The Accounting Historians Journal

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Research on the Evolution of Accounting Thought and Accounting Practice
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Statement of Policy

The Accounting Historians Journal is an international journal that addresses the development of accounting thought and practice. While the Journal embraces all subject matter related to accounting history, research that provides an historical perspective on, and thus, furthers understanding of contemporary accounting issues is particularly encouraged.

An essential component of the historian's craft is clear and persuasive writing. Accordingly, the editors will consider for publication only well written manuscripts. We encourage authors to use active voice to promote clarity and to highlight the author's responsibility for interpretation of data and conclusions drawn.

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5. In performing all analyses, authors should be sensitive to and take adequate account of the social, political, economic and cultural conditions of the time period being examined.

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Abstract: This study presents a personal portrait of Emeritus Professor Louis Goldberg, a prominent founder of accounting education and research in the Australian academic community. It offers a distinctive view of Professor Goldberg through its employment of oral history research method. The data and findings presented herein are based on interviews with Professor Goldberg and both past and present academic colleagues. The paper reviews his formative years and his role as a professor and administrator, as well as teacher and researcher. Also documented are his perspectives on the education process and some of his own personal characteristics that have played a part in his academic career.

"He is one of my ideas of a real true gentleman."

J. McMahon 12 Dec. 1988

This paper presents an oral history study of Professor Louis Goldberg, a founder of Australian accounting academia. Goldberg stands as one of the earliest full-time accounting teachers in the Australian university system and one of the most prominent early Australian accounting researchers. The study focuses upon his personal career, characteristics, and environmental influences, particularly in order to lay a foundation for

The willing cooperation of all interviewees for this study is gratefully acknowledged. In particular, the interest shown and significant time made available by Professor Goldberg has proved to be invaluable. Thanks are also due to Professor Patti Mills (Indiana State University), Professor Garry Carnegie (Deakin University), Professor Bob (R.H.) Parker (Exeter University), Professor Gary Previts (Case Western Reserve University), Professor Stewart Leech (University of Tasmania) and Dr. John Courtis (City Polytechnic of Hong Kong) for their helpful comments on drafts of this paper. Professor Barbara Merino, as editor of AHJ, provided invaluable suggestions at the final revision stage of this paper. Of course the usual caveat applies, in that the author remains responsible for the historical analysis and interpretations presented in this paper.
future re-evaluations of his writings. After reviewing his education and early professional career, the study outlines his early academic career and examines his style of administrative leadership, his approach to teaching and his commitment to research. In addition attention is paid to Goldberg's personal characteristics, interests and perspectives and their impact on his thought and writing in accounting. Thus is presented a portrait of an individualistic, catholic and socratic scholar, to this day unique in Australian and international accounting academia.

INTRODUCING LOUIS GOLDBERG

Louis Goldberg was born on 22 February 1908 and after completing his secondary education at University High School, undertook all of his tertiary academic qualifications at the University of Melbourne, where he also spent his entire academic career. He rose from part-time tutor in 1931, through the ranks of lecturer, senior lecturer, and associate professor, to the rank of Professor and Head of the Department of Accounting. The lectureship to which he was appointed in 1946 was the first full-time lectureship in accountancy in an Australian university [Kerr and Clift, 1989]. The Chair in Accounting at Melbourne University he occupied was the first chair in accounting established in an Australian university, being first held part-time from 1954 to 1957 by Sir Alexander Fitzgerald, and second held full-time by Louis Goldberg from 1958 to 1973.

Goldberg educated many foundation professors of accounting at other Australian universities and was one of the initiators of the Australian Association of University Teachers of Accounting, the forerunner of the Accounting Association of Australia and New Zealand. He has made many important contributions to the literature on accounting theory and has had an ongoing commitment to the development of accounting history (refer Appendices A and B). To this day, he has remained an active accounting educator and researcher, continuing an involvement in teaching, research, publishing, and refereeing for research journals. He has been honored by the designation of Professor Emeritus by the University of Melbourne, by election to the Academy of Social Sciences in Australia, by appointment

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1 A foundation professor in an Australian university is the first full professor to be appointed to a professorial chair in a department (such as a Department of Accounting).
as an Officer of the Order of Australia by the Queen through the Governor General of Australia, and by election to life membership of the Academy of Accounting Historians and the Accounting Association of Australia and New Zealand [Kerr and Clift, 1989]. Most recently, he has been appointed adjunct Professor to the David Syme School of Business at Monash University for a term of three years, 1992-95.

This study presents a personal portrait of the man behind these achievements. While Professor Goldberg has been widely recognized in Australia as a “founding father” of university teaching and research in accounting, it is arguable that his writings hold insights and lessons for the philosophy and practice of accounting yet to be fully realized and appreciated. It is arguable that the history of thought in any discipline reflects a multiplicity of probable influences, among which are the personal characteristics, philosophies and predispositions of the contributing authors. Hence before addressing Goldberg’s writings, this study has taken the opportunity to examine Goldberg’s own life and perspectives, not as is most usual, solely from the reflections of his colleagues, but in addition on the basis of his own introspection. This has been a valuable opportunity, not always available to historians attempting to study the lives and perspectives of leading figures.

RESEARCH METHOD EMPLOYED

This study’s data and conclusions are based on the oral history research method. Both Professor Goldberg and colleagues from his past and present career at the University of Melbourne as nominated by him have been interviewed by the researcher (refer Appendix C). All interviews took place between December 1986 and April 1992. The oral history method employed [Tosh, 1984; Parker and Graves, 1989; Collins and Bloom, 1991] consisted of tape recorded and subsequently transcribed interviews based on a semi-structured interview guide that allowed for open ended questions and answers.

A flexible approach was taken in interviews, with issues raised by interviewees allowed to govern the direction of discussion and with suggestive or directive questions restricted to a minimum. Interview subjects were knowledgeable, organized and logical in their approaches to and discussion of general questions raised and hence minimum prompting by the researcher was required. Ninety minute audio tapes were used to
minimize the necessity of intrusive tape changeovers. The interviews did not follow the guide rigidly but were flexible, allowing for unanticipated issues that were raised by an interviewee. The substance of the paper is based entirely on the interview transcripts with draft papers subjected to scrutiny and comments by Professor Goldberg in 1991 and 1992.

Oral history method is, of course, subject to a number of limitations and the results of this study must be viewed with these in mind. Interviewees may suffer memory lapses or flawed recollections of past events or situations. The interviewee's recollections will also be influenced by his or her own perception and interpretation of past events, relationships and environmental influences. Finally, interviewees may be reluctant to relate criticisms of individuals, information they regard as sensitive or confidential, or events which they find to be unpleasant or painful to recall [Bornot, 1955; Vansina, 1965]. Nevertheless, the oral history method is increasingly being acknowledged as one that offers the prospect of accessing voices that may otherwise have remained silent and unearthing perspectives and observations that may otherwise have been lost to subsequent generations.

EDUCATION AND EARLY CAREER

Goldberg was the youngest of a Jewish family of six boys whose parents came from Poland and Lithuania via England. His father was a tailor who eventually purchased property and built and operated a factory in Carlton (a suburb of Melbourne). Goldberg describes himself as "a somewhat solitary child" because his next oldest brother was about 6.5 years older than himself. As Goldberg puts it "I had quite a few years as a fairly solitary member of the family and I had a reasonable childhood which was neither enormously happy nor enormously unhappy".

Goldberg became very fond of books. As a child, he was the only member of his family having this interest, particularly given his parents' restricted command of the English language. Signs of his academic ability became evident relatively early in his childhood when he undertook the eighth year of his studies two years earlier than his age would normally permit. He became one of only three pupils at Coburg High School who enrolled for a final year of secondary study (known then as Leaving Honors) and later transferred to University High School for another year for this purpose.
Keen to pursue a professional career, and considering law, Goldberg needed a scholarship in order to go to university. Goldberg was not awarded such a scholarship in either his final year at Coburg or his year at University High, and therefore was forced to seek employment as an office boy with a firm of engineers and manufacturers of wooden heels for women's shoes. In this position, he learned bookkeeping while simultaneously considering a career in journalism. He also applied for some cadetships without success. Private study of a book on bookkeeping, as well as his experience in the office caused him to think about the possibility of qualifying as an accountant. Towards the end of his first year in the office, the office accountant experienced alcohol problems and left to Goldberg the responsibility of preparing wage packets for employees and financial statements for the two partners. Unrewarded by the firm's partners for his added responsibilities, Goldberg decided to seek employment elsewhere. He applied for and was awarded a "free place" at the University of Melbourne to study for the Bachelor of Commerce degree. This was a State Government award that covered the cost of lecture fees. Regarding his attitude during his school and undergraduate period, Goldberg has said:

"As a schoolboy and even as a university student, university teaching was far from my hopes; I doubt whether I ever thought of it as a possibility. When I was at school, my utmost aspiration was to attend university and complete a degree course."

[Goldberg, December 1986]

Goldberg undertook his undergraduate studies part-time, being employed by a public accountant for most of that period. Most of his fellow students studied part-time and many lectures were delivered at 8 am or after 5 pm. As he did with his secondary education, Goldberg completed his Bachelor of Commerce studies in less than the standard time. He completed 15 subjects (rather than the 14 required for graduation) in four years rather than taking the average five years. In addition to the compulsory subjects of economic geography and economic history, two subjects from Arts or Science were required. From these, Goldberg selected a subject called Psychology, Logic and Ethics, and French I. The degree program also required the study of one subject from modern history. Goldberg's choice was European History C, covering the period from 1453 onwards. Goldberg recalls that he graduated with five first class honors, five sec-
onds, four thirds and one pass (in a subject that only offered a passing grade). Subsequent to gaining his degree in 1929, he undertook some additional subjects in the areas of statistics and banking, currency and exchange.

In 1931, Goldberg became Research Scholar in Economics at the University of Melbourne, followed by his appointment as Bartlett Research Scholar at the same University in 1932. He also was employed as a part-time tutor in accounting between the years 1931 and 1945. At the same time, he undertook a variety of bookkeeping work for a number of his own clients who were mostly small manufacturers. This helped to generate funds to assist his parents, particularly since his father was ill at the time. When his research posts concluded, he was offered a costing post in the firm of Dunlop which he took on full-time while keeping up his part-time tutoring. Subsequently, he joined the firm of VGH Harrison, Chartered Accountant, and was primarily occupied in auditing work until the outbreak of World War II. In 1941 he joined the estimates/financial section of the Commonwealth Government Department of Air. This work involved preparing estimates of upcoming commitments relating to staffing, equipment, aircraft and ammunition. Expenditure control was also a major function relating to these areas. This work occupied him from 1941 until mid-1945 but he still maintained his Melbourne University tutoring activities. Thus, as he points out, "I had a continuous connection with the University, virtually from enrolment as a student".

THE MOVE TO ACADEMIA

During the World War II years, Goldberg had formed the opinion that if a full-time teaching post in accounting at the University ever became available, he would apply. This occasion arose in 1946, and he successfully applied for the lectureship in accounting. At the time of gaining the lectureship, Goldberg's Master of Commerce thesis (graduated 1938) had already been published, he had published a number of articles and had a number of years' experience as a tutor and as a lecturer occasionally standing in for a part-time lecturer. When Goldberg took up his full-time lectureship, he was in the unique position of being the only full-time faculty member in accounting. Both Alex Fitzgerald and his brother, Garrett, were part-time appointees. At this point, Goldberg was not only the sole full-time accounting academic at the University of Melbourne, but the sole
full-time accounting academic in the Australian university system.

In Goldberg's opinion, his move into accounting academia was a matter of opportunity. With the conclusion of his two economics research scholarships, no further opportunity in economics had presented itself; his move into the cost accounting work for the Dunlop organization determined his longer term move into accounting. In his early role as lecturer, Goldberg found that there was much work involved in teaching preparation and administration, particularly given that other faculty members only appeared at class times. Within a short time, however, Goldberg was joined by more full-time staff. Jean Kerr was appointed at the end of 1946 and W. (Bill) Stewart at the beginning of 1947. His typical teaching week involved between six and eight lectures plus approximately six tutorials of between one hour and 1.5 hours each. Many of the students were mature age students of high quality so that as Goldberg put it “it was a very heavy time, but we felt it was worthwhile because of the quality of students”. Goldberg also contributed to a series of booklets on accounting principles that were produced by the Department of Labor and National Service for the purpose of the post-war rehabilitation process of updating accountants in 1946. Hard on the heels of this work, he undertook preparation of the text *Elements of Accounting* co-authored with V.R. Hill who was a teacher at Scotch College in Melbourne and a part-time tutor at the university. This was an elementary accounting text mostly prepared in their own time during evenings.

Consistent with his interests in further studies, after the first couple of years of full-time academic employment, Goldberg began to contemplate the possibility of completing a Bachelor of Arts degree for which many of his already completed subjects qualified him. He completed his requirements for that degree by undertaking a new science subject (covering history and method of science) which he thoroughly enjoyed. Further personal studies included sitting in on lectures in jurisprudence and logic. Around 1949, the wave of large numbers of ex-service people from the post-war period had begun to ease and so the numbers of students in classes began to decline, with the effect of some repeat lectures being discontinued. This began to make more time available to Goldberg to “push on and do some writing” although, as his list of publications shows, he had already produced a significant amount of published work. In 1949, Goldberg was promoted to the rank of Senior Lecturer.
The GL Wood chair in accounting at the University of Melbourne, established in 1954 partly through public subscription, was the first of its type established in an Australian university. Sir Alexander Fitzgerald held the chair from 1954 to 1957 on a part-time basis; Goldberg succeeded him in 1958 on a full-time basis. In his professorial role, Goldberg automatically became Head of the Accounting Department. This involved him in spending a large amount of time on committees of various sorts which Goldberg viewed as an essential part of his responsibilities. From a group of approximately five staff when he took the Chair, Goldberg describes the process as "a fairly steady struggle to get adequate staff". Another challenge was the task of attempting to establish a good honours program (the fourth year of the degree). Honors courses were initially dominated by economics content, since the accounting group did not have sufficient staff to provide adequate numbers of accounting subjects within the honors program. The salaries offered at the University of Melbourne were insufficient for the department to recruit academics from overseas to assist in this area. Thus many high-class graduates immediately went into business or public practice rather than undertaking honors studies. Ultimately, the honours program was developed.

ADMINISTRATIVE LEADERSHIP

Goldberg recalls that administrative duties were a major consumer of his time as Professor of Accounting:

"I got the feeling that when you're appointed to a chair .... you're appointed on the basis that you'll spend 50 percent of your time on research, 50 per cent of your time on teaching and 50 per cent of your time on administration."

[Goldberg, December 1986]

His colleagues portray Goldberg as a careful and deliberate administrator. Nevertheless, colleagues observed that he did not particularly relish administrative duties or university politics and was not very fond of meetings. Still, he was meticulous in record keeping, kept himself informed as to what was happening in his department and its faculty. Goldberg tended to set his own objectives and work slowly towards them. For example, in attempting to develop programs such as the accounting honors program he was prepared to work towards them and not to be discouraged by temporary setbacks. This sometimes meant that
developments took time to achieve. Success was often forthcoming, although this deliberate, careful approach sometimes resulted in lost political battles within the faculty. This may have reflected a philosophy of waiting to see if some problems would resolve themselves. At times, this was felt by some to have resulted in missed opportunities.

Goldberg was regarded as a quietly decisive person who nonetheless was gentle, kindly and thoughtful in his dealings with his colleagues. Indeed, his colleagues regarded him as a patient gentleman who preferred to encourage the people around him to reach consensus rather than to endure conflict. In this sense, University politics was not necessarily his preferred arena of endeavor. Enduring a period when the economists dominated faculty politics, Goldberg preferred a non-confrontational approach and avoided personal acrimony whenever possible.

As a leader of his academic colleagues, Goldberg encouraged them to develop their own particular interests and to rise to their level of capability. His form of encouragement was gentle and he was seen as maintaining a high level of intellectual freedom in his general attitudes. He did not try to push individual colleagues down any particular path. While encouraging people to pursue their own interests and to take their own approaches to teaching, he was always interested to know what was going on. He insisted on inspecting lecture outlines and scrutinized draft examination papers meticulously. While wanting to know the details of what was happening in the teaching program, he nevertheless did not interfere very much in the construction of or teaching of departmental courses. His attitude in the preservation of his colleagues' autonomy of operation is probably best illustrated by a recollection of his younger colleague Chris Warrell:

"I remember when I first joined there .... and I remember saying to Lou, just after I started, "what hours should I keep?" And Lou in his usual style, looked up from behind the desk, silent for a while, and said, "if you have got a lecture or tutorial it is advisable to be in"."

[Warrell, 12 December 1988]

In staff meetings, Goldberg encouraged the discussion of various contentious accounting issues as well as the airing of different views. This reflected his non-interventionist leadership
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style. Indeed, department meetings appear to have been relatively infrequent in the course of an academic year. As a leader, he was more of a laissez-faire facilitator. His style of leadership was certainly not a top-down domineering one. Rather, he encouraged colleagues to exercise their academic rights and responsibilities and respected their academic freedom. In some areas of departmental leadership, he could assume a more authority-based, albeit quietly executed, style. For example, teaching duties might be determined by him relatively independently and then announced to staff at a departmental meeting. This could involve some rotations of lecturers across different subject areas (e.g., from financial accounting to management accounting).

As a facilitator, Goldberg has been characterised by his colleagues as a quiet, somewhat withdrawn, though highly respected departmental head. He expected people to find their own academic path. His working day more often involved working at home before arriving at his office, with the occasional appearance at a tea break or lunch. Now and then, he wandered the corridors and spoke informally to people about current issues in the department. Thus he could be somewhat remote from colleagues, not given to displaying his feelings or becoming closely associated with many of them. One amusing tale is told by Stewart Leech:

"... but I can remember Lou on one occasion wandering down the corridors and he hadn’t seen one of the tutors around for a while. The tutor was finishing his Masters ... and he wandered down the corridor and he said ... ‘is (name deleted) still on the payroll? I haven’t seen him for about six months’. I’ve never forgotten that."

[Leech, 18 April 1991]

TEACHING

It was characteristic of Goldberg that when occupying the Chair of Accounting, he took virtually a full teaching load despite the burdens of being head of department. His colleagues characterize him as being respected by his students, with better students, particularly those of honors class, appreciating him more than the average pass-level student. This is said to be true because of his more philosophical and theoretical approach to the accounting discipline. His teaching always reflected his
abiding interest in attempting to understand and convey the theory and philosophy underlying accounting practice.

When on his first overseas visit to universities in Britain and the United States, Goldberg had the opportunity to compare their accounting education systems with Australia. His impression at that time of British university accounting courses was that they were “relatively backward”. American academic accounting education impressed Goldberg. He felt that Australia had a good deal that could be learned from it. He was impressed by the relatively informal relationships that developed between students and instructors in American universities and by the publishing efforts of US faculty. He also felt that there were interesting people with whom he could talk and share common interests.

Later visiting academic appointments included the Baruch School of Business Administration in New York (1963), University of Auckland (1967), and University of Florida (1970). At Baruch, Goldberg insisted on teaching a graduate theory seminar course which he recalls some students enjoyed and others found difficult. In the business school environment, he noticed a greater affinity amongst accountants for business rather than the more economics orientation to which he was accustomed at Melbourne University. He found academic accountants highly attuned to the world of business and, indeed, found very few with whom he could share his particular view of accounting. Essentially, Goldberg found that the US view of theory in accounting was largely CPA regulation dominated. This diverged significantly from his view of accounting theory and limited the amount of intellectual interaction which he felt able to derive from his US colleagues in this area. Thus, at both Baruch and Florida, Goldberg was involved in the teaching program and met a range of US academics, but pursued his own research studies and interests on a relatively independent basis.

At the University of Melbourne, always well prepared for classes, his lectures in particular were characterized by a slow form of delivery where the key points he was making were often punctuated by pauses, almost as if he was carefully thinking things through as he conveyed them to the students. Indeed, in tutorials, his technique of pausing was even more pronounced. This appears to have been a technique designed to encourage students to respond to the issues being raised. Goldberg was always concerned to probe the depths of student understanding and to encourage students to discuss, and indeed to disagree on
issues to the fullest extent possible. He did not automatically answer student questions in the most straightforward manner, but preferred to cause the student to reflect on why the question was being posed and the circumstances surrounding the issue, before considering what response might be appropriate.

While considered by some of his colleagues to be a man of considerable wit and humor, he did not readily display this quality in his undergraduate lectures. Some have attributed this reserve in lectures to his shyness, others to the lesser opportunity than afforded in small group seminars. Goldberg was neither a charismatic nor flamboyant lecturer. His interest in theoretical and semantic issues was not readily appreciated by any but the brighter undergraduate students. Nevertheless, some of his colleagues and past students recall the logic and clarity of his lecture presentations. As Stewart Leech recalls of an undergraduate lecture on trust accounting presented by Goldberg:

"The topic of trust accounting is not exciting . . . and I don't think Lou made it exciting but he did develop the story very well. He turned what I think is a relatively dull topic not into something very exciting but something very understandable."

[Leech, 18 April 1991]

There seems to be a unanimous opinion among his colleagues that Goldberg was at his best as a small group seminar leader in more advanced accounting topics. Geoff Burrows recalls Goldberg's 1961 Accounts III class as having almost an Oxbridge flavor. It involved students in a considerable weight of reading in theoretical aspects of accounting. This moved students from a technical orientation of the subject towards a more intellectual appreciation of the conceptual ideas involved. For this reason alone, Goldberg held much greater appeal for the intellectual type of student.

In the small group seminar setting, he was adept at recalling the names of participants after only a few initial sessions. Yet in those seminars, he mostly remained unobtrusive. His style of tutoring was to listen quietly to the student discussion, and only to make comments intermittently. It was not his practice to confront or demolish particular viewpoints presented by seminar participants. Indeed, students could present their varying interpretations of a paper that had been set for reading without Goldberg indicating his agreement or disagreement with them. He tended to facilitate student debate rather than imposing his
own views on a class. Nevertheless, he would intervene if he felt that the issue under discussion needed qualification or elaboration. Thus, Goldberg might direct discussion a little, but he would never force a particular conclusion or view. Just as he never identified himself as “a replacement cost man” or a “current purchasing power man” in his research activities, so he avoided such typecasting in the classroom. As a supervisor of research students, he was at all times willing to assist them if they called upon him. In general, however, he was content to leave them to work at their own pace without much intrusion on his part. His approach to supervision was therefore somewhat passive. Consistent with his own research habits he expected a considerable degree of self-motivation and independent work in his students.

RESEARCH

In his early years as lecturer at the University of Melbourne, Goldberg was one of only a very few members of staff engaged in academic writing. Indeed, the majority of Goldberg’s writing throughout his career at Melbourne University was sole-authored. This tendency may have in part reflected his own particular philosophical interests and in part been a reflection of his more solitary interests as a child. It also may have been a function of conditions in the early years of his academic career as well as his industrious disposition. It must be remembered that he was one of the small number of full-time academic accountants in Australia, with an even smaller number of these involved in research and writing. In addition, such assistance as travel, telecommunications, word processing and photocopying were not as available then as they are today. This restricted consultation or co-authorship with peer academics in other parts of Australia or overseas. When preparing material, he did seek the advice of colleagues at Melbourne University, particularly once they had built up credentials, based on his impression of their ability to provide useful comment.

Personal Perspectives

Goldberg was primarily attracted to the study of financial accounting. Although he had wartime experience in government accounting, he felt that he was not in a position to introduce the study or teaching of that area on a proper scale. In relation to management accounting, he felt that while it was quite fashion-
able at the time, the issues being addressed and discussed did not seem to him to be particularly profound. He was attracted to financial accounting because he felt that it posed deeper philosophical and intellectual problems. This concern is reflected in his work right through to the present day and can be found, for example, in his entity theory chapter at the conclusion of his history of the AAANZ (Appendix A, 1987).

