stimulating and thoughtful analysis of the US National Industrial Recovery Act (NIRA) and its influence on management accounting concerns. Their discussion of the "blue eagle" symbol used to mark the goods of those supporting the NIRA provides fascinating insights into the broader socio-political frameworks within which accountancy operates. Their overall argument that full cost pricing was fostered by the NIRA at the expense of more economically inspired approaches was, for me at least, a real eye opener.

The occasion of the centennial of the US CPA exam motivates the two education papers represented here. Flesher et al. review the accounting education movement and provide brief biographies of relevant characters. Oliverio and Newman focus more on the first CPA examination, its format and nature. The Financial Accounting and Auditing section includes a variety of work, dealing with American, Spanish and Portuguese experiences: a refreshing breadth of national experience, given the more limited empirical domains associated with financial reporting work in the bulk of the accounting literature.

In the Professional Organizations section of the monograph, two authors discuss differing aspects of professionalisation projects in Australasia. Anderson analyses the integration of cost accounting bodies within the national societies of accountants in Australia and New Zealand, arguing that this was to the detriment of cost accounting as a profession. Kathie Cooper casts a critical eye on the legitimization of Australian accountancy, suggesting that broad alliances among those interested in accounting associations, (such as the business press, financial interests, government bodies, and the then colonial British government) were an intrinsic part of the professionalisation project in Australia. I am unsure that these alliances really are as "non-traditional" as Cooper characterizes them; surely such networks have been recognized in the literature as being integral to the production and reproduction of professional claims. But this argument stands as a counterpoint to a more traditional (and often functionalist) view of the pre-eminence of education, examination and training in procuring professional status.

Several papers comprise the Taxation section of the monograph, with work from Samson, Smith and Yelvington *et al*. These papers deal with the progressivity of the US and Canadian income tax, the historical development of the lower of cost or market rule in the UK, and an examination of "sin" taxes in the US and Canada respectively. In reading these papers shortly before dealing with my own US taxes I must admit that Yelvington et al. approach taxation with more good humor than I have so far been able to manage—one reason for their paper being an entertaining as well as informative read. Their analysis of the political promotion of "sin" taxes has special resonance to me as I write in Cleveland, a city that has chosen to raise regressive sin taxes so as to erect the palatial facilities demanded by the monied elite of professional sport. Though not centrally a part of their analysis, Yelvington et al.'s work serves to highlight issues of social justice.

Clarke and Lanero round out the monograph with two papers examining original texts, their focus being Ireland's Ammonet, and Mellis' English treatise. Both approach their subject with sensitivity to detail, and to the context in which the work was written.

The monograph includes a listing of papers presented at the 7th World Congress, and a review of this work and the contents of this volume suggests two clear themes. Firstly, historical work seems poised to explore a variety of national experiences, including those influenced by former colonial rule. The breadth of contexts explored within the monograph itself provides evidence of the variety of venues in which accounting history is being explored. The analytical significance of the nation state could well be questioned, but the differing cultural experiences and traditions that are pointed to in this body of work suggests a broadening of historical discourse.

The second theme can be discerned in certain of the papers, but especially in the work presented at the Congress. Although more traditional historical work still appears to dominate historical effort, it is clear that theoretically informed critical (or, as Richardson terms it, "emancipatory" [p. 1]) work is on the rise. Kathie Cooper's work in the monograph provides one example; more are found in remaining papers which depart from what Neu and Richardson describe as a more conventional narrative concerned largely with the details of practice rather than the context in which practices evolved [p. 339]. The relevance that the U.S. Accounting Education Change Commission finds in history as a means to understand practice seems likely to be met by a more theoretically informed literature more directly concerned with producing a "history of the present." In this, the monograph reminds us that accounting history is a discipline in flux.

Kyojiro Someya, *Japanese Accounting: A Historical Approach* (Oxford: Clarendon Press, 1996, 241 pp., $70).

Reviewed by
Robert Bloom
John Carroll University

An anthology of essays on Japanese accounting since World War II written by Kyojiro Someya, a retired professor, this book deals with the history of accounting in Japan. Outside of Japan, not much is known about academic studies in accounting in that country since such research is usually published in Japanese. In the preface, the author contends that the application of this research served to enhance economic recovery and growth in Japan following the war.

Someya's own research is historical for the most part. In particular, his interest in cash flow theory was an attempt on his part to comprehend post-war inflation in Japan. His study of financial statement analysis began as a need to understand business productivity. In addition, his work on financial accounting theory was intended to shed light on securities exchange, focusing on the process of raising capital in Japan. As international business expanded in Japan starting in the 1960s, his research shifted to that area.

The book is divided into three parts. Part I covers Japanese accounting history, the most useful piece being "Accounting 'Revolutions' in Japan," originally published in *The Accounting Historians Journal* in 1989 [Vol. 16, No. 1, pp. 75-86]. Part II is concerned with issues in financial accounting, the best piece of which is "Accounting Standard Selection and Its Socio-economic Consequences," originally published in the *International Journal of Accounting* in 1993 [Vol. 28, No. 2, pp. 93-103]. Part III focuses on the cash flow statement, the most informative section being "The Use of Funds Statements in Japan," originally published in the *Accounting Review* in 1964 [Vol. 39, No. 4, pp. 983-989].