"The problem of the enquiring student of these matters is to try to penetrate the veil of abstraction, generalization or collectivity and examine what human beings have done and the results of those actions. It is this which would approach realism, and it is this which, intellectually, accounting theory is concerned with. It is in this way that accounting history can make a contribution to accounting theory, and it is in this way that accounting theory can make a contribution to social knowledge."


The above-quoted final paragraph from Goldberg's (1987) *Dynamics of An Entity* gives an immediate insight into his philosophical approach to accounting. Goldberg has consistently demonstrated a concern for accounting as language, art and logic, always reflecting its history and interacting with its social context.

"For an accountant in the fulfilment of his complete functions is something of a historian, something of a linguist and interpreter, something of an artist, but chiefly a logician.

[Goldberg, 1957, p. 17]

Indeed, Goldberg has regarded the accountant as being distinguishable from the bookkeeper by virtue of his or her ability to analyze the business accounts produced by the bookkeeper and "supply the 'philosophical explanation' which lies behind the final results shown" [Goldberg, 1948, p. 26]. To Goldberg [1948, p. 172], accounting is both science and philosophy. What might constitute good accounting, in his view, will only be ascertainable from the development of a coherent general theory of accounting from which criteria can be derived [Goldberg, 1965]. Meanwhile, the standards of conduct and practice which accountants seek to follow, in Goldberg's view reflect and express their philosophy of life [Goldberg, 1965]. Thus for Goldberg, accounting has been first and foremost a philosophical pursuit.
History has always been a primary vehicle in Goldberg's thinking about accounting. His view is best reflected in his reply to the economist Jevons's philosophy that in commerce, by-gones are forever by-gones. Taking a contrary position, Goldberg quoted Bergen Evans' opening to his book *The Natural History of Nonsense*, that "We may be through with the past, but the past is not through with us" [Bergen Evans, 1947, p. 11 - quoted in Goldberg, 1960, p. 119].

Goldberg often devoted his first one or two lectures in a course "to a rapid and potted outline of the history of accounting". He also published a series of 4 articles on "The Development of Accounting" in *The Australian Accountancy Student* in 1949 and an article on "Some Early Australian Accounting Records" in *The Australian Accountant* in 1952. The latter was based on archival research that he conducted in the Mitchell Library, Sydney. He continued his interest in accounting history during his first sabbatical leave period in 1955. At that time, he had just produced a review of a book on accounting history by Eldridge and during his sabbatical period travelled in Italy as well as studying a manuscript in London by Jeremy Bentham on which he subsequently wrote a paper (Appendix A, 1957).

Goldberg developed the view that one really could not understand present day institutions and practice without some knowledge of how they had come to be. He became convinced that to understand the economic world of today, one had to know something about the way it had developed. This belief has been reflected in the historical dimensions that have appeared in his writings from time to time. For example he traced the notion of depreciation back to Vitruvius, the Roman writer on architecture at the time of Augustus Caesar [Goldberg, 1960, p. 5] and his AAA monograph referred to ancient and medieval accounting history [Goldberg, 1965, pp. 27-31]. His record of publications also clearly evidences a significant number of accounting history studies and writings that he himself directly undertook, including writings on Australian accounting education, John Scouller, John Colt, and AAANZ (Appendix A and B, 1949, 1956, 1976, 1977, 1981, 1982, 1985, 1986, 1987, 1991).

**Building Contacts and Momentum**

A large part of Goldberg's academic career, particularly in the 1950s, took place when academic accounting colleagues working in Australian universities and colleges were small in
number and when access to travel to overseas institutions was still relatively limited. Encouraged by Professor Fitzgerald, Goldberg applied for overseas travel grants a number of times, finally being successful in obtaining a Rockefeller Foundation Travelling Fellowship in 1955. This allowed him to travel to Britain and the United States. In London he had meetings with academics such as Solomons and Baxter and also attended a meeting of the Association of University Teachers of Accounting. It was while in London that he discovered a manuscript written by Jeremy Bentham on bookkeeping, and spent considerable time trying to decipher it, subsequently writing a research piece on it after his return to Australia. While in the UK, Goldberg also travelled to Scotland and a number of other English locations.

From the UK, Goldberg travelled to New York and spent some time at the University of Michigan at Ann Arbor. From there, he moved to the University of California at Berkeley where he had the opportunity to see some of Hatfield's papers and spent considerable time reading in the university library. Goldberg states that part of his attraction to Berkeley was the expected presence of Perry Mason, who by the time Goldberg actually arrived was in New York directing research for the American Institute of Accounting (later to become the AICPA). However, Goldberg did meet Mason in New York during his visit there. Mason's exit from Berkeley left Moonitz and Vance as the leading figures at that institution. At Berkeley, Goldberg met H.R. Anton and also George Staubus who had moved there after studying under Vatter at Chicago.

Between the years 1958 and 1973, Goldberg's accounting research interests and activities intensified. He regarded his major works as analytical rather than empirical and was trying to figure out or understand the very basics of accounting. Goldberg states that he "was trying to get down to the basics of theory". While he did not feel that he came up with a coherent explanatory theory overall, he felt that he might be able to provide some conceptual foundations for various points that he had put forward. This is consistent with his contention that if there were such a thing as truth in accounting, its discovery would be a slow intellectual exercise. Such a view reflected the philosophical style of his own research which placed considerable importance upon logical argument. Goldberg's philosophical and analytical ability is best summarized as follows:
"I think Lou has an ability, had an ability and still has an ability, to get down to a level of abstraction in accounting that I haven’t seen in a lot of people.”

[Leech, 18 April 1991]

Notable Contributions

In terms of “technical” aspects of accounting theory, Goldberg’s writings cover an array of subject matter including the accounting equation, depreciation, the theory of equities, financial statement preparation, form in accounting (i.e. reporting format), measurement, profit and valuation. Both Goldberg and his colleagues generally regard his American Accounting Association monograph *An Inquiry into the Nature of Accounting* (Appendix A, 1965) as his most significant major piece of published research. Goldberg suggests that it became better known in the USA than in his home country, Australia. In this monograph, Goldberg expounded his “commander theory”. While entity theory considered the accounting unit as something separate and distinct from the proprietor, proprietary theory required all events to be accounted for from the view of the proprietor(s). Goldberg [1965] saw entity theory as something of a fictional nature and proprietary theory as something difficult to apply to partnerships, trusts and governments. However, he did not see them as completely incompatible. Fund theory held no great attraction for him either. Instead, he proposed the commander theory in which accounting functions are carried out for and on behalf of commanders. Accounting analysis was to be undertaken so that commanders of resources could make reasoned decisions. Thus Goldberg sought to focus accounting attention upon people and events rather than trying “to force people’s activities into a mould shaped for a shadowy entity, which may be a convenient legal or social fiction but is nevertheless an unreal and incorporeal chimera...” [Goldberg, 1965, pp. 167-8].

Goldberg [1965, pp. 162-174] saw entity theory and proprietary theory as both fundamentally based on the concept of ownership. In his view, ownership is a “nebulous concept” that is “extremely difficult to define and analyse in any way suitable for use as a basic accounting notion”. However Goldberg argued that ownership of resources is sometimes, but not always, accompanied by effective economic control of those resources. Instead of personifying the corporation as a pseudo-human entity, Goldberg argued for a focus on the person or small group of
persons who have economic control (or "command") over resources. Accounting therefore focuses upon the "commander" of resources rather than "artificial abstractions" such as an entity or fund. Recognising the divorce between ownership and management in the corporation, Goldberg argued that the chief executive officer exercised the role of commander whereas owners (i.e., investors) could not control the corporation's resources. Goldberg also defined commanders as trustees of an estate, liquidators or trustees in bankruptcy, the receivers appointed by creditors of a firm, heads of government departments and even presidents of clubs. On this basis, accounting functions are carried out for and on behalf of commanders, to assist them in decision making and control.

Thus for Goldberg, the accountant should account from the point of view of whoever initiates the events that he records. To whom the accountant reports is therefore less important. Rather the emphasis falls upon what the accountant reports — i.e., what the commander has done. The balance sheet therefore moves from being a statement of "values" owned and owed, to being a statement of the commander's stewardship of the resources with which he/she has been entrusted. Thus from the commander theory perspective, the balance sheet becomes "a statement of accountability, with the manager in a quasi-fiduciary role" [Goldberg, 1965, p. 171]. The profit and loss statement expresses, from the commander's point of view, the types of expenditure that he or she, as manager and custodian, has incurred and with what result.

Goldberg argued that commander theory does not destroy either the entity notion or the proprietary theory, but can be used to reconcile the two. The entity (though notional) is significant for the commander but not the proprietor. The proprietor (e.g., shareholder) is primarily concerned with shareholders' funds and dividends. The commander is concerned with total resources. Accounting for the entity is therefore for the information of the commander. Thus, Goldberg argued, commander theory filled a gap left by proprietary theory.

with V.R. Hill. It was first published in 1947 with second and third editions appearing in 1958 and 1966 respectively. A third edition with amendments was published in 1968. He regards this work as significant because it was based primarily on his own philosophy of accounting. At the time of its first publication, it adopted an approach to accounting not common in other available texts. In contrast to the procedural journal-to-ledger approach, it based its instruction upon the accounting equation.

It is a matter of record that Goldberg was a leading publisher of articles and books on accounting in the post World War II period in Australia. During that period, the accounting literature in Australia experienced a notable upsurge in quantity. Inspection of Goldberg's publishing record (Appendix A) reveals his significant contribution to that movement. This record of research achievement was recognised by the University of Melbourne by its awarding him the degree of Doctor of Literature in 1967.

Contrasting Concerns

For Goldberg himself, and in his attitude to fostering research among his staff, research in accounting was an intensely personal occupation allowing for multiple interests and perspectives across a range of academic colleagues. He deliberately set out not to impose his own ideas on his colleagues. If, by independent study and thought, they came to some similar theoretical conclusions to himself, then he regarded that as "a personal bonus". Goldberg contends that his philosophy of promoting independence of thought among colleagues was based on a personal principle of "respect for the individual's individuality".

Two other aspects of Goldberg's approach to research are worthy of note. The importance of clear and effective communication and the concept of accounting as an important communication vehicle has been a consistent theme underpinning Goldberg's work. To him, accounting is a narrative of events that have taken place [Goldberg, 1948, p. 26]. He has called in the past for attention to meaning and uniformity of accounting terminology [Goldberg, 1948], and has often first analyzed the meaning of terms employed at the outset of a study of a particular topic. Such an approach is evident in his study of depreciation [Goldberg, 1960]. Without clarity and agreement on accounting terminology, Goldberg has argued that communication failure will invariably result. In a broader sense, he has also
argued that the more intelligible an accounting statement is, the better it serves the purpose for which the reporting was undertaken [Goldberg and Hill, 1958, p. 9]. The communication dimension of accounting was so important to Goldberg that he devoted the entire final chapter of his AAA monograph [Goldberg, 1965] to this subject.

Goldberg's communication interests have extended to his own preoccupation with language, terminology, punctuation and semantics. As a writer, he has been very particular about such matters, almost in contrast to the deep philosophical concerns of his subject matter. This has earned him a reputation among his peers (and supervisees) for precision and scrupulous attention to detail. It has also at times caused him a degree of frustration with alterations to his manuscripts made by editors. Goldberg's concern for language, terminology, punctuation and semantics has in part sprung from his longstanding love of books and literature. It also stems from his longstanding conviction that communication is a vital process. In his view, the message sender has a duty to make his or her message as clear and understandable for the message recipient as possible. Therefore, he considers adherence to the accepted rules of language and semantics to be an important responsibility of all communicators. One further influence stimulated Goldberg's concerns in this regard. His "respect" for language and literature began in his intermediate year of secondary schooling from the teaching of his English teacher for whose expertise and teaching ability he had a very high regard. Subsequently, this respect "accumulated and developed" throughout his working life, and remains today.

The second aspect of Goldberg's research presents another potential contrast. When in teaching mode, as remarked upon earlier, Goldberg has always been careful not to impose, or even reveal his views on particular accounting issues under examination or discussion. His approach to writing has largely been quite different. When putting his ideas down on paper, his view is expressed quite clearly and the perspective he is adopting is similarly enunciated. Indeed, it is arguable that his work has become increasingly critical over time, although critique has always been a feature of his work.

One further aspect of Goldberg's commitment to research deserves mention here — its consistency of effort. Few accounting academics can lay claim to a continuous stream of publications since formal retirement. In Goldberg's case, since formally
retiring from his position as head of department at the University of Melbourne at the end of 1973, he has for almost 20 years, maintained a regular output of published work, as well as occasional teaching, manuscript refereeing and advice to other authors. He has displayed a commitment to our discipline that few, if any, may be able to match.

A MORE PERSONAL PORTRAIT

Without exception, Goldberg's colleagues interviewed for the purpose of this study regard him as an intellectual gentleman. He appears to have been very much the broad-minded philosopher in the accounting domain. Colleagues tended to see him as a gentle, kindly and pleasant person who was always willing to see the other side of the argument. Indeed, at times, some may have considered him to be too gentle for his own good.

Colleagues have characterized Goldberg as a relatively quiet and shy individual who was sometimes misinterpreted as standoffish and severe by those who did not know him well. For example, some colleagues point to his invitations to visit his home for a discussion of some accounting issue of interest to him. Peter Brownell recalls:

"... even back then I remember going to his house a few times and he is always a good host, enjoying a good time. But a good time for him always had a squally component to it. He has relished a cerebral debate and the scope of disagreement was always important. So you could immediately intimidate Lou by taking outrageous positions and drawing into a fun discussion and he would welcome that. He would almost ask for that."

[Brownell, 7 April 1992]

Stewart Leech has similarly attested to Goldberg's discussions about insights into accounting issues in his study at home. While Goldberg's forte has been conceptual rather than practical, Leech has remarked that:

"... I still go away inspired and I go away usually with a page full of drawings. I go away and think, 'well that's a good research issue' ... I still go away inspired every time I go to have a chat with him."

[Leech, 18 April 1991]

A further dimension of Goldberg's personality, not always evident to those less familiar with him has been a keen sense of
humor. George Findlay recalls receiving a letter from Goldberg in the 1940s containing some blank verse replete with financial jargon. Goldberg later revealed to Findlay that he and a colleague had cut up a series of public sector Treasury regulations and Companies Act extracts, drawn the pieces out of a hat and constructed the verse. Goldberg admits that this prank was inspired by a much publicized literary hoax that took place in Australia around this period. Two Australian poets extracted pieces from various published literary works, assembled them into a poem and published them in a respected literary journal under the pseudonym "Ern Malley". After the poem won academic plaudits, the authors confessed to their hoax. Professor Goldberg has kindly provided the text of his blank verse. It is reproduced here.

SUPPLEMENT — MCMXLIV

Caretakers, cleaners, watchmen
and Lavatory attendants!
After the second front, suppose I retire?

The evils of anticipating and guessing, Treasury
journal entries must be prepared.
A shirt worn by soldiers over their armour
(They dare not declare themselves openly)
But they use smoke screens.
D' dah dah d’d’dit dah d’dah dit!

The Empress appeared but very rarely
To Facilitate the direct journalisation.

Lose a job - owe nothing!
Casus belli! Ecce Homo!

Will the powers help me to get the house I need?
Then wear your button on your vest or shirt —
Inflammation of the eye-lids; double crested, said of teeth —
The concept of accounting!
I entered the ring with a sinking heart,
The whole of the lag was cancelled
And the monthly totals inserted —
Dead Letter!!!
What is provisional tax?

Great Caesar's Ghost

Towards the end of his service with Department of Air, Goldberg assembled a set of humorous chapter headings for a
possible book on his experiences there. The proposed title for the book was *Something Must Be Done*, subtitled *Let's Call a Conference*. This referred to the plethora of meetings required of personnel in that department. This may again provide a clue to Goldberg's attitude about meetings during his academic career. Geoff Burrows also recalls his witty remarks when chairing conference sessions and on other occasions such as in response to a student who said he couldn't remember whether Sir William Angliss (an Australian corporate director) was 80 years old and on the boards of directors of 60 companies, or 60 years old and on the boards of directors of 80 companies. Goldberg's response was that clearly Angliss could be described as a going concern.

Consistent with his love of literature and philosophy has been Goldberg's love of language and his attention to the use of language in both his own writing and those of colleagues who sought his advice. Indeed, he is known as a meticulous proof reader, even sometimes to the extent of turning texts upside down or reading lines backwards. His careful attention to language has also been consistent with his careful attention to logic and argument. He has not been an academic who is prone to make changes in opinion or argument quickly but is seen by his colleagues as one who is fairly slow to change but is prepared to try to change philosophical views after thorough consideration, careful analysis and argument.

Goldberg and his first wife, Myrtle, had one daughter. Myrtle died in 1969 after a nine-month (approximately) battle with cancer. He met his second wife, Jean, when in hospital recovering from his first heart attack, and married her in 1972. Outside his home and family interests, his concerns were dominated largely by university and university-related activities. He joined a golf club for a few years and while having some fun, claims to have had little success as a golfer. In his younger days, he had done some cross-country running. Characteristic of his own personal style is a quotation from Goldberg's own discussions with the author:

"I'm not a very good socialite — I'm much happier in a small group discussion".

[Goldberg, December 1986]

It should also be remarked that Goldberg has had several personal hobbies that continue today. These include bookbinding, making humorous assemblages of "found objects", gardening, and writing limericks and other humorous verse. They pro-
vide a unique insight into the varied facets of Goldberg's character not immediately apparent to the casual observer.

One consuming interest for Professor Goldberg has been his lifetime pursuit of collecting antiquarian books. Goldberg's recollection of how he began collecting says much of his own particular characteristics:

"If I go back many years, when I finished my schooling, I found I couldn't get into university. I had it in my mind that I was finished. I went along to a second-hand book dealer and the prices that he gave me were so miserable. I didn't have the nous to refuse him but I made up my mind that I would never sell another book. And I never have done."

[Goldberg, December 1986]

Today, his collection is most extensive and covers the subject areas of accounting, history, philosophy, science and literature. Some of his material extends back several centuries. While he has not counted the number of volumes that he has collected, he considers his collection to number close to 3000 volumes. His accounting books and books on closely related subjects number approximately 1000 and must rank as the most significant private collection of early accounting texts in Australia. Thus Goldberg's love of books and literature have stayed with him in a very real sense from his earliest childhood.

Goldberg argues that he has tried to teach people to participate in their education and to think things out for themselves. He believes that the future of our type of community is bound up with the sort of education it gets and that the greater the number of people who can think independently and see through some of the propaganda with which we are presented, the greater chance human nature will have of a reasonably successful future. He sees the greatest strength of accounting education as being the opportunity it gives to educators to be involved in this process and at the same time its greatest weakness is the proportion of educators who do not perceive this opportunity. The latter group he sees as examining students on what they have absorbed rather than on their ability to think for themselves. Goldberg believes that accounting research requires a dispassionate examination of the significance of accounting's features and functions without a vested interest in relation to some particular sections of the community. He views accounting as broadly a social function that must be carried out in
society. He therefore sees it as having significance in a social sense and this role and significance, in his view, require further exploration.

"And yet it can be explored dispassionately by people who are prepared to follow the trail wherever it may lead. We might (then) see something more clearly than we do at present".

[Goldberg, 1986]

A SINGULAR ACCOUNTING PHILOSOPHER

From this albeit brief examination, Goldberg emerges as a person of academic and scholarly predisposition right from childhood. His commitment to study and learning and his involvement in university life has been a lifetime pursuit. It might fairly be said that he stands first as an academic and second as an accountant.

The Singular Scholar

Overall it might be argued that Goldberg has always been an academic idealist and somewhat of a loner. While such characteristics can never be entirely attributed to any individual, their attribution to him does not cause Lou Goldberg undue concern. For while being an eminently sociable and collegial academic with a ready wit, his early academic background required of him considerable idealism and the ability to carry out his teaching and research with a high degree of self-reliance.

Goldberg's academic profile and orientation have been highly individualistic, with much of his thinking, teaching approach and subjects of research inquiry uniquely reflecting his disposition to be sole author. The roots of this appear to be several — a fairly solitary childhood, his early days as the sole full-time accounting lecturer at Melbourne University, and his earlier academic experience in a relatively fledgling, and hence isolated Australian academic accounting environment. Consistent with his own voyage of self-discovery, he emerges as the collegial yet laissez-faire academic facilitator and counsellor - encouraging others to find their own particular path, as he has done.

In more specific terms, there are arguably a variety of relationships between Goldberg's own characteristics and past environment and his activities and style of working. His careful su-
pervision of teaching in his department, including scrutiny of lecture outlines and draft exam papers, may well have been the product of his early experience as the sole full-time accounting academic at Melbourne University with the accompanying heavy teaching preparation and administration responsibilities. It also may have been a result of his early foundation work in assisting with the development of the teaching program and the department. This may have engendered a sense of “ownership” of the program, and hence led to his desire to maintain supervisory control. Goldberg’s early experience as the sole full-time accounting academic at Melbourne University also may have contributed to his commitment to maintaining academic freedom amongst his staff and to his preference for sole authorship.

Goldberg did travel to US and UK universities in the 1950s and 1960s but continued to conduct his research and writing largely as a sole author resident in Australia. This ostensible paradox might best be explained in two ways. His UK experience in the 1950s left him with an impression that British academic accounting lagged behind its Australian counterpart. While he was more impressed with US academic accounting, he found US accounting academics more focussed upon business management than suited his more economics-based theoretical orientation. Hence he continued to pursue his own unique theoretical research.

There were several academics in Australia whom Goldberg respected and of whose views he took note, but in his view no particular individuals stand out as having been major formative influences on his research and writing. Certainly he benefited from the encouragement of Alex Fitzgerald. One particular benefit was Fitzgerald’s editorship of *The Australian Accountant* which Goldberg argues was raised by Fitzgerald almost to the level of “being a learned journal” and well disposed towards publishing good Australian articles. Nevertheless, Goldberg’s record stands as one of an individual and innovative accounting researcher who developed his own particular direction and style of research. This was doubtless fertilized by his contacts with colleagues in Australia and overseas. As one of his colleagues put it, Goldberg pursued conceptual and historical research almost as a sort of solitary vice. With respect to research, Goldberg could be said to be very much “his own man”, generating and pursuing his ideas with an almost personal style but with great philosophical and intellectual strength. His contribu-
tion clearly stands as one of an original founding Australian accounting thinker.

**A Catholic Philosopher**

What has marked Goldberg as unique in Australian academic accounting is his catholic view of accounting and his analytical, philosophical approach to accounting research. He has encouraged a multiplicity of theoretical perspectives and consequent debate among his students and colleagues. Consistent with his concern for conceptual development and careful theoretical argument, has been his preference for and expertise in the Socratic teaching method. Consistent with his catholic approach Goldberg would not “snuff out” a new or opposing idea but would sometimes point people in the direction of further materials to facilitate their progress on the issue. Thus he did not attempt to carry his colleagues along with his own particular academic or educational attitudes. He is well respected by his colleagues as a facilitator of theoretical discussion and debate among small groups of senior students or in individual discussion with fellow researchers.

Goldberg's undergraduate studies in economic history, European history, psychology, logic and ethics, and later in logic may well have influenced his ongoing philosophical and historical research style. In turn, his philosophical style of research interests also appear to have permeated his teaching and leadership styles. Thus, his preference for influencing others via reasoned and logical agreement and his preference for smaller, higher level undergraduate (and honors/postgraduate) classes is a likely product of his philosophical, Socratic style. Goldberg's catholic view of accounting issues also appears to have to some degree influenced his avoidance of promoting any particular accounting school of thought among his colleagues and his preference for acting as a laissez-faire facilitator rather than proactive director of his colleagues' work.

By way of further evidence of his catholic accounting interests, Goldberg has been a leading Australian accounting history scholar. This interest may also have been stimulated by his undergraduate history studies as well as his interest in collecting antiquarian books. There also appears to have been a distinct relationship between Goldberg's lifelong love of books and literature and his concern with language and semantics in his writing and the drafts of others he supervised or refereed.
Thus Goldberg's catholic theoretical approach to accounting education, his philosophical style of research and teaching and his interest in accounting history all appear to have their genesis in his undergraduate studies. His early subject choices were clearly varied and strongly oriented towards economics and the humanities. His choices of subject matter, analytical method and theoretical perspectives show discernible reflections of those earlier studies.

Socratic Mentor

Overall, Goldberg's leadership style could also be termed Socratic. His preference was for sitting back and contemplating issues; he tended to lead others towards that approach. Thus, if a person chose to take no personal initiative, then personal inactivity was most likely the result. If, however, a person developed particular interests or academic activities, then Goldberg was supportive of that pursuit. While Goldberg held strong beliefs in academic excellence, he chose not to expound or push "one true way" in terms of accounting theory or research methodology. His influence over others was accomplished more by sustained reasoned argument, unemotionally but consistently applied.

Every individual is endowed with both limitations and strengths and Louis Goldberg is no exception. In some respects, it might be argued that his preferences and personal style did not always lend themselves easily to a team management approach to academic leadership. Comfortable as a sole author and with philosophical discussion at a "one-to-one" level, he was content to adopt a laissez-faire style of managing his department. This penchant, together with his aversion towards University politics, may have contributed to a somewhat understated profile for his department as a whole. Rather, certain individuals emerged as enjoying a reputation in Australian or Victorian accounting academia. Certainly Goldberg did not seek to build a particular national or international profile for his department. Nor did he deliberately seek to "breed" prominent academic leaders from among his staff, although a number of notable Australian university accounting professors have emerged from this period of tenure at the University of Melbourne. These include:

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<td>Allan Barton</td>
<td>* Macquarie, Australian National University</td>
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</table>
It has not been Goldberg's style to actively promote himself or his particular theoretical concepts. Rather, he has been content to analyze, debate and ultimately publish his arguments and findings, leaving the reader to judge and accept or reject his ideas. Goldberg's published research has made its impact solely according to the individual merits of each book or article rather than through an accumulation of mutually reinforcing papers, seminars, conference presentations and related publications by scholars of his school of thought. To some extent, this may have moderated the penetration and pervasiveness of his ideas in the accounting literature. Thus, it might be argued that some of his concepts and perspectives await rediscovery by the next generation of accounting researchers.

Goldberg's leadership and teaching style — that of the Socratic mentor and facilitator, owes much to his somewhat solitary childhood, his assumption of sole responsibility for accounting in the first firm in which he was employed, and his early career at Melbourne University when he was the lone full-time accounting lecturer. This in part explains his propensity for teaching small groups of students or engaging in discussion and debate at a one-to-one level. A further contribution to his Socratic and thoughtful style of teaching and interaction also appears to have been his philosophical, historical and generally multidisciplinary undergraduate education. Here lies an intersection between the catholic philosopher and the Socratic mentor — a teacher, researcher and leader concerned to analyze and justify theories and policies, accepting of diversity in approaches and rationales, and a facilitator and encourager. Such preferences may in part explain his lack of relish for university politics, his aversion to promoting a particular school of thought, and his more reactive style of leading his colleagues — responding and facilitating interested individuals rather than seeking out and importuning staff.

Two particular impacts of Goldberg's preference for Socratic mentorship are apparent. First, those of his colleagues in his department at Melbourne University who achieved success and rose to prominence, did so as a result of their own
initiative but with his accompanying support. Personal initiative of the individual academic was a prerequisite to securing Goldberg’s attention and facilitation. Second, Goldberg’s theories and arguments relied entirely upon their internal logic and coherence to win reader approval. Unlike other leading accounting academics of national and international repute (e.g., Professor Ray Chambers at the University of Sydney), Lou Goldberg did not proselytize his own particular view of accounting theory via such means as papers, speeches, student teaching etc. He preferred to remain open to competing theories and alternative perspectives and to place his ideas in a selected publication, leaving others to consider and accept or reject his arguments. These two impacts of Goldberg’s Socratic mentoring preferences could be perceived as entailing both advantages and disadvantages. However, just as Lou Goldberg would have it, that is a judgment to be properly left to the reader.

AN AUSTRALIAN ACCOUNTING FOUNDER

As stated at the outset, this study presents a personal portrait of a founder of Australian academic accounting and at the same time a significant Australian contributor to the international accounting literature. His idealism and independence have been his ongoing strengths, evidenced in his philosophical and reflective writings, his principles of academic independence and scholarship, and his continued stream of publications long after his formal retirement from full time duties at the University of Melbourne. Professor Goldberg has distinguished himself as a highly literate and philosophical gentleman who has adopted his own unique, individual perspective and style of academic teaching and research. Not only is there much in these observations of his life that illuminate his work and approach to that work, but at the same time there is much that reveals the significance of the contribution of a pioneering academic who of necessity operated in a relatively isolated environment, building accounting to its initial academic status in the Australian university system.

That one such individual should, at the same time as developing new programs, bearing full teaching loads, and administering a fledgling department, also produce such an array of significant research and publications in his field, stands as testament to the total commitment that Professor Goldberg has given to his chosen profession. The heritage that he has established
for Australian accounting, in both professional and academic circles, will be of lasting value. This personal portrait provides an insight into the shaping forces, environmental conditions and personal dimensions of that contribution. It is only fitting that this account of Louis Goldberg should allow him to have the last word:

"Thus the study of accounting, if entered upon with the correct attitude from the beginning, is a powerful factor in the development of a logical and searching outlook upon all things. Viewed in this light, accounting becomes more than a study, something more than an art; it becomes a science; it becomes a philosophy."

[Goldberg, 1948, p. 172]

BIBLIOGRAPHY

APPENDIX A

BOOKS AND ARTICLES AUTHORED BY LOUIS GOLDBERG

(Extracted from Kerr and Clift, 1989, pp. 297-309)

Books and Articles

1935

1939

1940

1941

1944

1946

1948
Contributor: *Intermediate Accounting* (Ed. A. A. Fitzgerald)

- Ch. 1 Classification in Accounting pp. 1-7.
- Design of Accounting Systems pp. 8-25.
- The Presentation of Accounting Reports pp. 26-51.
- The Funds Statement pp. 52-63.
- Provisions and Reserves pp. 64-88.
- Depreciation (with L. H. Dillon) pp. 123-161.


1949


**1950**


**1951**


**1952**


A Distinction Between “Profit” and “Income”, *Accounting Research*, April, pp. 133-139.

**1953**


**1954**


Contributor: Accounting Stage I, (Ed. A. A. Fitzgerald)

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<tr>
<th>Ch.</th>
<th>Classification in Accounting</th>
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<td>2</td>
<td>Design of Accounting Systems</td>
<td>pp. 8-25.</td>
</tr>
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<td>3</td>
<td>The Presentation of Accounting Reports</td>
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<td>4</td>
<td>The Funds Statement</td>
<td>pp. 52-72.</td>
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<tr>
<td>5</td>
<td>Provisions and Reserves</td>
<td>pp. 73-97.</td>
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<td>7</td>
<td>Depreciation (with L. H. Dillon)</td>
<td>pp. 130-168.</td>
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<td>11</td>
<td>Company Accounting (with V. R. Hill)</td>
<td>pp. 231-264.</td>
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<tr>
<td>20</td>
<td>The Elements of Auditing</td>
<td>pp. 448-455.</td>
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</table>

Butterworths, Sydney.


**1955**


1956


1957

Contributor: *Fitzgerald's Accounting Stage I 3rd Edition* (of "Intermediate Accounting") Editor: Sir Alexander Fitzgerald

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<th>Ch.</th>
<th>Title</th>
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<tr>
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<td>Classification in Accounting</td>
<td>1-7</td>
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<tr>
<td>2</td>
<td>Design of Accounting Systems</td>
<td>8-25</td>
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<td>3</td>
<td>The Presentation of Accounting Reports</td>
<td>26-51</td>
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<td>4</td>
<td>The Funds Statement</td>
<td>52-72</td>
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<td>Provisions and Reserves</td>
<td>73-97</td>
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<td>7</td>
<td>Depreciation (with L. H. Dillon)</td>
<td>130-168</td>
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<tr>
<td>10</td>
<td>Partnership, Joint Venture and Consignment Accounting</td>
<td>193-230</td>
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<td>Company Accounting (with V. R. Hill)</td>
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<td>Elements of Auditing</td>
<td>448-455</td>
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</table>


1958


1959


1960

Contributor: Fitzgerald's Accounting, Revised 3rd Edition (of "Intermediate Accounting") Editor: Sir Alexander Fitzgerald
Ch. 1 Classification in Accounting pp. 1-7.
2 Design of Accounting Systems pp. 8-25.
3 The Presentation of Accounting Reports pp. 26-51.
4 The Funds Statement pp. 52-72.
5 Provisions and Reserves pp. 73-97.
6 Depreciation (with L. H. Dillon) pp. 130-168.
8 Company Accounting (with V. R. Hill) pp. 231-264.
9 Elements of Auditing pp. 448-455.

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S. Vaidyanath Aiyar Memorial Lectures, The Institute of Chartered Accountants of India, New Delhi, pp. vi, 47.


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The Rest of John Scouller, Accounting History Newsletter, No. 8, Winter, pp. 17-38.

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Dynamics of an Entity: The History of the Accounting Association of Australia and New Zealand, Accounting Association of Australia and New Zealand, pp. vii, 301.

1988
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APPENDIX B
FURTHER GOLDBERG PUBLICATIONS

1991

1994
"Double Entry — An Assessment", (with S. Leech), British Accounting Association Conference and European Accounting Association Conference, 1994.
# APPENDIX C

## INTERVIEWEES

<table>
<thead>
<tr>
<th>Name</th>
<th>Affiliation</th>
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<tbody>
<tr>
<td>Professor Lou Goldberg</td>
<td>Emeritus Professor, University of Melbourne</td>
<td>Various, from December 1986 to February 1993</td>
</tr>
<tr>
<td>and Mrs. Jean Goldberg</td>
<td>Hawthorn, Victoria</td>
<td></td>
</tr>
<tr>
<td>Ms. Jean Kerr</td>
<td>Retired, previously University of Melbourne</td>
<td>December 1988</td>
</tr>
<tr>
<td>Mr. John McMahon</td>
<td>Consultant</td>
<td>December 1988</td>
</tr>
<tr>
<td>Mr. Chris Warrell</td>
<td>Australian Stock Exchange</td>
<td>December 1988</td>
</tr>
<tr>
<td>Professor Stewart Leech</td>
<td>University of Tasmania</td>
<td>April 1991</td>
</tr>
<tr>
<td>Professor Peter Brownell</td>
<td>University of Melbourne</td>
<td>April 1992</td>
</tr>
<tr>
<td>Mr. Geoff Burrows</td>
<td>University of Melbourne</td>
<td>April 1992</td>
</tr>
<tr>
<td>Dr. Bob Clift</td>
<td>Royal Melbourne Institute of Technology</td>
<td>April 1992</td>
</tr>
<tr>
<td>Mr. George Findlay</td>
<td>Retired</td>
<td>April 1992</td>
</tr>
<tr>
<td>Assoc. Prof. Bob Gibson</td>
<td>Deakin University</td>
<td>April 1992</td>
</tr>
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</table>

## CORRESPONDENTS*

Mr. Garry Carnegie  
Dr. John Courtis  
Professor Lou Goldberg  
Professor Stewart Leech  
Professor Patti Mills  
Professor Bob Parker  
Professor Garry Previts

*Correspondents provided comments and critiques on various drafts of this paper.
ACCOUNTING INNOVATIONS: 
THE IMPLICATIONS OF A FIRM'S 
RESPONSE TO POST CIVIL WAR 
MARKET DISRUPTIONS

Abstract: This study addresses the nature of accounting innovations within the context of the Quincy Mining Company's response to the disruption of the domestic copper market following the Civil War. Primary documentation is used to first define the firm's cost management activities, then to define the characteristics of the firm's internal accounting practices that contributed to these activities. It is argued that, although accounting was a participant in the cost control process, it was a paternalistic social structure that provided the impetus for the firm's struggle to remain profitable.

Nineteenth-century accounting existed in an environment lacking uniform practices and professional standards; each system reflected a unique network of economic, social and cultural influences. Even in today's relatively standardized environment ... we have only a limited understanding of the conditions which provide the possibility for the particular conceptions of the accounting craft, the forces that put accounting into motion, the processes accompanying accounting elaboration and diffusion and the varied human organizational and social consequences that can stem from changing accounting regimes [Hopwood, 1987, p. 207].

In recent years an extensive body of research has emerged that addresses the social and cultural aspects of accounting processes [Hopwood, 1987; Hopper, et al, 1987; Dirsmith, 1986; Meyer, 1986; Burchell, et al, 1980]. Others have explored the accounting implications of more specific social constructs such as rituals [Gambling, 1987], creativity [Hood and Koberg, 1991], religion [Hamid, et al, 1993], and ethics [Cohen, et al, 1993]. Of particular relevance to this paper is the literature concerning the
interaction between management control and social processes [Dent, 1990; Neimark and Tinker, 1986; and Covaleski and Aiken, 1986]. These concepts were operationalized by case studies of organizational and social control processes such as Birnberg and Snodgrass [1988] (a comparison of Japanese and American perceptions of management control systems); Dent [1991] (organizational change in an English railroad); Knights and Collinson [1987] (the disciplinary effects of accounting information and shopfloor culture); and Loft [1986] (early twentieth century cost accounting in the United Kingdom). This paper draws upon, and contributes to, this research by addressing, in an historical context, the nature and causes of accounting innovation.

Johnson and Kaplan [1987] relate the emergence of management accounting practices to the internalization of economic change and the resultant development of large scale firms. From this perspective accounting innovations are directly related to changes in a firm’s management information needs. For example, Chandler [1977, p. 109] studied the emergence of management accounting and control practices in the mid-nineteenth century American railroad companies and concluded that, as the organizational structures and operational planning of the railroads became more complex, the need for accurate information led to

... the devising of improved methods for collecting, collating, and analyzing a wide variety of data generated by the day to day operations of the enterprise. Of even more importance it brought a revolution in accounting; more precisely, it contributed substantially to the emergence of accounting out of bookkeeping.

Others [Hines, 1988; Burchell, et al, 1980; Dirsmith, 1986; Hopwood, 1987] would argue that accounting processes, and the forces that drive them, are more complex and reflect a wider array of social and cultural influences. Miller and O’Leary [1990, p. 480] posit:

Accounting is involved in much more than directly facilitating managerial decisions, indeed its capacity to fulfill such a role and the culturally specific ways in which it is constructed are themselves dependent on particular values and norms invented in specific contexts.

From this perspective an interpretation of accounting innova-
tions must reflect the ways in which accounting interacts with the firm's attempts to define itself and the nexus of relationships that enable the productive processes.

The essence of these perspectives is exemplified by Hoskin and Macve [1988] and Tyson [1990]. While both studies acknowledge that the Springfield armory was able to achieve productivity gains after 1840 as a result of accounting innovations, they disagree as to why these innovations did not occur at an earlier date. Hoskin and Macve [1988, p. 38] contend that accounting innovations, in the form of "the successful integration of piece-rate accounting with a clock-regulated workday, utilizing inspection and incentive schemes", did not occur until an armory superintendent with sufficient knowledge and training was appointed in 1841. In other words, accounting innovations did not occur prior to 1841, even though they were technically feasible, due to the absence of managerial competence. Tyson [1990, p. 50] suggests that other factors, including "skilled labor shortages and labor's resistance to controls, cooperative knowledge and cost sharing among arms makers, and the absence of significant labor decrafting" were more important. From Tyson's perspective accounting innovations were constrained, not by management's ability to use or demand new information, but rather by social and culture norms.

Under the premise that accounting innovations are driven by the need for new management information, which in turn is driven by economic and competitive forces, the Quincy Mining Company's post-war cost reduction program should have resulted in accounting innovations.¹ But there were no significant changes in the firm's internal auditing practices.² Apparently the

¹There are at least two reasons to expect that accounting innovations may have occurred. First, the Springfield armory experience suggests that productivity and efficiency could have been enhanced by increasing the disciplinary potential of the accounting process. Second, McGaw [1985] found that accounting processes in another 19th century firm were supportive of technological advances. Attempts by the Quincy Mining Company, between 1861 and 1877, to alter the technology of the mining process suggest that accounting innovations may have been required.

²This statement is based upon an analysis and review of the accounting system of the Quincy Mining Company between 1846 and 1900. This process included the analysis of all available formal accounting documents such as journals, ledgers, day books, payroll documents, annual reports, and extensive correspondence between the major stockholders and the mine managers. This documentation is located in the historical archives of the Robert Van Pelt Library at Michigan Technological University.
accounting system was sufficient to satisfy the information requirements of the firm's management. By clarifying the financial position of the Quincy Mining Company between 1861 and 1877, then evaluating the characteristics of the firm's accounting practices that made innovations unnecessary, this study will enhance the knowledge of nineteenth-century accounting processes and may serve to inform the ongoing debate between traditional and critical theorists concerning the basic nature of the accounting phenomena [Merino and Mayper, 1993].

The remainder of this paper will first provide an analysis of financial information from the firm's annual reports that were issued between 1861 and 1877. This analysis is used to define the response of the Quincy managers to a post war disruption of the copper market. Next, the accounting based cost management processes used by the firm are defined and interpreted. Finally it is argued that the absence of accounting innovations between 1861 and 1877 can be explained by the inherent labor control mechanisms of the paternalistic mining community.

DATA ANALYSIS 1861-1877

This section provides an analysis of financial information from the annual reports issued by the Quincy Mining Company between 1861 and 1877 and defines the cost reductions made by the firm after the Civil War. Since the American economic environment was relatively unstable throughout the period being examined, the financial information provided in this analysis is, unless otherwise noted, adjusted to 1860 price levels using a relevant consumer price index.

GROSS EARNINGS

The gross earnings of the Quincy Mining Company increased between 1861 and 1864, then dropped sharply in 1868 to the lowest level in the period between 1861 and 1877 (Figure 1). This pattern can be partially explained by the market price of copper and the volume of production. Figure 2, which shows

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3 The period between 1861 and 1877 was selected because the firm issued its first annual report in 1861 and followed reasonably consistent reporting practices through 1877. In 1878 financial reporting concepts were significantly altered.


5 All Figures are presented in Appendix A.
the average annual copper prices between 1861 and 1877, reflects a high of $.47 per pound in 1864 followed by a rapid decline to $.23 per pound in 1868, a pattern that roughly coincides with gross earnings.⁶

Figure 3 shows the mineral produced between 1861 and 1877 and indicates a low for the period in 1868. Both copper prices and the firm's production volume reflect the disruption of

the copper market following the Civil War as the war demand disappeared and the government reduced its stockpiles. The Directors' Report for 1865 states:

In preparing the exhibit of the results of the business of 1864, presented in their last report, your Directors made the unfortunate error of overestimating the value of the copper on hand ... (since the copper was sold when) from the cessation of the war, values of all kinds had materially declined, and the market price for copper had reached its lowest point.

EXPENDITURES

Figure 1 also suggests that the firm responded to the weakening copper market by reducing total expenditures, which can be subdivided into costs at the mine and corporate costs. The former consists of mine labor, supplies, and other costs that were incurred during actual mining operations. Corporate costs include expenditures related to non-mining activities such as smelting, shipping, marketing, general corporate administr-
Michael and Lankton: Firm's Response to Post Civil War Market Disruptions

...tion, and acquisition of capital assets. Each of these cost categories is examined in the following paragraphs in order to clarify the actions taken by the Quincy management in response to decreasing revenues during the post war market disruptions.

Total Costs at the Mine

The cost data used in this section is from a schedule entitled “Return of Mining Cost for the Year” (Figure 4), which first appeared in the annual report of the Quincy Mining Company in 1863. The schedule provided monthly and annual totals for the various types of mine labor and for mining supplies. These costs were then summarized and carried into the “Return of Working...

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**FIGURE 4**

**Source: QMC annual report for 1863**

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<thead>
<tr>
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<td>No. of Feet Drifted</td>
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<td>188</td>
<td>247</td>
<td>248</td>
<td>2502</td>
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<td>No. Feet Sunk-Shafts</td>
<td>43</td>
<td>10</td>
<td>78</td>
<td>158</td>
<td>18</td>
<td>651</td>
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<tr>
<td>No. Feet sunk-Winzes</td>
<td>59</td>
<td>90</td>
<td>0</td>
<td>87</td>
<td>71</td>
<td>475</td>
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<tr>
<td>Amt. Pd. for Stopping</td>
<td>2856.96</td>
<td>5760.13</td>
<td>6611.59</td>
<td>6518.86</td>
<td>8817.58</td>
<td>82,407.88</td>
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<td>&quot; for Drifting</td>
<td>2702.90</td>
<td>1989.50</td>
<td>2245.66</td>
<td>3049.96</td>
<td>3187.99</td>
<td>30,517.21</td>
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<td>Pd. for Sinking Shafts</td>
<td>$596.66</td>
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<td>$1,659.58</td>
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<td>Pd. for Sinking Winzes</td>
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<td>Average price per fathom for Stopping</td>
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<td>Average price per ft. for sinking-Shafts</td>
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<td>Mining Captains and Timermen</td>
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<td>Landers and Fillers</td>
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<td>Engineers and Firemen at Hoisting Engines</td>
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Expenses at Mine" (Figure 5), which presented the costs incurred at the mine by major categories (Mining Cost, Assorting

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<th>FIGURE 5</th>
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<td><strong>RETURN OF WORKING EXPENSES AT MINE FOR THE YEAR ENDING</strong></td>
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<td><strong>DECEMBER 31, 1863</strong></td>
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<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mining Cost</strong></td>
<td></td>
</tr>
<tr>
<td>As per table on preceding page</td>
<td>$238,906.58</td>
</tr>
<tr>
<td>Assorting, Breaking, and Calcining Rock</td>
<td></td>
</tr>
<tr>
<td>Breaking 38,070 tons rock</td>
<td>$22,187.97</td>
</tr>
<tr>
<td>Assorting 46,408 tons rock</td>
<td>3,474.78</td>
</tr>
<tr>
<td>Wood used for fuel</td>
<td>102.92</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25,765.67</td>
</tr>
<tr>
<td><strong>Tramming Rock To Mill</strong></td>
<td></td>
</tr>
<tr>
<td>Tramming 46,408 tons rock</td>
<td></td>
</tr>
<tr>
<td>1,685 &quot; barrel-work</td>
<td>$9,313.14</td>
</tr>
<tr>
<td>Supplies and materials used</td>
<td>2,629.48</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11,942.62</td>
</tr>
<tr>
<td><strong>Stamp Mill</strong></td>
<td></td>
</tr>
<tr>
<td>Stamping and dressing 48,985 tons rock</td>
<td></td>
</tr>
<tr>
<td>1,685 &quot; barrel-work</td>
<td>$40,573.18</td>
</tr>
<tr>
<td>Supplies and materials used</td>
<td>24,015.70</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64,588.88</td>
</tr>
<tr>
<td><strong>Surface and General Expense</strong></td>
<td></td>
</tr>
<tr>
<td>Salaries of officers and general surface expense</td>
<td>$35,577.68</td>
</tr>
<tr>
<td>Cost of tribute copper</td>
<td>2,943.28</td>
</tr>
<tr>
<td>Amount of taxes paid</td>
<td>3,311.62</td>
</tr>
<tr>
<td>Freight on supplies up</td>
<td>5,407.13</td>
</tr>
<tr>
<td>Expenses of improving farm</td>
<td>342.30</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$47,582.01</td>
</tr>
<tr>
<td>Cr. by profit on supplies</td>
<td>2,810.51</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total running expense</strong></td>
<td>$385,975.25</td>
</tr>
</tbody>
</table>

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and Breaking Rock, Tramming, Stamp Mill, and Surface and General Expenses). Each of these categories was derived from natural divisions in the mining process.

Figure 6 shows that total costs at the mine (adjusted to 1860 prices) decreased sharply between 1866 and 1868, with increases in subsequent years. Although some differences in timing and magnitude are apparent (Figure 7), total costs at the mine appear to be associated with the quantity of mineral produced.  