In the 20 articles republished in the book (13 having been first published in Japan), Someya accentuates the role of accounting in providing accountability and information for decision making. He asserts that accounting is dynamically a function of the environment in which it prevails, and therefore should be compatible with that environment.

Someya is critical of Japanese accounting, and for good reason. In view of the emphasis that taxation exerts on accounting standards, which is typically the case in code law countries like Japan, the accounting profession appears to be weak. The Minister of Finance is responsible for setting accounting standards. Additionally, while the author does not say so, there is no fundamental conceptual framework of financial reporting in Japan. Conservatism appears to be one, if not the, basic accounting standard, and present value, lease capitalization, and inflation standards are non-existent. Furthermore, a cash flow statement is not required for external reporting, which the author does acknowledge. Someya wishes to see considerably more emphasis on economic substance rather than legal form in Japanese accounting. Moreover, he observes a need in Japan to limit the flexibility companies have in selecting alternative accounting standards in light of their social and economic consequences. Paradoxically, Japan has prospered economically despite its inadequate system of financial reporting.

For those who have no previous knowledge of Japanese accounting history, this book may be of interest. However, considerable overlap exists in topics covered among the articles in the book.

Atsuo Tsuji and Paul Garner, Eds., *Studies in Accounting History: Tradition and Innovation for the Twenty-First Century* (Westport: Greenwood Press, 1995, 280 pp., $75).

Reviewed by
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Tradition and Innovation for the Twenty-First Century brings together 13 of the 50 papers presented in August, 1992, at the Sixth World Congress of Accounting Historians in Kyoto, Japan and may represent Paul Garner's final contribution to accounting literature. I was privileged to know Paul Garner personally and to receive two wonderful letters encouraging me to continue research in accounting history. Notwithstanding my respect for Paul and his dedication to accounting history, I am unable to recommend unequivocally this collection which is co-edited by Atsuo Tsuji and Paul Garner.

In their prefaces, Tsuji states that the selection criteria for inclusion were "regional factors and treated themes" [p. vii], while Garner notes similarly that these essays "show an unusually wide range of research and investigation" [p. x]. Thus, readers are forewarned that the collection is wide ranging and will include essays on disparate topics. In addition to thematic variation, however, essays by practitioners and new scholars contrast markedly from those by more renowned historians, especially in terms of organization structure and the extent of literature reviewed. Consequently, active and seasoned scholars, those most likely to acquire the collection, may be discomforted by these multiple dimensions of diversity. Readers who prefer more critical perspectives of accounting history will also be disappointed by the paucity of essays written in this venue.

The collection does contain a number of interesting and well-written pieces. For example, in a smoothly flowing introductory essay entitled "Accounting History and Public Policy," Gary Previts provides an overview of accounting history in the context of a constantly changing and politicized world. Tsunehiro Tsumori crafts another strong entry entitled "Development of a 'Philosophy of Disclosure' in Accounting Institutions of Japan." Tsumori describes thoughtfully the impact of the Anglo-American and Franco-German accounting traditions on the historical development of accounting disclosure in Japan. Christopher Napier sustains his excellent scholarship with an essay on secret reserves in New Zealand. Unlike many accounting historians, Napier explains clearly the business environment to which the accounting issues he explores relate. Napier's attention to the background story and historical context makes the essay much more intriguing and accessible.

The subtitle of the collection, "tradition and innovation for the twenty-first century," intimated to me that a number of essays would address current historical debates or long-standing controversies in accounting history. Papers by Gormly and Wells, "Costing Activities: Alternative Views of History," and Kataoka, "The Relationship between the Bookkeeping Systems of Pacioli and Schweicker," fulfilled this expectation. However, most essays focus on disparate and regional issues. Once again, certain readers might be displeased in this regard.

Perhaps the collection's most noticeable shortcoming is the absence of active editorial involvement. Given its diversity, readers would have benefited greatly from an introductory essay which summarized each paper and indicated the rationale for its inclusion. Alternatively, each essay could have been preceded by a short synopsis, or authors could have been asked to provide an abstract describing their essay's scope and purpose. Unfortunately, because these aides are not furnished, readers must rely on an essay's title or its author's repute for guidance about content and perspective. In the case of unknown authors, readers must venture forth and hope the experience is worth the effort. A related concern is that biographical information about contributors lacks consistency and omits important details. In several cases the editors provide only the name and affiliation of an author while in others, they identify an author's academic department but fail to mention their terminal degree, research interests, publication record, or teaching or practice specialty.

In summary, while there are a number of well-written essays that will interest new and seasoned accounting historians alike, the collection is too diverse, the quality of essays too variable, and the absence of editorial assistance too salient to produce a monograph which can be regarded as a notable contribution to accounting history literature.

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