**FIGURE 6**

![Graph showing total costs at the mine 1861-1877](image)

A simple regression using mineral produced as the independent variable and total costs at the mine (price adjusted) as the dependent variable yielded the following results:

- Constant: 38,995.65
- X Coefficient: 0.078268
- Standard error of Coefficient: 0.015153
- R Squared: 0.6401
- T Value: 5.2

---

7A simple regression using mineral produced as the independent variable and total costs at the mine (price adjusted) as the dependent variable yielded the following results:
Mining Cost

As shown in Figure 8, actual mining costs were the largest component (63.8%) of total costs at the mine between 1863 and 1877. Mining costs, following the pattern of total costs at the
mine, dropped sharply between 1866 and 1868, followed by increases in later years (Figure 9). The trends for mining cost and mineral production (Figure 10) appear to be correlated.\(^8\)

The cost classifications provided in the "Return of Mining Cost for the Year" schedule for each year between 1863 and 1877 show that an average of about sixty percent of mining costs were directly related to labor within the mine, about thirty percent was related to supervision and the labor costs of non-mining support activities, with the remaining ten percent representing supplies and materials.

---

\(^8\) A simple regression using mineral produced as the independent variable and total mining cost (price adjusted) as the dependent variable yielded the following results:

- Constant: -7321.78
- X Coefficient: 22,225.16
- Standard error of Coefficient: 0.0099283
- R Squared: 0.748336
- T Value: 6.678
Supplies and Materials. Figure 11, which shows both the actual and price adjusted costs for mining supplies, indicates that a reduction in the cost of mining supplies occurred between 1865 and 1867. At least part of this reduction can be attributed to the level of mineral production, since as shown in Figure 12, both the cost of supplies and the level of production decreased during that period. However, there is insufficient information available to determine if fewer supplies were used, supplies were not replenished (and expensed) or cheaper supplies were used. In general, the cost of mining supplies increased when production increased after 1868.

9The expense category of “Mining Supplies” includes explosives, fuses, tools, drill bits, lubricants and other materials used by the miners.

10Figure 12 shows a sharp downward trend in 1871 even though production was increasing. This apparent anomaly may be due to accounting procedures rather than actual usage. The annual report of the Quincy Mining Company for 1871 reports the creation of “...the special reserve fund of fifty thousand dollars, set apart as heretofore reported, for the endowment of an insurance and repairs account, and fully secured by mineral, mining supplies and materials.” In other words, mining supplies were purchased then set aside as a reserve fund, rather than being charged to the supplies account as an expenditure.
FIGURE 11

Cost of Mining Supplies

1863-1877

FIGURE 12

Mineral Production and Mining Supplies

1864-1877 Trends
Mine Labor. Since mining processes in the mid-nineteenth century were labor intensive, the majority of the mining cost reductions observed between 1866 and 1868 are traceable to either labor wages or the number of employees. Figure 13, which shows both the average number of miners employed and the average non-miner labor force, indicates that the company reduced the number of miners employed between 1866 and 1868, but even larger reductions were made in non-miner work force. The number of miners employed increased to the pre-reduction levels between 1869 and 1877 as production increased, but the non-mining reductions were permanent.

**Figure 13**

![Distribution of Labor Force](image)

Figure 14 shows that both actual and real wages paid to miners decreased sharply between 1864 and 1866. Although actual wages continued to fall between 1866 and 1868, real wages actually increased slightly. However, real wages did not reach the levels observed in 1864 until 1872 when a temporary labor shortage combined with a strike by the miners temporarily forced wage levels upward.\(^\text{11}\)

\(^{11}\)The Directors' Report for 1872 states "Owing to the great scarcity of labor on the Lake, we were compelled last April to concede a considerable advance in
As shown in Figure 15, which compares the wages of the Quincy miners with the average non-farm wage between 1863 and 1877, the Quincy miners were well paid relative to other occupations. This has two ramifications. First, although there may be similarities between wage levels at the Quincy Mine and general wage levels, the miners wages also reflect the local labor market. For example, as shown in Figure 16, the post war decline in miners wages exceeded the trend for consumer prices. Similarly, the local labor shortage in 1872 and 1873 resulted in wage increases even though price levels were falling. Second, since miners had specialized skills and performed the most dangerous of the mining activities, their pay level probably represents the maximum expectation for other activities within the mine. In other words, if miners wages fell during a given year, it is likely that all other laborers wages were also reduced.

---

Supervision and Support Activities. The two largest categories of non-miner labor, Mining Captains and Timbermen (Figure 17), and Laboring Hands (Figure 18) each show a large
decrease in 1867 followed by a smaller decrease in 1868. However, insufficient information is available to determine either specific wage levels or the number of laborers within these occupations. But, given the reductions in the non-miner labor force that occurred in 1867 and 1868 (Figure 13) and the wage level of the miners, it is likely that such measures would also be directed at support labor.

Although reductions are evident in both accounts between 1866 and 1868, a comparison of the trends for Mining Captains and Timbermen, and Laboring Hands (Figure 19) indicates that the reductions were not uniformly distributed. The account for Mining Captains and Timbermen, after a large decline in 1867, shows moderate growth until 1875. In contrast the account for Laboring Hands suffered a more severe reduction in 1867 and experienced a larger increase during 1872 and 1873.

Assorting and Breaking Rock

The cost of assorting and breaking activities between 1863 and 1873 (Figure 20), reflects both the general wage level and
the quantity of mineral produced. The process of sorting and breaking rock to be sent to the stamp mill was a labor intensive process. As shown in Figure 14, the wages for miners increased in 1869, 1872 and 1873. Assorting and Breaking costs also increased during these years. Figure 21, which shows the trends
for Assorting and Breaking costs and mineral produced, indicates that both decreased between 1866 and 1868. Since the non-miner labor force was reduced during this period (Figure 13), it is likely that similar reduction occurred in the number of laborers engaged in assorting and breaking activities.

Assorting and Breaking costs can be divided into three general categories, unskilled labor, skilled labor, and material and supplies. As shown in Figure 22, between 1863 and 1873 over 80% of Assorting and Breaking cost could be traced to unskilled labor. But in 1874 unskilled labor became less significant when increases in both the cost of skilled labor (blacksmiths, engineers and brakemen) and the cost of material and supplies occurred. This transformation can be related to a technological change. The annual report of the Quincy Mining Company for 1873 recorded expenditures of $14,915.45 for a new rockhouse and mechanical devices. The Agent’s report for that year states the new facility enabled the company to “handle with dispatch, all the rock we can hoist, and at a much less cost than by the old method of calcining, and breaking by hand”. This improvement is evident in Figure 21 after 1873 when mineral production increased even though Assorting and Breaking cost decreased (with the exception of 1876 when general wage levels increased).
In summary, Assorting and Breaking costs prior to 1874 reflect both the general wage level and the amount of mineral produced. In the short run costs were reduced by reducing the size of the labor force and reducing wages (subject to the constraints of the local labor market). Long term cost reductions were achieved by altering the nature of the production process.

Tramming

Tramming costs were sharply reduced between 1866 and 1867 (Figure 23) and, although year to year fluctuations occurred after 1868, the reductions were permanent.\(^{13}\) As shown in

FIGURE 23

\(^{13}\)Tramming can refer to both underground and surface activities. The analysis used in this paper is based upon the information provided in Figure 5, which appears to include only surface tramming.
Figure 24, the reduction in Tramming cost in 1866 is associated with a decrease in mineral production. However, when production increased in 1869 to its former level, tramming cost remained relatively low.

**FIGURE 24**

Figure 25, which shows the cost of tramming material and supplies, and tramming labor, indicates that a reduction occurred in both categories between 1866 and 1868. Material and supply costs were kept relatively low until 1874 when extensive repairs occurred.\(^\text{14}\) In the hierarchy of the mine labor force, tramming was the most physically demanding labor, required the least skills and trammers received the lowest pay. Given the cost reductions in the labor associated with mining, and assorting and breaking, similar reductions in tramming labor were likely. However, tramming labor also reflects the same increases

\(^{14}\)The Quincy Mining Company's annual report for 1874 states "We found it necessary to substitute heavier T rail on the road from the mine to the rock house; also to cover the most exposed portions of this road with snow sheds . . . The tram-road incline has been planked over; the rock boxes and trestle work at stamp mill thoroughly overhauled and rebuilt, and but slight repairs will be needed for years to come."
in 1869, 1872 and 1873 (followed by a sharp decrease in 1874) that were noted previously in miners' wages (Figure 14). Although the Quincy management was able to permanently reduce the total cost of tramming labor, the wage component was subject to the constraints imposed by the local labor market.

**Stamp Mill**

The first annual report issued by the Quincy Mining Company, for the year of 1861, included a report labeled "Operation of 64 Heads, Wayne Stamps" (Figure 26) that provided detailed cost information about the stamp mill. Although the information provided changed from year to year, the report was issued annually through 1877. When it was first issued in 1863, the "Return of Mining Cost of the Year" schedule contained only the summarized cost of stamp mill labor, and mill supplies and materials, but the detailed information was still available in the stamp mill report.

Figure 27 shows that the cost of the stamp mill (when adjusted to 1860 price levels) is associated with the level of mineral production. Sufficient information is provided within the firm's annual reports to subdivide total stamp mill costs into repair
Source: QMC annual report for 1861

FIGURE 26

OPERATION OF 64 HEADS, WAYNE STAMPS

FOR FIVE MONTHS, ENDING JULY 31, 1861

<table>
<thead>
<tr>
<th>Running Expenses</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cords wood used for fuel</td>
<td>614.75</td>
<td>373.25</td>
<td>344</td>
<td>330</td>
<td>353</td>
<td>1815</td>
</tr>
<tr>
<td>Cost of wood consumed</td>
<td>$1,059.45</td>
<td>951.19</td>
<td>882.75</td>
<td>847.50</td>
<td>911.62</td>
<td>$4,652.51</td>
</tr>
<tr>
<td>Cords of wood used for heating</td>
<td>20</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>Cost of wood used for heating</td>
<td>$47.50</td>
<td>11.87</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$59.37</td>
</tr>
<tr>
<td>Value of tallow and oil used for machinery</td>
<td>$75.00</td>
<td>68.60</td>
<td>62.27</td>
<td>12.1</td>
<td>25.7</td>
<td>$273.67</td>
</tr>
<tr>
<td>Value of oil used for lighting building</td>
<td>$62.62</td>
<td>60.40</td>
<td>54.00</td>
<td>37.50</td>
<td>44.20</td>
<td>$258.72</td>
</tr>
<tr>
<td>Cost of engineer, fireman, woodpassers and wood splitters</td>
<td>$268.03</td>
<td>268.59</td>
<td>262.00</td>
<td>241.50</td>
<td>252.83</td>
<td>$1,292.95</td>
</tr>
<tr>
<td>Cost of Superintendent and watchman</td>
<td>$107.30</td>
<td>108.38</td>
<td>109.45</td>
<td>102.84</td>
<td>108.38</td>
<td>$536.35</td>
</tr>
<tr>
<td>Cost of Stamp tenders</td>
<td>$260.70</td>
<td>253.20</td>
<td>261.91</td>
<td>251.16</td>
<td>250.91</td>
<td>$1,277.88</td>
</tr>
<tr>
<td>Cost of washers</td>
<td>$1,571.94</td>
<td>1515.87</td>
<td>1415.20</td>
<td>1362.32</td>
<td>1360.98</td>
<td>$7,228.31</td>
</tr>
<tr>
<td>Cost of cooper</td>
<td>$31.37</td>
<td>32.00</td>
<td>33.23</td>
<td>30.76</td>
<td>32.00</td>
<td>$159.36</td>
</tr>
</tbody>
</table>

COST OF REPAIRS

| Labor for repairs:                          |          |          |          |          |          |          |
| --                                         |          |          |          |          |          |          |
| Cost of machinist and blacksmith's labor on machinery | $31.00   | 145.82   | 100.86   | 151.85   | 92.51    | $524.04  |
| Cost of carpenters and laborers on machinery | $215.37  | 170.80   | 165.64   | 119.10   | 98.25    | $769.16  |
| Cost of carpenters and laborers on building | $147.16  | 113.54   | 111.87   | 95.00    | 12.00    | $479.57  |
| Materials:                                 |          |          |          |          |          |          |
| Cost of materials used repairing machinery and building | $110.47  | 214.86   | 521.28   | 195.06   | 181.28   | $2,222.95|
| Total cost                                 | $3,991.91| 3915.12  | 3900.46  | 3666.69  | 3380.66  | $18,734.84|
| Cost per ton of rock stamped               | $1.0275  | 1.0325   | 1.08     | 0.98     | 0.8475   |          |

RESULTS

| No. of days run, 24 hrs. each day          | 26       | 26       | 27       | 25       | 26       |
| Average number of heads run per day        | 61       | 60.6     | 62       | 63.3     | 63.25    |
| Tons of rock stamped in a month            | 3,898    | 3,780    | 3,680    | 3,530    | 4,000    | 18,888   |
| Tons of rock stamped per cord of wood      | 9.4      | 10.01    | 10.7     | 10.7     | 11.33    |
| No. of hours stopped for repairs           | 6.25     | 2        | 1        | 12.5     | 0        |
| Copper product, pounds                     | 183,704  | 207,605  | 195,807  | 185,285  | 182,995  | 955,296  |
| Percentage of copper per ton of rock       | 2.34     | 2.74     | 2.66     | 2.62     | 2.38     |

costs and operating costs. Figure 28 shows that both repair and operating costs dropped sharply between 1867 and 1868, followed by increases in subsequent years as production increased. Operating costs appear to have stabilized after 1873, whereas repair costs continued to increase along with production. Both repair and operating costs can be further subdivided into labor
FIGURE 27

Stamp Mill Cost and Mineral Produced

For 1863-1877

- Stamp Mill Cost
- Mineral Produced

FIGURE 28

Stamp Mill Costs

For 1863-1877

- Total Repair Cost
- Operating Cost
and materials. Figure 29 shows that both repair labor and repair material decreased between 1867 and 1868 then increased in subsequent years. Repair labor, however, does not appear to reflect the large increases observed in other labor categories in 1872 and 1873, followed by decreases in 1874. Instead repair labor increased each year between 1871 and 1877. This suggests that repair labor was less susceptible to the market forces that effected other labor categories. In contrast, the cost of operating labor within the mill reflects the previously noted increases in 1869 and 1873, followed by a decrease in 1874. This suggests that operating labor and repair labor may have been subject to different market conditions, probably due to the skills required for each occupation. Presumably, the repair of the stamp mill equipment would require more training and experience than the operation of the equipment.

Further evidence for the differentiation of the labor force is evident with the broad category of operating labor. For example, Figure 30 shows that Superintendents and Watchmen costs increased each year between 1866 and 1876. Conspicuously absent are the previously noted reductions between 1866 and 1868,
increases in 1869, 1872 and 1873, followed by reduction in 1874. In contrast, the cost of Engineers, Firemen and Wood Passers reflects each of those characteristics (Figure 31). A comparison of two other relatively unskilled operating labor categories, Stamp Tenders and Washers (Figure 32) shows that both reflect the general pattern of wages in the local labor market.

**FIGURE 32**

Surface Labor and General Surface Expenses

Between 1863 and 1877 seventeen different types of expenditures were included in this classification. But most of the expenditures were related to two items: Surface Labor and General Surface Expenses (75%) and Taxes (16%). Figure 33 shows

---

15 The following expenditures were recorded as Surface Labor and General Surface Expenses: surface labor, general surface costs, taxes, cost of tribute copper, freight on supplies, advances to laborers, improvements to farm, legal services, tolls on mineral, Portage entry tolls, roads, Houghton County draft exemption fund, incidental expenses, warehouse and dock, boarding house, contribution to rebuilding church, indebtedness for hospital fund, and advances made on Stevens slime washers.

16 In 1863 and 1864 the description "salaries of officers and general surface expense" was used. In 1865 the description was changed to "surface labor and
that total costs within this classification decreased between 1866 and 1868. Although these reductions initially coincide with a decrease in mineral production that occurred in 1868, subsequent increases in mineral production did not result in proportionate increases in expenditures. There is insufficient evidence available to determine if the cost reductions were due to labor, process changes, cost reclassification or other factors, but it is apparent that rapid and permanent cost reductions occurred.

CORPORATE COSTS

The annual corporate administrative expenditures are taken from a schedule in the firm’s annual reports entitled “Balance Sheet From the Books of the Quincy Mining Company.” Expenditures for plant and equipment are taken from a report called “Additions to Permanent Investment”. The relative signifi-

general surface expenses.” This suggests that the expenditures included in this category may vary between 1864 and 1865.

Between 1863 and 1877 expenditures were recorded for: Boston office, copper charges, miscellaneous expenses, interest, insurance, labor emigration, smelting, taxes and transportation.
cance of the various types of expenditures classified as corporate costs is shown in Figure 34. Two of the largest expenditures, Smelting (Figure 35) and Transportation (Figure 36), were asso-

**FIGURE 34**

Corporate Costs by Category

- Transportation (16.7%)
- Taxes (4.7%)
- Property, Plant, Equip. (34.1%)
- Smelting (23.4%)
- Copper Charges (11.3%)
- Misc. Expenses (6.8%)
- Insurance and Interest (8.5%)
associated with the level of production.\textsuperscript{18} Since both of these activities were external to the firm, their annual cost was only marginally controllable by the Quincy management. Figure 37, which shows the expenditures for property, plant and equipment (a controllable cost) depicts increases in 1864 and 1872 with relatively small expenditures in the other years.

The 1864 increase reflects a general expansion at the mine. The 1872 expenditures were primarily for partial construction costs of a new rock house and breakers (discussed in conjunction with Assorting and Breaking cost), and the installation of air compressors and power drills. Since prior to this time drill-

\textbf{FIGURE 36}

\begin{center}
\begin{tabular}{c|c|c}
Year & Transportation Cost & Mineral Production \\
\hline
1863 & 0.6 & 1.5 \\
1864 & 0.7 & 1.4 \\
1865 & 0.8 & 1.3 \\
1866 & 0.9 & 1.2 \\
1867 & 1.0 & 1.1 \\
1868 & 1.1 & 1.0 \\
1869 & 1.2 & 0.9 \\
1870 & 1.3 & 0.8 \\
1871 & 1.4 & 0.7 \\
1872 & 1.5 & 0.6 \\
1873 & 1.6 & 0.5 \\
1874 & 1.7 & 0.4 \\
1875 & 1.8 & 0.3 \\
1876 & 1.9 & 0.2 \\
1877 & 2.0 & 0.1 \\
\end{tabular}
\end{center}

\begin{itemize}
\item Transportation Cost
\item Mineral Production
\end{itemize}

\textsuperscript{18} Two simple regressions, using mineral produced as the independent variable and smelting cost and transportation cost (price adjusted) as the dependent variable, yielded the following results:

<table>
<thead>
<tr>
<th></th>
<th>Smelting</th>
<th>Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-8801.05</td>
<td>1167.46</td>
</tr>
<tr>
<td>X Coefficient</td>
<td>0.0094</td>
<td>0.0032</td>
</tr>
<tr>
<td>Standard error of Coefficient</td>
<td>0.0016</td>
<td>0.0006</td>
</tr>
<tr>
<td>R Squared</td>
<td>0.74</td>
<td>0.67</td>
</tr>
<tr>
<td>T Value</td>
<td>6.02</td>
<td>5.10</td>
</tr>
</tbody>
</table>
The use of power drills was a significant change in the technology of the mining process. Although the firm's motivations are problematic, the introduction of power drills probably represents an unsuccessful attempt to reduce the labor component of production costs. The remaining corporate level expenditures show indications of irregular cost reductions.

In summation, the external financial reporting of the Quincy Mining Company between 1861 and 1877, along with

19 The Quincy Mining Company's annual report for 1872 states "In common with the other mines in this district, early in the spring, our men 'struck' for much higher wages than we had been paying them; and, during the month of May, all underground operations were suspended nearly two weeks. . . . subsequent operations were greatly embarrassed by the scarcity of miners and laborers, and the extreme high prices necessary to be paid them; all of which has combined to increase the cost of production." The same annual report also states "The power drills were started in October last, . . . The results did not show any material saving over the cost of drifting by hand; and, upon becoming poor, their use was discontinued for the time. The drills worked well when in position, but were found to be too large and cumbersome to handle readily; hence too much time was consumed in getting them back to place after blasting. . . ."
the analysis of the information contained in those reports, indicates the Quincy management was aware of the firm's cost structure and cost behavior patterns. More importantly, the successful cost reduction measures implemented in the post war period suggest they were able to use this knowledge to adjust the activities and costs of the firm in response to market conditions. It is apparent that most non-labor costs at the mine were variable relative to production. In the absence of production decreases or major technological changes, total costs in these categories could be reduced only temporarily. In contrast, the examination of the various cost categories at the mine indicated that labor costs were sharply and permanently reduced. In fact, once the nonessential surface and underground expenses had been eliminated, labor costs were the only other significant expense that could be reduced without impairing production capabilities. Therefore, it seems reasonable to conclude the firm's management had access to sufficient financial information to guide their actions. The following section defines the accounting practices that contributed to the management process.

**COST CONTROL**

The Quincy accounting system provided cost control information as early as 1860, but the logic of the control processes can be traced to ledger accounts dating from 1847. The basic procedure was to isolate areas of concern, such as a construction project or operating responsibility, in separate general ledger accounts. The first evidence of this process involved establishing accounts for each of the major functional areas at the mine such as Mining, Tram Road, and Stamp Mill.

The number of specific cost accumulation accounts grew as the firm expanded operations prior to the end of the Civil War. For example, the ledger for 1861, which contains 800 pages, has only seven accounts that can be construed as specific cost accumulation accounts. By 1862 there were over twenty such accounts in the ledger, including accounts for a new barn, a house for the president of the firm, a captain's office and a hospital. The number of specific accounts used for functional areas remained relatively stable, but the number of accounts used to

---

20 In 1861 the accounts were closed monthly, but in 1862 a switch was made to year end closings, which kept the costs isolated for a longer period and made them easier to monitor throughout the year.
accumulate capital expenditures by project varied from year to year along with the number of "projects" in process.

This ledger procedure, when combined with the year end closing implemented in 1862, provided a relatively easy way to accumulate the total costs for a responsibility center or "project" during the year. Assuming that each project was under the control of a specified individual, such as the mine agent or the stamp mill superintendent, the cost accumulation account could have been used both to monitor total expenditures and to evaluate the performance of the manager. This control process seems to support the conclusion of Johnson and Kaplan [1987, p. 9] that the nineteenth century

... management accounting information developed to facilitate the management of process-type industries: textile and steel conversion, transportation, and distribution. The management accounting measures were designed to motivate and evaluate the efficiency of internal processes, not to measure the overall "profit" of the enterprise. These organizations really had to do only one activity well: convert raw materials into a single final product such as cloth or steel, move passengers or freight or resell purchased goods. If they performed this basic activity efficiently, the organizations could be confident that they would be profitable in the long run. Thus, the management accounting system was created to promote efficiency in the key operating activity of the organization.

Both the Quincy Mining Company and the firms studied by Johnson and Kaplan pursued operating efficiency but there are two significant differences. First the accounting control procedures used by the Quincy Mining Company predated, rather than emerged from, the events that called for new management information. Second, whereas Johnson and Kaplan found that managerial information processes evolved independently, Quincy's management control activity was an integral part of the financial accounting system.

21 Fleischman and Parker [1991] list four areas of cost management observed in British industrial firms between 1760 and 1850: cost control techniques, accounting for overhead, costing for routine and special decision making, and standard costing. They attribute the development of cost control techniques to competitive forces in both the product and capital markets. The Quincy Mining Company’s use of specific cost accumulation accounts may have been similarly motivated.
INTERDEPARTMENTAL COST ALLOCATIONS

Modern cost accounting procedures recognize the need for interdepartmental cost transfers when one department (or account) provides services for another. The Quincy Mining Company followed this practice as early as 1862 when accounts were established for the carpenter's shop and the blacksmith shop. Both of these were, in modern terminology, service functions. Costs (primarily labor, materials and recharges from other departments) were accumulated for each function and billed out monthly to users.

Costs from the carpenter's shop were distributed on the basis of a specified rate (shown in the journal entries that distribute the costs) times the hours (or days) charged to a user. In 1872, the first year in which sufficient detail is available to define how the rate was determined, total costs for the month were divided by the number of days recharged to all users to arrive at a daily recharge rate.

While the Day Book from the carpenter shop has not survived, an examination of Day Books from other functional areas indicates that company policy required supervisors to record the time and materials to be recharged in their Day Books. At the end of the month, the Day Book was given to the mine clerk, who prepared the appropriate journal entries to transfer the service cost to operating units.²²

The Surface account provides another example of the company's concern for cost allocations. Individuals normally working for the Surface captain were occasionally assigned to other duties such as the carpenter shop or the farm and their time was then recharged to the user. In the limited instances when the journal entry listed the name of the reassigned individual, the recharge rate was simply his monthly wage divided by the 26 work days per month. This daily rate was then multiplied by whole or fractional days to arrive at the total amount recharged to the user. Since the Quincy managers were willing to absorb the time and expense of accumulating recharge data

²²The Carpenters Shop account for January 1862 includes debits or charges for labor ($301.91) and supplies ($36.50). Recharges are made to the following accounts: Tram Road ($6.00), Surface ($204.91) and Mining Cost ($127.50) for a total of $338.41. In other months during 1862 recharges were also made to specific cost accumulation accounts. In each month the total charges to the account matched the total credits or recharges.
and manually recording the recharge entries, they apparently viewed more accurate departmental costing as beneficial.23

LABOR CONTROL

The successful cost reduction program implemented by the Quincy Mining Company after the Civil War was inextricably linked with the ability of the firm to control labor costs. A Foucauldian perspective suggests the Quincy management would have used the accounting system as a disciplinary tool to help control the activities and lives of the miners. But there is no direct evidence that the Quincy managers used the accounting system as a disciplinary tool. Yet there can be no doubt that the firm's accounting practices increased each worker's visibility and had disciplinary potential. For example, the Day Books for the period between 1861 and 1877 provide insights to the control exercised by the functional area managers. In a Day Book covering January through November of 1862, the mining captain recorded entries for monthly rent for housing for eighty-five individuals. A similar Day Book, kept by the Surface captain in 1870, contains a separate page for each laborer, that, in addition to recording the wages due, contains deductions for personal items such as firewood used and, in one instance, a used table purchased by a worker. A Surface Day Book from 1877 contains a $3.00 deduction from Joseph Kitt for a child's coffin and another $3.00 charge for a grave site. Taken as a whole, these Day Book notations suggest the minute details of the individual laborer's life were visible to, and monitored by, the company management hierarchy.

Perhaps the strongest implication the Quincy management actually monitored the individual workers is found in the employees' general ledger account balances. A sample of seventeen employee's accounts from December 31, 1867, was used to determine if the ending balances were debits (debtor) or credits (creditor). With the exception of two idle accounts (probably terminated employees) that had a zero balance, all of the ac-

23 From a Foucauldian perspective the Quincy Mining Company had developed accounting procedures that could be described as "...a facilitative technology that enabled a whole range of activities of the person to be rendered visible and accountable" [Miller and O'Leary, 1987, p. 242]. The disciplinary potential of the accounting system was, in this instance, directed at the mine management through isolation and monetarization of their responsibilities.
counts had a credit balance. All of the employee accounts were then reviewed to determine if any had a debit balance. There were none. The management hierarchy maintained the largest credit balances as shown below:

- Mine agent: $455.95
- Head captain: $556.80
- Mill superintendent: $212.88
- Captain: $244.37
- Captain: $578.92
- Mine clerk: $88.50

From this observation, it is reasonable to conclude the credit balances were not a random occurrence. The presence of a consistent pattern in the account balances, although unexplained by the available documentation, may reflect the organizational culture that existed in the paternalistic environment of the mining community.

Although undoubtedly a participant in the process of labor control, accounting processes may not have been the dominant force. Since the mine managers had unrestricted access to more drastic forms of disciplinary power such as termination of employment and expulsion from company housing, they may not have needed, or wanted, accounting data to inform their actions. Through a nexus of paternalistic social and cultural processes, the mine managers were able to exert sufficient power to control the lives of the labor force.

**PATERNALISM**

At Quincy and other Lake Superior mines, paternalism and social control were as integral to operations as the extracting.

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24 The account balances in the sample were distributed as follows:

- $0 .......... 2
- $1-10 ........ 2
- $10-30 .. 1
- $30-50 .. 4
- $>100 .. 2

The average monthly wage in 1867 was about fifty dollars.

25 One interpretation of this phenomena is that the size of the balance in the account was somehow related to the status of the individual. The Quincy managers rewarded ‘good’ employees with relatively low cost company housing, preferred job assignments, promotions and pay increases. The annual reports of the company frequently refer to the desirability of a stable and loyal work force. Perhaps the maintenance of a credit balance was considered as a sign of fiscal responsibility and personal stability.
milling, and smelting of copper. Companies that came to a remote wilderness to start high-risk mining ventures had to serve as community builders. While developing underground operations, they also had to hasten the establishment of stable, livable mine villages.26

Pioneer mining companies arrived in advance of effective government on the Keweenaw peninsula, so they undertook "public" works projects on their own, such as the dredging of channels, the erection of docks and the improvement of harbors, and the building of roads. In their small, unincorporated villages, initially absent courts and constables, they set their own rules (such as prohibitions on the sale of alcohol), and when necessary they served as law enforcer, locking up a suspected thief, garnisheeing his wages to pay back a wronged party, or simply exiling him from the community.27

All the operating companies built dwellings. These tended to progress from very rude huts endured by initial exploring parties, to boarding houses, to log cabins, to framed, single family dwellings. Beside providing shelter, the mining companies engaged in food production and distribution. They slashed and burned away the forest, dedicating some cleared land for housing and reserving other acreage for agriculture. Besides operating a company farm, mining firms installed company stores at settlements, or encouraged independent shopkeepers to locate nearby and provision workers.

Mining companies brought the first resident doctors to the region and ran medical programs, whereby workers received treatment and medicine for a set monthly fee of $.50 for single and $1.00 for married men. Many companies, including Quincy in the late 1850s, opened a dispensary and hospital. They helped start other important social institutions such as churches, schools and lending libraries. As a mine venture matured and passed from an exploratory and developmental stage into a full-fledged production stage, it erected not only a complete physical plant at the mine proper, but also a well-rounded paternalistic community. At the mines, technology, labor, and life were all intermixed. When a company decided to enter into full produc-

26Lankton [1991] provides a comprehensive analysis of the creation and operation of paternalism at the mines; see especially Chapter 9, "Homes on the Range;" Chapter 10, "Cradle to Grave;" and Chapter 11, "The Social Safety Net."

27The law enforcement function of the early companies is discussed in Mining Magazine I, 3 (Sept. 1853), 294-95.
tion, it acquired steam hoists and stamp mills. Simultaneously, it expanded its labor force and built new houses, stores, churches and schools.

Mining firms engaged in social constructions at a time when the area lacked other parties or agencies having the capital, interest, or responsibility to build up the infrastructure of a community. But these companies remained paternalistic after the necessity to do so had passed. Quincy, for one, sustained paternalistic practices throughout the nineteenth century because it saw them as an effective means of attracting, keeping, shaping and controlling its labor force.

The full range of paternal benefits, running from a free garden plot to an inexpensive or free burial plot, formed a web of "amenities" that a company like Quincy strung up to capture desirable workers. Quincy operated in a labor market where numerous mines offered very similar work and compensation. Quincy used paternalism to help it initially attract skilled underground and surface workers, those deemed important to the company's success. Paternalism was then to breed loyalty among these same men. Mine workers at the time were notoriously mobile; the workers in Michigan, after all, had all recently come from somewhere else. By withholding or delivering paternal prerequisites, Quincy might encourage some men to move along, while encouraging others to take root at the mine, to ride out the peaks and valleys of production and the highs and lows of compensation, and to finish out a workingman's career after many years, or even decades, of service.

Quincy's housing policies and practices, as documented by the firm's annual reports, provide a good example of how the company used paternalism to attract, shape and control labor. Through the mid-1850s, while Quincy remained a very speculative venture, it hired single men at its pioneer works and put them up in boarding houses. But as soon as it went into real production in the late 1850s, the company sought to reshape its labor force. In pursuit of stable, sober married men, Quincy cut back its boarding houses and started erecting single family dwellings. It also allowed new employees to build their own houses on building sites leased from the company at nominal rates.

In mid-1859, when it employed 211 men, Quincy still operated four boarding houses and rented out just 30 single family residences. By 1862, employment had risen to 588; the boarding houses had declined to one; the mine owned and rented out 95
single family houses; and 41 employee-owned houses stood on company land. By 1865, when employment reached 654 men, Quincy rented out some 200 single family dwellings.\textsuperscript{28}

By the end of the Civil War, Quincy had more than three employees for each company house. Even after the post war employment decline, by no means could Quincy house all its employees. This housing shortfall was intentional. A company house was to be seen as a privilege awarded to select individual workers, after managers had scrutinized a set of personal characteristics, including skill, occupation, ethnicity, dedication, industriousness, and marital status. A house was not an entitlement born simply of employment. Receipt of a house signified to the employee that he was deemed one of the working-class elite, and the company expected that recognition to breed greater loyalty. And perhaps a worker made his greatest expression of loyalty and trust when he built his house on land still owned by his company. A restrictive ground lease might require him to move his house, should he quit the company or be fired. Such housing practices clearly encouraged (or coerced) employees to work and strive for the benefit of their employers, if they wanted to obtain a company house, or keep their own house standing on company land.

Paternalism, which at its heart was a discriminatory system, was overseen by managers who made decisions to house, hospitalize or otherwise help workers on a case by case basis. Mine managers intended for paternalism to act as check on worker behavior; to discourage rebellion and encourage compliance and cooperation. Paternalism also served as a check on the workers’ cost of living. By helping control that, mine managers believed that paternalism helped them control labor costs.

Companies did not enter the housing business to make a profit. Typically, their houses rented for one dollar per month per room. Company owned housing was the cheapest available near the mines, and employee owned housing built on company land also offered an inexpensive housing alternative. Quincy used low rents and leased lots to offer strong competition to landlords in nearby Hancock, and thus to control housing costs in its vicinity. If housing costs could be kept low, thought the company, wages could be kept low.

\textsuperscript{28}Lankton and Hyde [1982] discuss company houses, the Quincy store and other paternal practices, pp. 35-38, 85-89.
Similarly, starting in the 1850s, Quincy rented a store property at the mine that competed with Hancock merchants about a mile away. This was not a nefarious company store of the type that gouged workers and trapped them in debt. On the contrary, by offering competition, Quincy intended for it to lower living costs at the mine. From 1864 through 1866 the mining company operated a store and sold provisions directly to its employees. It did so to counter war time inflation and put a lid on the upward spiral of food prices, as charged by local merchants. The store, with its lower prices, was to help the company hold on to its valued employees during labor shortages, and at the same time, discourage them from demanding higher wages.

Quincy and other major Lake Superior copper mining companies became known for paying relatively low wages, but for offering, at least to favored employees, a high level of paternal benefits. These benefits were to entice the best available workers to a company’s employ, breed loyalty, and encourage long term employment. At the same time, they were to discourage poor, lackadaisical work; mute demands for higher wages; and limit labor agitation and strikes.

Finally, if and when hard times came, as they did at Quincy after the Civil War, paternalism guided the company’s response as it rolled back employment and wages. The system, after all, defined for the company who its most valued, essential employees were. Quincy would let go of less skilled, single, short term employees. These were the itinerant workers that could be picked up again as needed. It would hold on to the skilled, married workers, the ones already in a company house, who formed the company’s more loyal, essential core. These men could even be expected, if necessary, to absorb a wage cut, because they were supposed to be thankful to still have a job and a roof over their heads.

SUMMARY AND CONCLUSIONS

The accounting based control practices of the Quincy Mining Company can be broadly defined in two categories. The first defined the organization in terms of individual responsibility sets. Practices such as the use of specific ledger accounts for functional areas or short term projects, and interdepartmental cost transfers fall within this category. The second category reflects the firm’s interest in, and knowledge of, the individual employee through the use of ledger accounts and day book in-
The combination of these accounting practices, the ability of the firm to influence the labor market, and the paternalistic environment of the mining community provided a comprehensive control mechanism that was sufficient for the information needs of the firm's management as they implemented a cost reduction program.

This study suggests that economic forces alone may be insufficient to bring about accounting innovations and provides evidence that other organizational and social influences may be more relevant. There are three characteristics of the Quincy Mining Company that may help to explain why accounting innovations were not needed. First, the Quincy Mining Company was a single product firm. As such, the firm was not subject to the complexities of inter-product cost allocations and the associated problems of multiple unit costs. Second, the firm used a relatively flat organizational structure.\(^\text{29}\) Chandler [1977] found that as the organizational hierarchies of the railroads became more complex, accounting innovations were required to make financial information usable. In contrast, the Quincy management practices were based upon a more direct and personal involvement with the productive processes. Consequently, the post war economic crisis did not generate the need for new information to understand and rationalize the operations of the firm. Third, the Quincy Mining Company functioned within a strongly paternalistic social structure. This study has shown that the cost reductions observed after the Civil War were largely dependent upon the ability of the firm to control the cost of labor. Although accounting was a participant in the process of labor control, it was the strong paternalistic environment of the mining community that allowed the companies to dominate the labor force. Accounting innovations were not needed to increase the disciplinary potential of accounting processes because other, more effective, methods of control were readily available. Similar to Tyson [1990], this study concludes that accounting inno-

\(^{29}\) The Directors of the firm consisted of a President, Vice President, Secretary, and Treasurer. The Mine Agent, supported by the Mine Clerk, was the top administrative official at the mine. Operational control within the mine was provided by the Head Mining Captain and various sub-captains. Both the stamp mill and smelter were run by Superintendents and foremen. See Lankton and Hyde [1982] for a more complete description.
vations, although feasible, were constrained by the social and cultural environment in which the firm operated.

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THE STATE OF PROFESSIONALISM IN INTERNAL AUDITING

Damages resulting from the crisis in the savings and loan industry, continuing allegations of independent audit failures and recent media reports of significant declines in the moral integrity of new entrants to the managerial job market have heightened concerns about top management's moral integrity and commitment to traditional internal control objectives. Many believe that top management officials in both the private and public sectors are failing to take adequate measures to install, maintain, and monitor adequate internal control structures within their organizations. Other related matters that appear to be inadequately addressed include the measures that need to be taken to deter fraudulent acts and unethical conduct.

Recognizing these apparent deficiencies, authoritative bodies such as the Treadway Commission have begun to look to the internal audit function to provide organizations additional internal assistance in identifying and remedying internal control deficiencies, curbing fraudulent acts, and monitoring the ethical conduct of organizational employees. For example, a significant portion of the recommendations made in the Treadway Commission Report focuses on strengthening the organizational position of the internal audit function in order to improve both its authority and capability to accomplish these duties.

These recent events have rekindled concern by scholars and practitioners about professionalism in the field of internal audit-
ing.\textsuperscript{1} Much of this interest is driven by the implied presumption that further enhancements in the professional status of internal auditing will have a positive influence on the field's capabilities to address the issues of fraud, deficient controls, and unethical behavior in commercial and governmental practice.

The professional status of internal auditing is an important issue. Internal Auditing must possess the status of a "genuine profession" in order to attain the requisite authority to enforce its standards on practice. Until this status is attained, commercial compliance with internal auditing standards will be largely voluntary. A field of work that must rely on voluntary compliance with its standards lacks the "genuine" status possessed by the well established professions such as medicine, law, architecture, and public accounting.

This study examines, from a historical perspective, the professional progress made by the field of internal auditing since 1977. The overriding objectives of this examination are: (1) to determine if the field of internal auditing has achieved professional status; (2) to assess whether progress has been made in enhancing the professional status of internal auditing since 1977; and (3) to suggest any actions disclosed by the analysis that might be taken by the field of internal auditing in the future to further enhance its professional status or the prospects thereof.

This study of professionalism focuses on events and activities that have transpired since 1977 for three major reasons: First, many authorities believe that the passage of the Foreign Corrupt Practices Act in 1977 marked the beginning of a new era of improved opportunities for internal auditors.\textsuperscript{2} Thus, events and activities transpiring since 1977 might be expected to reveal stronger evidence of professional status for internal auditing than events and activities transpiring before 1977. Second, many internal auditors consider the initial release of the Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors Inc. in 1978 to be one of the most important "professional milestones" ever achieved by the field of internal auditing.\textsuperscript{3} Therefore, activities and events transpiring since 1978 under the support of these new standards should

\textsuperscript{1}For example see: Rodriguez [1991], Vessel [1991], Thornhill [1990], Miller [1989], and Westberry [1989].

\textsuperscript{2}For example, see: Sawyer [1991], p. 42 or Flesher [1991], p.10.

\textsuperscript{3}For example see: Sawyer [1991], p.39.
provide better evidence of professional status than activities and events transpiring prior to the attainment of this notable "milestone". Finally, two previous studies published by Burns and Haga [1977] and Dierks and Davis [1980] have cast serious doubt that internal auditing qualified as a profession (in the strictest sense) prior to 1977. Thus, our decision to commence our study in 1977 avoids replication of circumstances already treated by these former studies.

This study reveals that the prospects for professional status have improved for the field of internal auditing since 1977. Several of the serious roadblocks to professional status noted by earlier studies have begun to dissipate and have brought about improved conditions that internal auditors might capitalize on to enhance their prospects for attaining "genuine" professional status. Finally, the study suggests several available courses of action that internal auditors might consider to capitalize on these improved prospects.

**PROFESSIONAL STATUS DEFINED**

Definitions of a profession fall within the research realm of the field of sociology. Over the years, sociologists have developed two different types of behavioral models that have been used in the accounting arena to explain the distinctive features of a profession: (1) the "shopping list" model; and (2) the "intimidation" model. Characteristics of both models and the basic reasons that led us to favor the "intimidation" model are explained in the following two subsections.

*The Shopping List Model of Professional Status*

The "shopping list" model is the traditional model of professional status. It has been adopted by most occupations that have claimed professional status over the years. The "shopping list" model defines the distinctive features of a profession in terms of a list of observable "professional" traits or behavioral attributes. Traits and attributes included on the "shopping list" have been noted by various sociologists who have studied both professional and non-professional occupations for many years.

Specific professional traits included on a typical "shopping list" will vary somewhat depending on the sociologist who originally prepared it and the field that subsequently adopted it for their own use. Nevertheless, a typical list adopted by an occupation claiming professional status will invariably include most
(i.e., attribute nine is normally omitted since it may prove embarrassing to members, and attribute eight has been declared "unconstitutional" since the publication of the B&H [1977] study) attributes included on the comprehensive "shopping list" compiled by Burns and Haga (B&H) [1977]. This B&H list has been reproduced here for the reader's convenience as Figure 1.

**FIGURE 1**

**THE TRADITIONAL SHOPPING LIST OF PROFESSIONAL ATTRIBUTES (1977 Version)**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Professions are occupations that involve altruistic service to the public.</td>
</tr>
<tr>
<td>2.</td>
<td>Professions are occupations that require long specialized training for their entrants.</td>
</tr>
<tr>
<td>3.</td>
<td>Professions are occupations that embrace a code of ethics.</td>
</tr>
<tr>
<td>4.</td>
<td>Professions form associations and hold meetings.</td>
</tr>
<tr>
<td>5.</td>
<td>Professions publish learned journals aimed at upgrading their practice.</td>
</tr>
<tr>
<td>6.</td>
<td>Professions use examinations as barriers to entry.</td>
</tr>
<tr>
<td>7.</td>
<td>Professions try to limit their practice to members licensed by the state or certified by association boards.</td>
</tr>
<tr>
<td>8.</td>
<td>Professions do not permit advertising of their services.</td>
</tr>
<tr>
<td>9.</td>
<td>Professions are occupations in which practitioners wear symbolic costumes (for example, black robes, or white coats) and control access and the behavior of non-members in their work places (for example, court rooms, operating rooms or religious sanctuaries).</td>
</tr>
</tbody>
</table>

Note: Attribute 8 can no longer appear on a profession's shopping list since it has been declared "unconstitutional.

Source: Burns and Haga [1977], p. 707.

Official CPA versions of the "shopping list" have appeared in various AICPA publications [e.g., Roy and MacNeill (1967) and Carey (1969)]. CIA and CMA versions of the "shopping list" continually appear in the membership information packets provided by the IIA and the Institute of Management Accountants (IMA) respectively. Shopping lists for CIAs and CMAs also appear frequently in many professional journals.4

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B&H [1977] cited two major weaknesses in the "shopping list" model that limit its reliability and utility as a research tool. First, "most versions of the "shopping list" fit most of the pretenders as well as the genuine professions". This deficiency causes the "shopping list" model to be an unreliable indicator of "genuine" professional status. Second, "shopping lists" are inadequate guides for designing programs that are aimed at either converting an occupation into a genuine profession or enhancing the status of an already established profession. Consequently, success of a field in developing itself along the lines of attributes appearing on a "shopping list" may be an unreliable indicator of that field's true progress in attaining genuine professional status. These weaknesses caused us to place less reliance on "shopping list" model than on the "intimidation model" in performing this study.

The Intimidation Model of Professional Status

The intimidation model is a causal model that describes why certain occupations enjoy their distinctive status as genuine professions and why others do not. The essential concept underlying the intimidation model is that the "genuine" professions maintain autonomy in their work environment by exercising intimidative power. This capacity to maintain autonomy by exercising intimidative power is the critical visible ingredient that distinguishes genuine professions from would-be professions and pretenders. Therefore, occupations that lack authoritative intimidative power simply do not qualify as "genuine" professions under the intimidation model.

According to B&H, genuine professions draw their intimidative power from the following two interrelated sources:

1. **High Cruciality** — Clients, employers and other outside groups comprising the relevant work audience of a profession consider the profession to be absolutely critical to their continuing prosperity, welfare and/or survival.

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5Burns and Haga [1977], p. 707.
6Internal auditing has effectively "qualified" as a profession under the "shopping list" model since 1974 the year of its first CIA Exam. As of 1974 it possessed 7 of the 9 attributes on the list presented in Figure 1. The only attribute not yet attained by internal auditing is attribute 9 which involves a distinctive costume and controlled access to its work realm. Attribute 6 is, of course, illegal.
2. **High Mystique** — Clients, employers and other significant outside groups comprising the relevant work audience of a profession consider members of the profession to possess expertise bordering on the sublime over a work ideology that is baffling but essential.

In forming these two perceptions, the relevant work audience of the occupation effectively bestow "genuine professional status" on all members-in-good-standing of the group who are sanctioned to provide the occupation’s services. This bestowing of status provides the "genuine" profession its intimidative power and authority.

Occupations involved in a line of work not susceptible to the cultivation of high mystique and high cruciality will normally face serious impediments to gaining "genuine" professional status. Lacking a basis for the cultivation of these perceptions, these occupations will have little hope of gaining intimidative power.

Under the intimidation model an occupation possesses sufficiently high degrees of mystique and cruciality to qualify as a genuine profession whenever a preponderance of its members possess the effective capability to win disputes with their relevant work audience through the application of mild or stronger forms of intimidative behavior. The ultimate intimidative weapon, wielded by genuine professionals, is the threat to withdraw or withhold future services.

The possession of this ultimate weapon operates somewhat like a "doomsday device" for the "genuine" professions. Clients or employers baffled by the somewhat mystical advice of a professional practitioner such as a physician or attorney will normally suspend their own judgments and defer to the advice of the professional. This deference takes place out of fear that further argument might provoke the professional into threatening withdrawal of further services. If the practitioner is a member of a "genuine" profession these services will be perceived to be absolutely essential (i.e., highly crucial) and available from no

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7Occupations seeking or claiming professional status often become involved with unionization as an alternative means to gain autonomy over their line of work when their efforts to professionalize have failed to win them professional intimidative power based on high mystique and cruciality. See Burns and Haga [1977], p. 707.
other source (high mystique) than another member of the profession.

Known capability to apply this ultimate intimidative weapon permits the professions to win most routine disputes with clients or employers by applying milder and more polite forms of intimidative behavior in day-to-day practice. CPAs, physicians, attorneys, and architects all apply intimidative behavior to win minor and serious disputes with clients or employers who refuse or are reluctant to follow their professional advice. For example, CPAs win many minor disputes with less sophisticated audit clients in day-to-day practice by applying subtle forms of intimidative behavior such as the frequent use of technical accounting jargon and recitations of complex quotes from authoritative accounting standards. Stronger forms of intimidative behavior such as threats to issue qualified or even more severe adverse audit opinions are also used in independent audit practice to win more serious disputes with clients. In the most serious disputes the ultimate threat to withdraw from the audit may be used. This ultimate threat to withdraw from the audit will normally cause all but the most difficult clients to cease further argument and follow the advice of the independent auditor. This change in the attitude of the client takes place because withdrawal of the CPA from the audit for “legitimate professional reasons” would often bring about serious and potentially “life threatening” implications for the client entity. This life or death power is the essence of “high cruciality” as these terms are interpreted by the intimidation model.

The study of internal auditing discussed in the remainder of this article emphasizes the use of the “intimidation model” in analyzing events and activities relevant to internal auditing’s professional status. As compared to the “shopping list” model, the “intimidation” model prescribes more rigorous and objective criteria for separating the “genuine” professions from the would-be professions and the pretenders. In addition, the high mystique and high cruciality sources of intimidative power identified by the “intimidation” model provide a better research basis than the professional attributes of the “shopping list” model for evaluating any changes that have taken place since 1977 in

*These implications could include the inability to secure independent audit services from any other CPA and legal actions suspending further trading in its securities on the organized securities market.
the professional status of internal auditing. This is the case because changes that affect the cruciality and/or mystique of internal auditing should directly influence the intimidative power of practicing members in the internal auditing field.

ANALYSIS OF THE PROFESSIONAL STATUS OF INTERNAL AUDITING

Three different historical perspectives were pursued to examine the professional status of the internal auditing field. First, relevant research dealing with the practice of internal auditing was reviewed and examined to search for evidence of effective intimidative power on the part of internal auditors. This review commenced with the 1977 B&H article. Second, the IIA Standards For The Professional Practice Of Internal Auditing (IIA Standards) and the current revised IIA Code of Ethics (COE) were analyzed to identify evidence of provisions sanctioning two types of behavior: (1) intimidative behavior befitting a “genuine” profession, or (2) “unprofessional” (e.g., weak or professionally inappropriate) behavior. This review of IIA Standards and COE covered related standard setting activities of the IIA since the initial publication date of the IIA Standards in 1978. Finally, legal statutes and legislative activities along with the activities of authoritative regulatory agencies and investigatory groups were reviewed since 1977. This review was conducted to identify any current or prospective authoritative sources of support for the intimidative power of internal auditors.

Results of the Literature Review

Our literature review did not reveal any convincing evidence that internal auditing has gained effective professional intimidative power in the preponderance of organizations that currently maintain an internal audit function. The studies and research reviewed tend to suggest that many more auditors are likely to be intimidated by top management than vice versa.

For example changes in Federal Laws since 1977 have forced medicine, law and public accounting to drop their traditional ethical rules prohibiting advertising of their services. Since the mid-1980’s these fields have not been permitted to maintain attribute 8. Failure to maintain this attribute has not had any discernible impact on the professional status of medicine, law or public accounting. Even without attribute 8 these fields continue to qualify as “genuine” professions if any fields so qualify.
Therefore, there appears to be continuing reason to doubt that internal auditing qualifies as a "genuine" profession under the tough criterion imposed by the "intimidation" model.

B&H [1977] applied the intimidation model to examine the professional status of CPAs, management accountants, and internal auditors near the close of the decade of the 1970s. They determined that as of 1977 the cumulative efforts of the IIA had been unsuccessful in attaining genuine professional status for the field of internal auditing, because their members lacked effective intimidative power in practice. As of 1977, membership in the IIA and/or possession of a valid CIA credential did not provide internal audit staff members and/or the director of internal audit the effective capacity to control the autonomy of the internal audit function in most organizations. In the late 1970s top management officials could constrain the organizational activities open to internal audit or stonewall sensitive findings discovered by its internal auditors. Management could effectively respond to the internal auditing function's threats of resignation, withdrawal or suspension of further services by simply replacing its professional internal audit staff with more cooperative employees who were neither CIAs nor members of the IIA. The fact that management considered members of the laity as alternative sources of internal audit services indicated that internal auditing lacked sufficient cruciality and mystique in the eyes of high echelon management to maintain its professional autonomy in most organizations. Consequently, B&H concluded that internal auditing failed to qualify as a "genuine" profession as of 1977.

In 1980, Dierks and Davis (D&D) [1980] applied the intimidation model to re-examine the conditions of cruciality and mystique in internal audit practice. They were motivated to re-examine this issue because of the enactment of the Foreign Corrupt Practices Act in 1977 (FCPA 1977), and the issuance of IIA standards in 1978. Both of these events provided internal auditors an opportunity to assume a more crucial role in monitoring, testing, evaluating and reporting on their organizations' internal controls. The IIA standards also appeared to provide IIA members and CIAs an improved basis for gaining enhanced mystique and cruciality.

D&D had internal auditors complete a survey instrument to measure their perceptions of how management and others viewed their (i.e., the internal auditor's) cruciality and mystique. Cruciality and mystique were assessed in eight different areas
covered by the then relatively new IIA Standards. Measurements of mystique and cruciality were separately captured for each area on a five point Likert scale (1 indicating high and 5 indicating low). Overall averages for mystique and cruciality were generally below the midpoint of the scale. The final overall conclusions reached by D&D were that internal auditing had not yet achieved genuine professional status, but that this status was now within internal auditing's grasp.

Unfortunately, D&D's conclusions are open to serious questions, because they did not address their survey directly to members of management, the boards of directors, the audit committees or other key organizational insiders that comprised the relevant work audience of the internal audit function. In addition, D&D did not ask the internal auditors whether or not they possessed the capability to control the autonomy of the internal audit function in their employing organization through intimidation. How members of an occupation view their own mystique and cruciality matters little if their work audience fails to share the same view. Thus, there is reason to doubt that the actual professional status of internal auditors in 1980 was any different than it was in 1977 when the B&H study took place.

The results of the Mautz, Tiessen, and Colson (M,T&C) [1984] study provided some evidence of insufficiency in the perception of cruciality enjoyed by internal auditors in top US companies during the early 1980s. Management officials responding in the study listed "inadequate appreciation by this company of internal audit capabilities" as the number one factor inhibiting the usefulness of the internal audit function in their organization. Members of the audit committees of the same companies participating in the M,T&C study listed "inadequate appreciation of internal auditing capabilities" as the number two factor inhibiting the usefulness of the internal audit function in their companies. This strong feeling of "inadequate appreciation" does not indicate that the internal audit functions enjoyed a perception of high cruciality in their respective organizations.

Unfortunately, M,T&C study did not address the issue of the professional intimidative power possessed by the internal audit functions of the companies which participated in their study. The study did indicate that a significant portion (72%) of the participating audit committee members shared the perception that internal auditors were among the best technically qualified

10 See Burns and Haga [1977], p. 708.
employees in their organizations. Unfortunately, technical competence is only one of many factors that determines the perception of mystique enjoyed by a profession.\(^{11}\) Consequently, evidence resulting from the M,T&C study cannot be used to assess the perception of mystique enjoyed by the internal audit functions that participated in the study.

Research published subsequent to the D&D and M,T&C studies, dealing with mystique, cruciality or the intimidative power of internal auditors, continued to indicate symptoms of insufficient intimidative power on the part of internal auditors into the late 1980s. The lack of intimidative power demonstrated by management’s ability to dismiss an “uncooperative” internal auditor was reported by Wells \[1985\] as a continuing concern among practicing internal auditors in the 1985 era.

Studies dealing with the internal audit reporting of sensitive issues and “whistle blowing” provide further evidence of insufficiency in the intimidative power of internal auditors during the decade of the 1980’s. For example, in a study dealing with internal audit reporting of sensitive issues, Near and Miceli \[1988\] (N&M) noted “fear of retaliatory action by management” as a legitimate concern shared by a significant number of directors of internal audit. The N&M study further indicated that a significant number of internal auditors participating in their study considered “possible retaliatory action by management” as a relevant decision factor in their deliberations involving decisions on whether to pursue or not pursue formal audit reporting of sensitive findings.

Case studies on “whistle blowing” such as those published by Suchodolski \[1981\], Wells \[1985\], and Vinten \[1992\] illustrate instances in practice where sensitive issues discovered in internal audits were either blocked from the formal audit report or otherwise “stonewalled” by higher level management officials of notable organizations. Some of these “whistle blowing” cases involved instances where well-intentioned internal auditors attempting to comply with IIA standards were fired and/or seriously punished by management officials of their employing organizations. These whistle blowing cases illustrate instances in practice during the 1980s where the intimidative power of the internal auditor was insufficient to overcome management. Dishonest managers in these “whistle blowing” cases did not defer to the judgments of their internal auditors and forced the inter-

\[^{11}\] For an expanded discussion of mystique, see B&H \[1977\] p.710.
nal auditors to move beyond the intimidative behavior sanctioned by the internal auditing field to effectively commit career suicide by "blowing the whistle".

Verschoor [1989] noted significant evidence of weak audit committee support for the internal audit functions in the defense industry in the late 1980s. Evidence of two major factors which continued to impair the intimidative power of internal auditing (restrictions placed on the scope of internal audits by top management; and weak support of the internal audit function by audit committees) was also noted in a study conducted by Tiessen and Barrett [1989]. Johns [1991] reported some evidence of a minor increase in higher level management support for the internal audit function in the public utilities industry for the decade of the 1980s. Johns' report was based on 1980 and 1989 surveys conducted by the American Gas Association and Edision Electric Institute, respectively.

Research published in the 1990s continues to provide no clear evidence that internal auditing has gained sufficient intimidative power to qualify it as a "genuine" profession under the intimidation model. The lack of sufficient intimidative power by internal auditors was pointed out by Vessel [1991] with the claim that "instead of being able to intimidate management, internal auditors are more likely to be intimidated by management". Evidence of continuing weak support of the internal audit function by audit committees was reported by Peacock and Pelfrey [1991]. Further evidence indicating insufficient intimidative power of the internal audit function was recently reported by Kalbers [1992] who surveyed the directors of internal audit and audit committee members of a random sample of 90 US companies. His sample was drawn from Value Line Investment Survey. Directors of internal audit responding to Kalbers' survey indicated a perception that the top management officials in their companies "did not encourage" the submission of internal audit reports to their audit committees that contained findings dealing with such matters as: weaknesses in the companies' internal control structures; accounting errors; or irregularities. Responses and remarks by the internal audit directors participating in the Kalbers study also indicated that a significant number of internal auditor directors fear retaliatory action by top management. This later finding tends to agree with Vessels [1991] earlier report that a significant number of internal auditors continue in the 1990s to be more intimidated by management than vice versa.
In general, the review of relevant research did not disclose convincing evidence that internal auditors currently possess sufficient intimidative power to place them on par with the well established “genuine” professions such as medicine, law, and public accounting. Most organizations can still replace their internal audit director (or any other internal audit staff member) with a member of the laity who is willing to subordinate internal auditing’s interests to those held by senior management.

Results of the Historical Review of IIA Pronouncements

Our review of IIA promulgations disclosed a number of different provisions sanctioning the application of internal audit measures that might be perceived by management as mild, moderate or strong forms of intimidative behavior. These intimidative measures appeared to focus primarily on three basic issues treated in this section: (1) internal auditor involvement with circumstances involving illegal or improper business activities or discreditable actions; (2) management reluctance or refusal to follow internal audit advice; and (3) management imposed internal audit scope restrictions. These issues are most pertinent to our analysis of internal auditing’s professional status because they relate directly to the two major benefits enjoyed by all “genuine” professions: (1) the authority to make final judgments pertaining to the profession’s line of work, and (2) protection of the profession’s autonomy over its work ideology.\(^{12}\)

Issue 1: Circumstances involving illegal or improper business activities and discreditable actions

IIA Standards prescribe the use of the “ultimate intimidative weapon” under two circumstances. These circumstances are covered by Rules II and III of the IIA COE respectively.\(^{13}\) These rules state as follow:

Rule II

Members and CIAs shall exhibit loyalty in all matters pertaining to the affairs of their organization or to whoever they may be rendering a service. However, Mem-

\(^{12}\)See Burns and Haga [1977], p. 708. For a more extended discussion see Friedrich [1958], pp. 25-48, and; Hughes [1963].

\(^{13}\)Standard 240 of the IIA Standards requires compliance with the IIA COE.
bers and CIAs shall not knowingly be a party to any illegal or improper business activity.

Rule III

Members and CIAs shall not knowingly engage in activities which are discreditable to the profession of internal auditing or their organization.

Circumstances covered by these rules might arise in conjunction with a new offer of employment or in conjunction with an ongoing internal audit employment situation. In "employment offer situations", Rule II implies that an internal auditor should refuse an offer of employment from an organization that is known by him/her to be actively involved in illegal or otherwise improper business activity. Rule III also implies that an internal auditor should refuse an offer of employment from an organization that obviously intends to place him/her under duress to perform discreditable acts.\(^{14}\)

In "on-going employment" cases, Rule II implies that an internal auditor should resign employment with an organization that refuses to follow his/her advice (or the advice of others) to refrain from illegal or otherwise improper business activity. Rule II might also call for resignation where top management and the board fail to take appropriate action to follow up on illegal acts reported to them by the internal auditor in accordance with Guideline 280.06 of the original IIA Standards. This guideline compels the internal auditor to notify "appropriate authorities" in the organization whenever he/she suspects instances of "wrongdoing".\(^{15}\) Similarly, Rule III implies that an internal auditor should resign employment with an organization that places him/her under strong duress to perform duties that constitute discreditable acts.

Both of these rules have been devised to operate as strong deterrents to illegal or improper business activities in practice.

\(^{14}\)Actions violating provisions of the IIA COE and activities violating the organization's ethical conduct code would "qualify" as discreditable acts.

\(^{15}\)Guideline 280.06 and IIA Professional Standards Bulletin 83-5 further stipulate that the internal auditor should discuss all instances of suspected wrongdoing with appropriate organization officials and recommend any further internal audit or management investigatory procedures that appear to be warranted in the circumstances. These promulgations further stipulate that the internal auditor should take further follow-up steps to determine that internal auditing's responsibilities with respect to the circumstances reported have been met.
They effectively block organizations sincerely desiring to maintain (or legally required to maintain) a professional internal audit function from engaging in illegal or improper business activities. Well recognized professions such as medicine, law and public accounting have enacted similar rules to accomplish essentially the same deterrent functions. Thus, internal auditing's prescribed intimidative measures for "Issue 1" appear to compare favorably with those prescribed by the "genuine" professions.

**Issue 2: Management refusal to follow internal audit advice**

IIA promulgations appear to focus their second-most severe forms of intimidative behavior on the issue of top management's refusals to accept the auditor's formal conclusions or follow the internal auditor's "formal advice". Here IIA promulgations do not prescribe the use of "ultimate professional weapons" unless the audit issues at hand "qualify" as Rule II or Rule III circumstances under the IIA COE.

For audit issues falling outside the scope of Rules II and III, IIA Standards recommend a variety of intimidative measures. These measures have gradually evolved over time since the original issuance of the IIA Standards in 1978. The evolution of these measures reflects a progressive increase in the intimidative pressure applied on higher levels of management to follow the internal auditor's advice.

Intimidative measures recommended by the original IIA Standards include three that continue to be particularly pertinent to the issue of management resistance to the internal auditor's advice. First, audit reporting measures recommended by Guideline 430.06 effectively place significant intimidative pressure on local auditee management to concur with the auditor's findings and advice. Guideline 430.06 requires management to explain the detailed basis of all significant disagreements it has with the auditor's findings or advice. Guideline 430.06 requires management to explain the detailed basis of all significant disagreements it has with the auditor's findings or advice. These explanations are included (along with other management comments) in the final audit report. Therefore, managers desiring to contest the auditor's findings (or desiring to ignore or otherwise depart from the auditor's advice) find it necessary to develop a rationale for their argument superior to that prepared by the internal auditor for his/her advice. This management rationale must be sufficiently convincing to pass review by higher level management and the board. Rejection of lower management's rationale...
by higher echelon officials may jeopardize lower level management’s job security. The prospects of such a rejection should add intimidative power to Guideline 430.06’s provisions. This is especially true where auditee management’s motives for resisting the auditor’s advice are truly inappropriate (e.g., to avoid open embarrassment or additional work commitments to resolve problems noted by the auditor).

The second intimidative measure recommended by the original IIA Standards involves follow-up audits. Standard 400 prescribes follow-up audits to exert intimidative pressure on management to fulfill its promises and take prompt and effective action to implement the internal auditor’s formal advice. Finally, Guideline 440.01 imposes direct intimidative pressure on senior level management in the event that it ultimately decides to back auditee level management’s rationale for disagreeing with the auditor’s findings or advice. In these cases, Guideline 440.01 directs the internal auditor to determine that “management and the board has assumed the risk of not taking corrective action on reported findings”. The requirement to provide this “risk acknowledgment” to the auditor should intimidate senior level management and cause them to reconsider their decision to back lower level management’s rationale. This is the case because a “risk acknowledgment” could later be used to weaken senior management’s line of defense in the event that severe problems actually materialized as a result of their deliberate failure to follow the internal auditor’s advice.

IIA promulgations of 1983 recommended at least three additional intimidative measures to strengthen internal auditors’ arsenal for combating management resistance to their advice. First, Guideline 430.04.1 of Statement on Internal Auditing Standards (SIAS) No. 2 sanctioned the practice of including a section in current audit reports presenting an updated status report on actions taken by management to comply with the auditors’ advice presented in previous reports. Use of these status reports provides internal auditors an additional formal reporting measure to maintain intimidative pressure on management to comply with their advice. Second, Guideline 430.06.1 of SIAS No. 2 prescribed more rigorous formal audit report documentation for audit findings. This documentation included an internal audit analysis of the actual or potential organizational risks associated with each audit finding. The necessity to discredit these risk analyses should reinforce the intimidative power of Guideline 430.06’s previous recommendations for audit report docu-
mentation of management's rationale for disagreeing with the auditor's advice. Finally, three additional 1983 IIA promulgations significantly enhanced the intimidative pressure placed on higher echelon officials by Guideline 440.01 of the original IIA Standards. IIA Professional Standards Bulletin 83-17 (PSB 83-17) specifically stipulated that the internal auditor should pursue lower management disagreements with internal audit advice to the senior management and board level. This pursuance had only been implied by Guideline 440.01. PSB 83-17 further clarified that the auditor should formally inform senior management and the board of the organization risks associated with failure to follow the auditor's advice. Here former Guideline 440.01 had not specified formal notification in writing and had not explicitly mentioned that this notification should include the auditor's analysis of risks associated with matters in dispute.

SIAS No. 7 (1989) further enhanced the intimidative pressures focused on senior management and board members by requiring that senior management and board level "risk acknowledgments" be formally documented in an executive level management version of the audit report. This increased the vulnerability of these "risk acknowledgments" to detection by legal authorities and the organization's external auditor.

At the present time, these, senior management and board level "risk acknowledgments" are the most powerful intimidative weapons sanctioned by IIA promulgations to combat management reluctance to follow the internal auditors's advice. IIA promulgations do not explicitly recommend further application of the "ultimate weapon" where the audit committee or board tacitly or explicitly support senior management's decisions to ignore or depart from the internal auditor's advice pertaining to matters falling outside the scope of Rules II and III of the IIA COE.

Measures suggested by IIA promulgations to combat management resistance reflect some possible symptoms of "unprofessional behavior" from the standpoint of the intimidation model. It may be argued, for example, that IIA Standards providing management an opportunity to openly argue with the auditor's advice in the formal audit report constitute a weak or "unprofessional response" to management's challenge of the professional practitioner's judgments. Practitioners of the "genuine" professions such as medicine and law normally react to such challenges by simply suggesting that the challenger (i.e., client or employer) might obtain a second opinion from another
"qualified" professional practitioner. Hence the standards of medicine, canons of law, and AICPA Professional Standards contrast quite dramatically with IIA promulgations on this issue. The standards of these three genuine professions effectively prohibit arguments with clients on issues involving the practitioner’s judgments about the profession’s work ideology. Under the intimidation model a profession’s judgments are final!  

**Issue 3: Management imposed internal audit scope restrictions**

IIA pronouncements also prescribe strong intimidative measures to avert inappropriate scope restrictions by management. Two of the strongest measures prescribed for this issue include: (1) the use of formal internal audit charters; and (2) the formal reporting of scope restrictions imposed by management to the board.

The original IIA Standards, issued in 1978, prescribed the use of formal internal audit charters. Subsequent pronouncements of the IIA have reinforced the effectiveness of these original charter provisions by clarifying many of the detailed matters that should be covered by a properly prepared charter. These detailed matters include considerations pertaining to the organizational position of the internal audit function, internal audit access to information, measures that need to be taken to assure the objectivity of internal audit staff members, and the scope of the responsibilities and duties of the internal audit. As a result, charters prepared in accordance with current IIA Standards should provide the internal audit function strong intimidative "contractual" support for resisting inappropriate attempts by management to bar internal audit access to a sensitive area or otherwise restrict the scope of an ongoing or scheduled internal audit. Most violations of a properly prepared charter will require review and approval by senior management and the audit committee or board in larger organizations.

SIAS No. 7 (1989) recommends explicit formal reporting measures for management imposed scope restrictions. For significant restrictions, these measures involve formal appeal to senior level management for a rescission of the scope restriction. If the senior management appeal fails, SIAS No. 7 prescribes immediate written notification of the board.

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16 See Burns and Haga p. 709.
Where the restrictions imposed by senior management and the board clearly appear to be motivated by an attempt to conceal illegal or improper business activities, IIA Standard 220 would appear to apply. This standard would invoke Rule II of the IIA COE which might require the auditor(s) involved to consider a threat of resignation. However, existing IIA promulgations do not appear to call for intimidative action stronger than written board notification where scope restrictions violating charter provisions are imposed for less serious inappropriate motives (e.g., to avert "untimely" audit disclosure of circumstances falling outside the scope of Rule II that would embarrass management or possibly jeopardize their job security). Failure of the IIA Standards to address this latter category of scope restriction motives with stronger intimidative measures, effectively sanctions the continuance of substandard internal auditing services from the standpoint of the organization's charter. This type of circumstance is prohibited by standards that regulate most of the genuine professions. For example, standards in the field of medicine would require a company-employed physician to resign his or her post if the employer attempted to prohibit him/her from providing medical services to specific employees and those services were guaranteed under the employees' job contracts.

The true intimidative power of the measures treated in this section ultimately depend on management's perceptions of the internal auditor's cruciality and mystique. If these perceptions are "high", the IIA measures covered should carry intimidative power. On the other hand, if these perceptions are insufficient, the measures covered may represent little more than a nuisance to management. The studies and articles covered in our previous literature review tend to cast some serious doubts on the strength of these management perceptions. Consequently, it appears that, as of this time, the measures covered in this section carry at least some intimidative power with the management officials of some organizations but may well represent a nuisance to the managers of others. This leads us to suspect that internal auditing currently scores higher on cruciality than it does on mystique.17

17 Internal auditing must possess some cruciality in the eyes of management. Otherwise they would not tolerate its nuisance behavior.
Results of the Historical Review of Activities of Authoritative and/or Regulatory Agencies/Groups

Our review of the activities of authoritative groups and regulatory agencies disclosed several positive signs for internal auditing's professional prospects. Some of these signs relate to improved prospects for gaining enhanced cruciality and others relate to improved prospects for gaining enhanced mystique.

Mounting public concerns for improved internal control conditions in business and government since 1977 have improved the legal and regulatory agency support prospects for any field of work that is truly equipped to render effective assistance in the area of internal control. Internal auditors occupy an ideal organization position to render this assistance and legislators and regulatory groups seem to have become increasingly aware of this since 1977. Much of this increased awareness appears to have resulted due to the organized efforts of the IIA.\textsuperscript{18}

Since 1977 internal auditors have scored several victories in winning legislative recognition and support for IIA Standards and the internal audit function in general. These victories include specific recognition and support in the Foreign Corrupt Practices Act of 1977 (FCPA 1977) and the Federal Manager's Accountability Act of 1981 (FMAA 1981).

The FCPA 1977 and the FMAA 1981 have improved internal auditors' prospects for gaining enhanced cruciality. Both of these acts imposed legal responsibilities and serious penalties directly on senior management officials for installing, maintaining and monitoring adequate internal controls. As Flesher \textsuperscript{[1991]} points out, these new legal responsibilities and penalties heightened most top managers' concerns for internal control. These heightened concerns have motivated many management officials to increase organizational requirements for internal control system monitoring, testing and evaluation services including the formal documentation thereof. Evidence of this gain in cruciality has been reported by Flesher \textsuperscript{[1991]} who stated that the result of the FCPA 1977 was "the hiring of more internal auditors by corporations with internal audit departments, and the establishment of new internal audit departments by those organizations that did not already have them".\textsuperscript{19}

\textsuperscript{18} For an in-depth review of these IIA efforts see Flesher [1991].
\textsuperscript{19} See Flesher [1991], p.10.
Since the enactment of the FCPA 1977, the SEC has instituted more than 174 injunctive actions and more than 31 administrative proceedings under the act's accounting and internal control provisions. Many of these enforcement actions have resulted in the issuance of injunctive orders directing companies to strengthen their audit committees and internal audit functions.\textsuperscript{20} Directives of this type tend to indicate that the SEC and the U.S. Justice Department recognize the internal audit function and consider it to be an important force for combating corporate fraud, internal control problems, and financial reporting deficiencies. This formal recognition is a strong signal that, the SEC and the U.S. Justice Department may be joining the relevant work audience of internal auditing. This improves the prospects for further legislation and regulations that may bolster the cruciality of internal auditing.

Fargason \cite{Fargason1993} reports evidence that the U.S. Courts may also be developing a perception that internal auditing is a valuable professional service. Fargason states that in the past decade, the number of U.S. court cases involving internal auditors as witnesses has increased dramatically. He further points out that the courts are increasingly considering the internal audit function to be a reliable source of valuable evidential information. Recent legal cases cited by Fargason illustrate instances where higher courts have reversed the judgments of lower courts on the basis of documentary evidence prepared by internal auditors. He also points out that the U.S. Congress and many state legislatures have been increasing their reliance on internal audit reports in drafting new legislation.

The Treadway Commission Report of 1987 represents another important victory for internal auditing from the standpoint of improving its prospects for gaining enhanced cruciality in public companies. At least six of the recommendations contained in the commission's final report reinforce the application of corporate control measures that affect internal auditing. Corporate compliance with these recommendations can be expected to offer internal auditors in public companies improved prospects for gaining enhanced cruciality.

First, and perhaps most important of all, the Treadway Commission Report explicitly recommended that all public corporations should maintain an internal audit function. This first

\textsuperscript{20}For example see SEC Administrative Proceeding File No. 3-6123 involving The Telex Corporation.
recommendation effectively mandates the existence of a viable internal audit function in all public companies. This mandate clearly conveys a message that the members of the Treadway Commission consider the internal audit function as crucial. It also sends privately held companies desiring to become publicly held a strong signal that they should install an effective internal audit function.

The Treadway Commission Report stipulated that public corporations should maintain a standing audit committee comprised of nonmanagement directors to coordinate internal and external audit activities. Compliance with this second recommendation effectively forces senior management to consider its support of the internal audit function to be a more crucial concern. This is the case because unsatisfactory support of the internal audit function by senior level management may be communicated directly to nonmanagement directors of the company by the internal audit function.

The final Treadway Commission Report encouraged the use of formal internal audit charters by public companies. This third recommendation relevant to internal auditing provided additional authoritative support for one of internal auditing's strongest intimidative measures for combating unjustified audit scope restrictions by management. Treadway Commission support for charters makes it increasingly difficult for management to resist the internal auditor's requests for formal internal audit charters in public companies. Charters effectively enhance the cruciality of the internal audit function by means of their detailed contractual provisions.

The Treadway Commission also encouraged the use of ethical conduct codes by public companies. This fourth recommendation provides internal auditing new prospects for expanding its services in public companies. The internal audit function would seem to be the most logical organizational candidate for monitoring employee compliance with the provisions of the organization's ethical conduct code. Added responsibilities in this area enhance internal auditing's prospects for gaining enhanced mystique and cruciality.

The Treadway Commission Report recommended the inclusion of "management responsibility letters" in the annual reports of public companies. These letters require members of senior management to formally acknowledge that they have met their primary responsibilities under the FCPA 1977 for installing, maintaining and monitoring adequate internal controls in
the company. These formal declarations increase the importance of the internal audit work performed to support top management's representations. For example, significant deficiencies in internal controls reported to top management by the internal auditor might hamper top management's ability to claim that it has met its responsibilities under the FCPA 1977. Therefore, this fifth recommendation of the Treadway Commission offers internal auditing additional prospects for gaining cruciality in the eyes of management.

The Treadway Commission also recommended the inclusion of an "audit committee letter" in the annual report of public companies. This sixth recommendation offers internal auditors stronger prospects for gaining cruciality than the "management responsibility letter". This is so because the "audit committee letter" would require the chairperson of the audit committee to comment on matters pertaining to the scope of audit activities as well as any significant audit findings.

The Internal Control-Integrated Framework project performed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides internal auditors additional outside authoritative support that should serve to improve its prospects for gaining mystique and cruciality in public corporations. The final COSO report issued in 1992 clarified the importance of the internal audit function as an objective in-house evaluator of the organization's internal control structures. The COSO report further recommended the adoption of IIA Standards and also strongly supported the Treadway Commission's previous recommendation for the inclusion of "management responsibility letters" in the annual reports of public companies. These COSO report recommendations have improved the prospects for future federal legislation requiring "management responsibility letters" as well as compliance with other recommendations of the Treadway Commission covered previously.21

The passage of the Federal Deposit Insurance Act of 1991 (FDIC [1991]) may improve internal auditors' prospects for gaining cruciality in the banking industry. The FDIC [1991] includes provisions mandating internal control reporting by management and independent auditors for all but small insured depository institutions. Management compliance with the internal

21 See Gujarathi and Raghundan [1993] for additional details pertaining to the status of the TCR and COSO report.
control provisions of this new law should enhance the cruciality of internal audit support in many banking institutions. According to Gujarathi and Raghundan [1993], the success of the internal control reporting provisions of the FDIC law could have future implications for all public companies.

Other legislative victories scored by internal auditing since 1977 include the adoption of IIA Standards by five states. In 1982, California became the first state in the U.S. to pass a law that required all state and local governmental internal auditors to comply with the IIA Standards. Since 1982, at least four other states (i.e., Tennessee (1984), Virginia (1985), Florida (1986) and Texas (1987)) have enacted legislation similar to that enacted by California. Flesher [1991] also reports that several other states have enacted similar ordinances. State laws requiring compliance with IIA Standards have enhanced internal auditing's prospects for gaining both enhanced cruciality and mystique at the state and local levels of the public sector.

Changes in the AICPA standards pertaining to the independent auditor's consideration of the internal audit function appear to pose mixed implications for the professional prospects of internal auditing. On the positive side, several new provisions of SAS No. 65 can be interpreted as effectively alleviating much of the CPA/internal auditor skill-subordination problem previously noted by B&H in their 1977 analysis. Unlike its predecessor pronouncement (SAS No. 9), SAS No. 65 explicitly recognizes the field of internal auditing as a profession separate from independent auditing. For example, SAS No. 65 explicitly acknowledges the IIA standards as appropriate standards for conducting internal audit activities and evaluating the quality of the performance of the internal audit function. SAS No. 65 also explicitly mentions "professional certification" and "continuing education" as important indicators of the competency of internal auditors. These latter provisions can be interpreted to

22 See Flesher [1991], p. 29.
23 According to B&H the "skill-subordination" problem had traditionally blocked internal auditing from gaining exclusive mystique over the internal auditing work ideology. Most members of internal auditing's work audience have traditionally perceived that CPAs possess high mystique in areas dealing with internal auditing as well as high mystique over all other areas of auditing. This skill subordination problem is similar to the problem faced by nurses in the field of medicine.
24 SAS No. 65, par. 11.
sanction the internal auditing field as a profession separate and distinct from the field of independent auditing.

SAS No. 65 also contains some new provisions that effectively reinforce critical factors that operate to enhance the mystique and cruciality of internal auditors. For example, SAS No. 65 contains new provisions which should discourage top management and the board from imposing significant restrictions on the audit activities performed by the internal audit function. In determining independent audit reliance on the work performed by the auditee's internal audit function, SAS No. 65 mentions that the client's adoption of: IIA Standards; internal audit charters; audit committees; certification of internal audit staff members; continuing education for internal auditors; and high echelon reporting level status would be viewed favorably by the independent auditor. Many corporate entities can be expected to adopt these measures to appease their independent auditors. Increased adoption of these items by corporations can be expected to improve many of the important conditions necessary for the field of internal auditing to gain increased mystique and cruciality.25

From the negative standpoint, the provisions of SAS No. 65 impose additional restraints on the independent auditor's reliance on the internal auditor's work in high risk areas (i.e., compared to SAS No. 9). Both Barrett [1990] and Vessel [1991] believed that management and other members of the internal auditing work audience will perceive this decreased willingness to rely on the internal auditor's work as an indication of internal auditing's inferior technical capabilities (i.e., as compared to the independent auditor). If it develops in practice, a perception of this latter type would further perpetuate the skill-subordination problem noted by B&H in 1977. This is true even though the independent auditor's reluctance to rely on the internal auditor's work in high risk areas may be justified on the grounds that the internal audit function does not share legal responsibility with the external auditor for overlapping audit work.

In general, the activities, events, and trends covered in this section disclose some very favorable professional prospects for internal auditing. The following section presents some suggested future courses of action that might be taken by internal auditors...
to capitalize on these opportunities to gain enhanced mystique and cruciality.

RECOMMENDATIONS FOR ENHANCING THE PROFESSIONAL STATUS OF INTERNAL AUDITING

The intimidation model suggests a definite order of development in the two basic conditions that provide the genuine professions their authority and intimidative power. Development of the conditions which provide the profession enhanced mystique must first take place in order to provide the evolving profession a unique subject matter basis for gaining enhanced cruciality. Therefore, internal auditors should focus their immediate efforts on opportunities that have the greatest potential to enhance their mystique.

The opportunity to become the predominant experts in the area of auditing and evaluating traditional accounting-type internal controls appears to be the best alternative for cultivating enhanced mystique in the current political, legal, and business environment. The general public, the SEC, the Treadway Commission, legislators, and the organized securities markets all seem eager to find an occupational group that can apply improved auditing methods to insure that corporate top management meets its fiduciary responsibilities for installing and maintaining adequate systems of traditional internal controls. Internal auditors are in an ideal position to provide this type of service. CPAs appear to be the only other available group that might be able render additional assistance in this area. However, CPAs are currently facing intense competitive pressures to control independent audit time and fees. This pressure impairs their ability to spend additional audit time examining internal control issues that do not relate directly to their opinion on the financial statements. In this competitive environment CPAs can only provide additional help in the area of traditional internal control by offering a special attest service. This additional attest service would certainly result in a significant increase in the annual billings to clients by independent auditors. Since internal auditors are already familiar with corporate controls, they should be capable of providing this same service at a lower cost than CPAs.

26 These new attest services are covered by AICPA Statement on Standards for Attestation Engagements No. 2 Reporting on an Entity's Internal Control Structure over Financial Reporting. (August, 1993).
Internal auditors as a group should begin to re-focus their efforts on the development and implementation of improved techniques for evaluating and testing traditional internal controls. This audit area offers internal auditors some excellent opportunities for cultivating high mystique. One of the best opportunities deals with the mystical area of risk assessment.

Internal auditors can develop improved techniques for gathering and documenting and sharing internal control risk assessment information. Improved information of this type would provide internal auditors superior bases for developing their internal control audit test criteria and for defending their internal control audit findings and recommendations. Improved information of this type might include the following items: (1) listings of potential errors, irregularities, and illegal acts that pose inherent risks to the organization (henceforth referred to as threats); (2) inherent risk estimates for each threat including estimates of occurrence rates or likelihoods of occurrence and estimates of possible error magnitudes or dollar losses; and (3) estimates of internal control effectiveness levels.

Internal auditors have direct daily access to the world's foremost experts in risk assessment. These experts are the clerical employees, who perform accounting, operating, and other internal control-related duties in the specific areas where errors, irregularities, and inefficiencies either originate or first become susceptible to detection. These employees normally possess the best available insight pertaining to threats, inherent risk levels, and control effectiveness related to their work areas. Internal auditors should develop improved techniques for gathering, documenting, validating, and sharing this insightful information possessed by employees.

Internal auditors might pursue projects to develop improved techniques to take better advantage of this information and knowledge. For example, the IIA might be encouraged to sponsor ongoing programs to gather risk assessment information from its members in various industries. Information gathered could be used to compile industry data pertaining to such matters as: (1) the types of errors and irregular and illegal acts

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27 This might permit the IIA to revise its standards to discourage formal audit report coverage of management’s disagreements with the internal auditor’s findings and recommendations on “traditional internal control audits”. It is doubtful that this coverage can be eliminated for operational auditing concerns falling outside the scope of “traditional” internal control issues.
perceived by internal auditors to constitute control threats in various industries; (2) potential error rates and probabilities of occurrence assessed by internal auditors for common threats in various industries; and (3) internal audit assessments of potential damages for common threats in various industries. Information of this type could be supplied to practicing internal auditors in the form of a subscription service which would provide subscribers an improved basis for performing and defending the reasonableness of risk assessments in their organizations. Improved capabilities to perform inherent and control risk assessments would provide internal auditors a distinct advantage over independent auditors who do not have time to address threats and risks at the grass-roots level. Improved risk assessment information of this type would likely increase the mystique of internal auditing.

Action to take advantage of the opportunity to gain professional status in the area of traditional control auditing will require internal auditors to modify their current thinking regarding operational auditing. Internal auditors currently consider operational auditing to be their “premier” professional service much like public accounting considers independent auditing to be theirs. Our historical analysis has led us to the conclusion that this line of thinking on the part of internal auditors may be faulty.

Operational auditing is not a type of internal auditing service that is susceptible to the cultivation of high mystique and high cruciality. This is primarily because it involves a nearly undefinable work ideology. The most successful operational auditor is a “jack of all trades” who can provide objective help to management in dealing with nearly any operational problem. Unfortunately a “jack of all trades” is typically perceived to be “a master of none.” Mastery over no discipline turns out to be the antitheses of a profession. From this standpoint “operational auditing” should probably occupy a position in internal auditing’s service line similar to the positions occupied by management advisory services (MAS) and tax advisory services (TAS) in the field of public accounting. This is not to suggest that internal auditors should abandon or de-emphasize the importance of operational auditing. What is being suggested is that internal auditors should begin to cultivate a “professional level of expertise” over the specific area dealing with auditing traditional control concerns. Professional expertise in this limited area would provide internal auditors intimidative power over a crucial sub-
ject area similar to the independent auditing service area that is the principle source of public accounting’s professional status. This change would not necessarily require any reduction in the valuable operational auditing services currently being rendered by internal audit departments. After all, many practicing CPAs consider MAS and TAS to be their most beneficial and lucrative service areas. This is true even though CPAs’ have not and probably never will enjoy high cruciality in these service areas.

The field of internal auditing can also capitalize on several other opportunities to enhance its cruciality as the exclusive provider of traditional control auditing. The current trend for companies to adopt internal auditing charters is an excellent example of one of these opportunities. Regulatory groups requiring or recommending the use of internal auditing charters could be encouraged to consider charter provisions requiring the organization to employ a director of internal audit who either possesses a valid CIA credential or is at least a member in good standing of the IIA. A requirement of this nature would effectively prohibit management from replacing its professional director of internal auditing with a non-professional director, who is not bound to adhere to the profession’s standards. Regulations mandating IIA membership and/or the possession of a CIA credential would also significantly improve internal auditing’s status under the “shopping list” model.28

Management responsibility letters also offer internal auditors significant opportunities under both the “intimidation” and “shopping list” models. To capitalize on these opportunities, internal auditors should focus their auditing expertise on traditional internal control concerns and lobby for requirements that the director of internal auditing co-sign the management responsibility letter. A requirement of this type should increase internal auditing’s cruciality under the intimidation model. Furthermore, legal responsibilities associated with signing the management responsibility letter would provide internal auditing a clear justification for claiming altruistic service to the general public as well as to management and the organization. This would improve internal auditing’s status under attribute No.1 of the “shopping list” (see Figure 1) by adding the general public to internal auditing’s list of altruistic service beneficiaries.

In the future, increased use of audit committee letters in annual reports may offer internal auditors opportunities similar  

28 See Figure 1, attribute No. 7.
to those just discussed for management responsibility letters. Therefore, internal auditors desiring enhanced professional status should seriously consider supporting such a requirement.

SUMMARY AND CONCLUSIONS

This study examined the progress made toward achieving professional status by internal auditing. The intimidation model was employed to assess both the progress made by internal auditing along with its current status. A review of the literature did not reveal any evidence of the intimidative power necessary to qualify for professional status. However, a historical review of IIA professional pronouncements and the activities of various authoritative and/or regulatory agencies indicated that there is considerable support for internal auditing to move up to professional status if the field is willing to take several important steps.

The single most important step is the need for internal auditors to change their thinking regarding the composition of their current service line. An improved traditional control auditing service needs to be developed and implemented to replace "operational auditing" as internal auditing's premier professional service line. If internal auditing is to gain professional status on par with that possessed by medicine or law it needs to gain sufficient intimidative power to force top management into facing up to its internal control responsibilities as defined by the FCPA of 1977 and the FMAA of 1981. Intimidative power to force top management to comply with operational audit findings other than those that deal with traditional controls is not necessary and probably not proper.

Professional authority over the area of traditional control concerns will not be a comfortable role for many internal auditors. This role will force the auditor to claim expertise and knowledge in the area of traditional controls far superior to that possessed by top management and others.

The Treadway Commission and the SEC are currently looking for a professional group that will take the responsibility for ensuring that top management of large organizations meets its internal control responsibilities. It appears obvious that these groups are not interested in an internal auditor who "thinks like management." What they are definitely looking for is a group which possesses the "professional" capabilities to out-think top management in areas dealing with auditing and evaluating traditional accounting-type internal control concerns. If internal
auditors truly desire professional status, perhaps it is time for them to acknowledge this important message.

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ACCOUNTING HISTORY AND GOVERNMENTAL INQUIRIES: AN EXPERIMENT IN ADVERSARIAL ROLEPLAY

Abstract: Governmental inquiries where accounting is a central focus are a rich resource for injecting much needed historical content into accounting courses in higher education. An adversarial roleplay recreated a Wage Stabilization Board hearing in Washington, D.C. which, in 1952, led to President Truman’s seizure of the American steel industry and ultimately to a constitutional crisis. The roleplay centered on the accounting issues debated by that Board in response to a highly provocative submission by W. A. Paton on behalf of the steel industry. The roleplay revealed strong support for recourse to such historical materials in providing an enjoyable, stimulating and effective way of learning accounting theory. Ancillary benefits were that students gained a better understanding of some important economic, political and constitutional issues in American history.

INTRODUCTION

There are clear pedagogical benefits in developing students’ understanding of accounting history. Study of history engenders critical appreciation of contemporary accounting practice and of contextual settings in which accounting policy debates have taken place. Not surprisingly, considerable interest has been shown recently in the variety of media and the range of resource materials available to facilitate introduction of accounting history into accounting courses. Coffman, Tondkar and Previts [1993] have provided a treasury of historical articles, biographies, and videotapes which instructors in financial accounting courses might adopt to enhance course material. Their work elaborates on a general theme which had been addressed previously by several authors. For example, Bloom and Collins [1988] advocated experimentation by incorporation of historical "nug-
gets” in financial accounting courses. Koeppen [1990] emphasised the need to encourage accounting students’ awareness of “events” that had influenced the development of accounting, and Beauby and Bradford [1992] advocated an “interdisciplinary historical” approach to teaching accounting. Although Coffman et al. [1993] cite many useful teaching resources, they do not cover the entire array of media available to instructors wishing to incorporate accounting history into existing courses. Furthermore, they emphasise what should be incorporated, but do not discuss creative strategies regarding how historical materials might be used effectively.

This paper reports an Australian roleplay in which an exemplar of a particular type of accounting historical material—proceedings of governmental and quasi-governmental boards of inquiry—was incorporated into an existing course in financial accounting theory through the device of an adversarial roleplay. The reconstruction of a “real” adversarial inquiry hearing was designed to heighten students’ awareness of the historical pedigree of much contemporary debate on accounting theory.

The following section outlines the reasons for incorporation of historical materials in the fashion described. Thereafter we introduce the proposition that governmental inquiries, in particular, are a useful historical resource. Emphasis is given to the contribution of W. A. Paton [1949, 1952] to two such inquiries. Paton’s later [1952] contribution forms the core of the Australian experiment, reported below. We found the teaching strategy to be effective in promoting a better understanding by students of theoretical issues in accounting.

HISTORY AND ACCOUNTING EDUCATION

Accounting educators throughout the world have been criticised for producing “narrow” graduates who have little understanding of history, politics, philosophy and the liberal arts in general. In Australia, for example, the Report of the Review of the Accounting Discipline in Higher Education [Mathews, 1990] recommended that Universities and Colleges make substantial changes to their undergraduate accounting degrees. In particular, accounting degrees should become broad-based degrees with a choice of majors, and should focus on a range of related disciplines, including the humanities. Accounting education should “foster diversity” and “provide a broad general education” [Mathews, 1990, Vol. 1, p. xxiv]. The former Vice-Chancellor of the Australian National University, Professor Karmel, a
respected figure in Australian education, has called for degree courses to be dealt with in an historical and global context:

By this I mean that courses should include the historical context relevant to their subject matter, that values should be laid bare and that applications should not be seen narrowly in Australian terms. We need to look back, deep and across. [Trinca, 1992, p. 6, emphasis added]

Australian newspaper editorials too have criticised tertiary educators for producing vocationally trained graduates who are “too specialized” and who have not absorbed the basics of a liberal education. One such editorial laments modern universities for producing “a generation of narrow economists and accountants” and advocates a model of education which promotes “generalists, taught in classics and mathematics, with history, jurisprudence, political economy, modern languages, political and physical geography, or some science” [Canberra Times, 1992, p. 8, emphasis added].

We concur fully with such sentiments. Substantial pedagogical benefits resulted from incorporation of Paton’s inquiry submissions in the manner described. Our experimental initiative was prompted, in part, by the recommendations of the Accounting Education Change Commission [1990, p. 307], which emphasised the need to integrate accounting history into the classroom in order to make accounting education “more broad-based” and to lend it “a real-world perspective”. The historical material prescribed in the roleplay addresses these educational needs. It provides a relevant historical context and insight to American social and political values. We recommend the recreation of historical settings as an appropriate mechanism to stimulate students to argue the merits of the competing viewpoints which emerged from government inquiry submissions made on accounting matters. Experience with the use of an adversarial roleplay case in accounting theory classes has been a positive one, as Craig and Amernic’s experience [1994, p. 28] led them to note:

Accounting education can be enhanced by the adoption of context-rich conflict resolution roleplay case study methods. Roleplay learning in accounting offers potential to contribute to desirable teaching outcomes, specifically the enhancement of a variety of sought-after competencies.
Past debate in governmental inquiries about accounting-related matters offers much scope to attain both the "context-richness" and the prospect of "conflict resolution" to which Craig and Amernic refer [1994, p. 28].

GOVERNMENTAL INQUIRIES

Our argument extends and reinforces a general theme enunciated by Koeppen [1990] and Rayburn and Powers [1991]. To stimulate student interest in accounting history, instructors should consider drawing upon drama-charged settings of government inquiries in which competing economic, political or ideological views are advocated. In doing so, they seem likely to promote historical appreciation of events [Koppen, 1990] and engender a broader understanding of historical contexts [Rayburn and Powers, 1991] in which accounting is used or abused. Politically-charged and ideologically-heated settings provide a vibrant context from which to draw historical precedents. Submissions to governmental or quasi-governmental inquiries, concerning issues of accounting measurement and reporting provide a rich source of historical vignette to promote student discussion of contentious accounting issues. The inquiries we have in mind are those instituted frequently by governments in many countries to enquire into economic, political and social policies. A fruitful source of submission material is contained in inquiries in which competing theoretical perspectives in accounting strongly influence the interpretation of critical financial data. These include inquiries into wage determination, price setting, trade protection policy, foreign investment guidelines, undesirable trade practices, creative accounting and financial chicanery.

There appear to be several strong pedagogical reasons for instructors to draw upon the actual texts of inquiry submissions and to emphasise the ambient historical settings. Amernic and Elitzur [1992, p. 40], for example, found that the introduction of original, "real" historical documents (such as annual reports from previous decades) as teaching materials, was likely to enhance student commitment and learning in accounting. Recourse to "primary" source material, such as inquiry submissions, has many advantages over traditional reliance on the sometimes sterile and jaundiced "secondary" analyses of others. Original sources, when used in a way which encourages the marshalling of the historical, political and social settings, should
enhance student interest and directly affect the process of understanding. The resources cited by Coffman et al. [1993], whilst very useful, rely largely upon “secondary” analyses. There are likely to be many benefits from exposing students to the actual text of submissions in preference to such analyses which are often sanitised or distorted. The accuracy of writers of “review” articles on selected topics, and of biographers and interviewers is often questionable. There is nothing unusual about focusing on the actual context, whether that be by reference to the text of a submission before a government inquiry or the actual physical setting in which an historical event took place.

Drawing upon the actual context or setting is an educational practice adopted widely. Understanding of military history and tactics is often enhanced by visiting or reconstructing a battleground (for example, Iwo Jima, Gallipoli or Dien Bien Phu) to appreciate the context of battle and geographical and climatic constraints which influenced (or in some cases, failed to influence) tactics adopted by military commanders. However, because a danger lies in the sometimes limited capacity of students to juxtapose ideas and thereby develop insights or critiques, accounting instructors, whenever historical material such as that suggested here is used, have a critical role in assisting students to discover these insights and formulate critiques.

In most developed countries there appear to be many governmental and quasi-governmental inquiries from which submissions on accounting issues can be drawn upon for teaching purposes. Early regulation of accounting in the United Kingdom was driven by inquiries over public utilities. For example, financial difficulties experienced by railway companies in the late 1840’s and reports from investigating accountants prompted an 1849 Parliamentary Select Committee. Later, a Royal Commission, instituted after the financial collapse of 1866, recommended more effective audit procedures and the adoption of a uniform system of accounts. Double entry bookkeeping was imposed upon electricity, gas, and water companies as a result of similar investigations, which arose from official enquiries. Other inquiries were driven by the collapse of large financial institutions, such as the City of Glasgow Bank in 1868. An excellent digest of materials on these issues can be found in Edwards [1986]. This roleplay, in contrast, used a wage board inquiry which was central to a major crisis in American political history.
CONTRIBUTIONS OF W. A. PATON

A rich source of unexploited teaching material resides unheralded in the considerable contributions made by W. A. Paton to the development of accounting thought. Our attention was drawn to the written submissions Paton made to two governmental boards of inquiry in the USA in 1949 and 1952 by Zeff, Demski and Dopuch [1979, p. 127]. Both submissions are suitable prescribed reading for senior undergraduate students of financial accounting theory. An ancillary benefit is that students will be exposed to the original writings of one of the ‘great thinkers’ in the accounting discipline. The reluctance of accounting educators to prescribe more extensive reading of the original works of eminent accounting scholars, such as W. A. Paton, remains disturbing.

The first of the Paton submissions was admitted as testimony to a hearing of the Presidential Steel Board on August 19, 1949 in the matter of “United Steelworkers of America-CIO and the Republic Steel Corporation”. This hearing addressed the issue of whether rates of pay should vary with the earning power and financial position of particular employers. Paton’s submission was titled “Statement of W. A. Paton Regarding the Overstatement and Misinterpretation of Corporate Earnings Under Current Conditions”. The second submission, which was used in the roleplay reported in this paper, was admitted as testimony to a hearing of the Wage Stabilization Board — Steel Panel (Case No. D-18-C) on 14 February 1952 in the matter of “United Steelworkers of America-CIO and Various Steel and Iron Ore Companies”. Paton’s submission was titled “Statement of W. A. Paton Regarding the Interpretation of Corporate Earnings and the Position of Stockholders Under Current Conditions”. To facilitate easy understanding of the content and themes pursued by Paton in this submission, Appendix A reproduces an abridged version of his ten summary points.

Both of Paton’s submissions are exceptionally lucid and readable, unlike much of the turgid prose which characterises publications by academics. His submissions invoke homely, simple illustrative examples, draw upon vernacular expressions

1 Copies of the submissions were obtained, with the kind assistance of Paul Danos, from the Paton Accounting Centre, School of Business Administration, The University of Michigan. Copies of these submissions are available from either author.
for emphatic effect, and avoid the jargon-ridden, wooly bureaucratese which is a feature of many inquiry submissions. Paton’s prose is a pleasure to read — an assessment corroborated by the unsolicited comments of students from several universities, known to the authors, where his submissions have been set as essential reading. For those conditioned to the rather bland style of most academic papers, the submissions are disarmingly thought-provoking and consequentially, are an ideal teaching resource for priming student discussion on contentious accounting issues.

Paton’s unremitting attention to the flawed basis from which conventional financial accounting provides data for use in many decision-related contexts is profound. His submissions provide a “real-life” contextual vein of teaching material from which to analyse two broad matters: first, Paton’s general preference for a current replacement cost system of accounting; and second, his more particular views on associated matters of asset valuation, depreciation and income measurement in periods of changing prices. The submissions can serve as focus for debate upon the merits of alternative systems of price-level accounting, for example, “current replacement cost” versus “historic cost” versus Chambers’ [1966] “continuously contemporary accounting” (CoCoA). They seem likely to be helpful in developing students’ conceptual understanding of the varieties and vagaries of capital maintenance, to which articles such as Gellein [1987] are likely to be suitable complements. The fact that US inflation is now low should not be seized upon to argue that the thrust of the Paton submission is of dubious relevance. To the contrary, analysis of “the effects of changing prices on accounting”, as Zeff [1989, p. 208] argued, is “perennially important in our field”. Additionally, Paton’s submissions could be used to enhance student understanding of the nature of the corporate entity, the accountability debate (shareholders versus stakeholders), the “matching principle”, and the nature of “retained earnings”.

We found Paton’s 1952 submission to be particularly useful in helping students to deeper understanding of the issues surrounding the concept of “depreciation”. An ideal complement would be Reed’s [1989] award-winning paper, “A Historical Analysis of Depreciation Accounting — the United States Steel Experience”. She, like Paton, analyses the financial reporting of the United States Steel Company, reputedly, “an acknowledged leader in the development of financial reporting” [Reed, 1989, p.
Both can be useful case study material for students to draw upon in discussion of several other important issues: first, the magnitude of the reporting bias inherent in accounting for a firm’s physical capital using historical cost methods; second, whether financial statements provide adequate numerical signals of the extent to which obsolescence is eroding physical capital bases; and third, the extent to which economic factors not related to matching revenues with expenses have a significant impact on depreciation charges [Reed, 1989, pp. 119, 132, 146]. Analysis of these issues seems likely to have the desirable outcome of drawing attention to the influence which broader political, social, legal and environmental contexts have on the practice of accounting.

THE ROLEPLAY

The roleplay focussed on Paton’s 1952 submission to the Wage Stabilization Board. This submission contains relevant material for accounting students, but can be used also to test students’ understanding of American history, constitutional law and political institutions. It is hoped that our experience will inspire other instructors to experiment successfully by prescribing similarly apt textual submissions to past accounting-related governmental inquiries.

Historical Context

Corporate America had been booming during the war years of 1940-1945, based on profit guaranteeing cost-plus contracts, and over five years of spending a total of $245 billion, which had been increasingly directed to larger companies. By 1943, corporate profits in America exceeded the affluence of the pre-Depression peak of 1929 [McQuaid, 1994, pp. 14-15]. In contrast, USA in the 1950’s was in the throes of a difficult period of post-World War II (WWII) economic reconstruction. President Truman attempted to resolve the problem by means of economic controls on wages, prices, rent and credit [Donovan, 1982, p. 320]. As part of his economic reconstruction strategy, Truman appointed a Director of Price Stabilization and a Wage

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2 Reed analysed the period between 1939 and 1987; Paton’s analysis was for the period between 1939 and 1951. Other analyses of the financial performance of US Steel prior to 1952 have been provided by Younkins. Flesher and Flesher [1984] and Vangermeersch [1986, 1988].
Stabilization Board (WSB). The WSB was modelled after the War Labor Board of WWII and was composed of nine (later 18) members: one-third representing business, one-third representing labor, and one-third representing "the public", including a chairman chosen by the President. In 1951, following calls from organised labor, the President expanded the Board's jurisdiction to deal with industrial disputes. But there were disputes of other types which were exercising the mind of the President and galvanising the attention of the American nation. The same year witnessed a successful communist offensive in Korea, culminating in the invasion of South Korea and the capture of Seoul and Inchon. In addition, President Truman's administration was beginning to be affected by Senator Joseph McCarthy's "charges of communist infiltration of government" [Marcus, 1977, p. 34].

In later 1951, American steelworkers were threatening to embark on a major strike in support of claims for an 18.5 cents per hour wage rise, plus fringe benefits, to be included in their forthcoming employment contract which was to commence on January 1, 1952. The President was unable to persuade companies in the steel industry to make any offer on wages or working conditions. The steel companies were steadfast in their attitude, claiming that they needed a price increase to $6 to $9 per ton [Marcus, 1977, p. 63] to be able to afford the wage rises sought by the unions. Truman refused their application for a price rise, influenced by the view of the Council of Economic Advisers that a reasonable wage increase of 15 cents an hour could be absorbed by steel companies without any adjustment to the price of steel. The dispute was referred to the WSB in December 1951. The union postponed a strike to allow the WSB to come to a decision. Paton's submission was made on February 14, 1952. The WSB's recommendation for the phased implementation of a 15 cents per hour wage increase without any associated increase in the price of steel, was made public on March 20, 1952.

In reaching its decision, a principal matter addressed in the WSB hearing was whether the steel industry had the financial capacity to meet the union wage claim. In a submission by the President of the United Steelworkers of America, Philip Murray [1952], the WSB heard argument based upon conclusions drawn from analysis of the steel companies' publicly reported historic cost-based financial data. The steel companies relied, inter alia, upon Paton's submission to argue that their publicly reported historic cost-based financial data were unreliable as a basis for
resolution of the claim because such data provide inflated indications of earnings. The roleplay simulates the WSB hearing of Paton's rebuttal of the submission made by Murray on behalf of the Untied Steelworkers of America.

Students of American history and constitutional law are likely to benefit also from study of the WSB case, for it led directly to a major constitutional crisis after Democrat President Truman seized 86 companies comprising the steel industry on April 8, 1952. Subsequently, 14 separate resolutions were introduced for the impeachment of the President and four separate Congressional investigations were launched [Donovan, 1982, p. 383, 387]. The substantial political issues centred on the question of whether Truman had the constitutional authority to seize control of the steel companies. On June 2, 1952 the Supreme Court, by a majority of 6 to 3, declared Truman's seizure unconstitutional. In analysing Truman's motives, an intriguing constitutional question arose, which, we suspect, many educated Americans will struggle to answer correctly and unequivocally. Truman had acceded to the presidency upon the death of Roosevelt in 1945 and was elected to a four-year presidential term beginning in 1949. Was Truman constitutionally able to stand for re-election as President for the term beginning in 1953?

The roleplay was set in an adversarial environment. It provided students with a taste of the different perspectives of the historical participants. From one point of view, Truman was denounced as a "dictator" and was censured widely for "his arbitrary exercise of executive authority" [Marcus, 1977, pp. 83, 89]. He was claimed to be

a Caesar, an American Hitler or Mussolini, an author of evil, a bully, a usurper, a lawbreaker, an architect of a labor dictatorship [Donovan, 1982, p. 387].

On the other hand, Truman could be viewed as a President confronted with a very difficult situation, extending beyond merely economic factors. The steel companies' failure to negotiate over wages was also linked to efforts to introduce incentive-pay wages and to undermine collective bargaining processes. The front in Korea was at risk from lack of ammunition supplies. In addition to military equipment and atomic energy con-

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"Yes. The relevant amendment to the United States Constitution was at the time still to be ratified by the States. Truman decided, however, to follow "convention" and not stand again for the Presidency."
struction, power plants, railroad construction, shipbuilding, machine tools and the like would all come to a halt if the steel mills closed down. He firmly believed he was safeguarding the nation in taking the actions he did [Truman, 1956, Ch. 29].

The other major feature was the attitude of the accounting profession to the stabilization programme, and to labor disputes generally. The interest of labor in financial statements had been promoted by unions such as the Textile Workers of America [Journal of Accountancy, 1952]. That union's director of research, Solomon Barkin, had raised accountancy related issues in a number of papers in the 1940's and 1950's [Barkin, 1947, 1951a, 1951b, 1953; see also Brubaker, 1947; Brubaker et al., 1949]. Barkin, particular, had been disillusioned by his experiences within the American Institute of Accountants' Business Income Group in 1950, and argued that prevailing principles and practices "stem primarily from the needs of management, equity owners, and creditors" and that the accountants reviewed the accounts invariably "in accordance with management's dictates and policies" [1951b, p. 405]. The mainstream accounting profession's response labelled such arguments as "partisan" [Journal of Accountancy, 1951a]. While concerned about lack of consultation over implementation of accounting-based regulations [Journal of Accountancy, 1951b], the profession appeared to be more concerned with exempting itself from wage controls and in assisting management to avoid violation of WSB regulations [Griswold and King, 1951].

First Round

Our roleplay was conducted at The Australian National University (ANU), where five out of fourteen final year baccalaureate tutorial classes in "Financial Accounting Theory" were selected to simulate the Wage Stabilization Board's debate about Paton's submission. The remaining ten classes completed an orthodox tutorial program, involving discussion of prescribed textbook questions on price level accounting issues. Both classes were prescribed extracts from Sweeney [1964], Barton [1984], Edwards and Bell [1973], and Chambers [1966], in addition to the prescribed textbook Godfrey, Hodgson, Holmes and Kam [1994].

The adversarial roleplay tutorials were conducted in a special mock courtroom (or "moot court") in the Faculty of Law at the ANU. In the week prior to the conduct of the roleplay, the
group was briefed on three major matters: the mechanics of roleplay, the Truman administration, and the background of the steel dispute. The experimental group were issued with an additional set of materials, comprising extracts from Donovan [1982], Marcus [1977], an article by Chambers [1991], and Paton’s submission to the WSB. It was intended that this material would help students, inter alia, to better understand the American social, political and economic scene in the early 1950’s; to appreciate the critical nature of the steel industry dispute, and to understand the parameters of the ensuing constitutional crisis. Students were allocated one of the following roles:

- the presiding member of the Wage Stabilization Board;
- a representative of industry on the WSB;
- a representative of organised labor on the WSB;
- an advocate (one of two) for the United Steel Workers of America;
- an advocate (one of two) for the Steel and Iron Ore Companies;
- the Australian accounting academic, Professor R. J. Chambers, assumed to be on study leave in the USA; or
- a member of the ‘press gallery’.

Advocates for the companies were instructed to draw strongly on Paton’s submission. The union advocates were instructed to provide strong rebuttals thereto. The WSB members were required to deliver judgments on the merits of the cases presented by the company and union representatives. Members of the press gallery were required to prepare newspaper articles commenting upon the proceedings and outcomes. To discover whether such a teaching approach was worthwhile within the time limitations of a normal tutorial, the entire proceedings in each case was limited to one hour’s duration.

Second Round

The initial tutorial round of roleplays was followed by a second roleplay. The better students, as identified in the tutorials, performed a “model” roleplay to those students who had not

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4 We added this anachronism to the roleplay in order to provide a third perspective on the price level theory issues. The works of Chambers are of particular importance to Australian students. In retrospect, however, we would have preferred to recreate a historically “pure” environment and Chambers’ presence did detract from the historical drama.
participated at all in the roleplay process, and for the benefit of other Faculty staff. This took place in the Senate Chamber, Old Parliament House, Canberra. Drawing upon the experience of the first round, the active participants were reduced to the following roles:

- the presiding member of the WSB;
- a representative of industry on the WSB;
- a representative of organised labour on the WSB;
- an advocate (one of two) for the United Steel Workers of America; and
- an advocate (one of two) for the Steel and Iron Ore companies.

An additional historical document, not in our possession for the initial round of roleplays, had been obtained and was issued to the participants. This was the principal submission to the WSB by Philip Murray, President of the United Steelworkers of America [Murray, 1952]. The theme of his submission was that the 1951 negotiations had failed due to the "flat refusal" of US Steel to bargain both on economic and non-economic issues. It drew upon statements by President Truman endorsing this position, and argued that price increases had not been driven by wage increases but by "big business profiteering". In terms of accounting issues, it compared the significant increases in company profits after taxes, and divided payments, with the rises in wage costs over 1945-1950. It concluded on a note of concern for the uncompensated increases in the cost of living suffered by steelworkers and their families. In our opinion, this submission is an essential document to issue to students to provide a balance to the more capital-sympathetic submission by Patton.

STUDENT RESPONSE

In written responses to an open-ended question, roleplay students elaborated their opinions and provided suggestions for future exercises. Several themes emerged. There was universal agreement that use of adversarial roleplay involving recourse to historical inquiry submissions should be continued in future offerings of the subject. The effectiveness of the historical materials and the roleplay in terms of achieving pedagogical aims appeared to be supported by the students' written comments, particularly in respect to the benefits which accrued in developing their analytical and oral communication skills. One typical comment was:
It's amazing how much clearer ideas are when you actually have to present them in a logical argument, rather than simply read the theories and try to absorb the material.

Whereas some students were concerned with the significant time spent in preparation in comparison to "normal" class exercises, many of them also described the benefits they had obtained as a result. Some who had been involved in advocacy roles perceived greater benefits accruing to them from the exercise when compared with their fellow students in more passive roles. This sentiment was exemplified by the following student comment:

The roleplay helped me understand price level accounting because I had an active involvement in the arguments (being a union advocate). However, I feel that if I was merely an observer, the issues and arguments may not have been as clear and as memorable.

Several avenues were identified for improvement in future exercises. Students, generally, would have preferred a structure whereby the instructor acted as the President of the Board. In varying degrees there was a lack of direction from the President both in terms of control over the proceedings and in the evaluation of the arguments. Ensuring strict adherence to the one-hour time limit was a problem for some groups. Students should be briefed not only on the historical and accounting theoretical material, but also upon presentation skills. More emphasis should be placed on advocacy rather than allow students to read prepared pieces. Improvement can be made to increase the reality of the roleplay, through use of props (such as a gavel), appropriate language and adoption of the procedural protocols normally a part of inquiry hearings.

CONCLUSIONS

The text of submissions to past governmental inquiries on accounting-related matters offers considerable scope for effective incorporation of accounting historical context into undergraduate accounting courses. A roleplay, which drew upon Paton's 1952 submission to the WSB, was exploited to contextualise the historical setting and was very effective in achieving pedagogical benefits. Student response was very encouraging, and the exercise carried ancillary benefits beyond accounting theory. Students' understanding of several facets of
America in the early 1950's was expanded. Hitherto, few of our students had been aware of the economic controls on wages and prices in place at the time, the high level of inflation, the "undeclared" Korean War, and McCarthy's anti-communist tirades. Indeed, even the name of the incumbent American President in 1952, was previously a mystery to many.

We commend the setting of inquiry submission material of the type exemplified by Paton [1952]. Adoption of the adversarial roleplay mode of instruction has the added benefits of "bringing accounting to life" and infusing students with enthusiasm for the richness of accounting history.

REFERENCES


APPENDIX A

A SUMMARY OF PATON'S
WAGE STABILIZATION BOARD SUBMISSION
FEBRUARY 14, 1952.

1. It is necessary to look through the corporate entity to the flesh-and-blood investors, and particularly the stock-holders, to see clearly the basic economic significance of corporate financial data.

2. Corporate net earnings as computed in recent years by ordinary accounting procedures have been materially in excess of actual, disposable income, particularly because of the severe and sustained advance in the price level. A major change in the value of the measuring unit (the dollar), has not been fully taken into account in absorbing costs expressed in earlier and more valuable dollars.

3. The LIFO inventory procedure accommodates the problem for the costs of materials consumed, but no similar procedure has been generally adopted in corporate accounting in this country to provide a proper adjustment in determining the cost of plant capacity consumed in current dollars.

4. Recorded pre-1941 plant costs do not reflect the actual costs of plant in current dollars unless converted into an equivalent number of such current dollars. Revenue dollars required to replace plant capacity consumed are not true net earnings in any reasonable sense of the term.

5. When all the dollars which reflect the financial position of a corporate entity are properly converted to the common base of current dollars, the so-called "retained earnings" may be largely or entirely absorbed in this conversion process.

6. Corporate earning rates computed by applying unadjusted and overstated net earnings to an unadjusted and understated stockholders' entity are arithmetic distortions and have no validity as a measure of corporate earning power. When such computations are made, the claim that earning rates in the postwar years have been high, is without any foundation.

7. So-called "profits before taxes" are a gross illusion and when brought forward as having a bearing on corporate and investor earning power, are downright misleading.

8. The suggestion that wages can properly be increased at the expense of taxes otherwise payable to the Federal Government is entirely improper and accordingly should be disregarded.

9. Careful examination of financial markets data in common dollars, including the course of security prices, dividends paid, and new financing, shows beyond question that stockholders in American corporations generally have not been holding their own, and that there is an acute dearth of new capital.

10. Careful scrutiny of the position of stockholders in the steel industry for the period 1940 to date demonstrates decisively that far from indulging in a feast, stockholders have had a very meagre fare indeed, taking into account the dividends received, market evaluation of investment in the steel industry and earnings retained in steel corporations.
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RETROSPECTIVE

DAVID SOLOMONS
1912-1995
IN MEMORIAM

David Solomons, an eminent accounting scholar and a key member of the accounting history community, died at his home on February 12, 1995 after a long bout with cancer. His article, "Cost Pioneers: Some Links with the Past," that appears in the Retrospective section of this issue, provides us with another of his personal glimpses and keen understanding of those who pioneered the development of cost accounting. His intellectual contributions will be sorely missed by all in the accounting academic community, as will his enthusiasm, zest for a good argument and commitment to principle. The editors wish to express their heartfelt condolences to the Solomons family; we feel fortunate to be able to publish one more article from one of the preeminent accounting academicians of our time.
COSTING PIONEERS: SOME LINKS WITH THE PAST*

Abstract: When the author was working on the history of cost accounting at the beginning of the 1950s, he entered into correspondence with some of the pioneers who were developing the subject at the beginning of this century, or with men who had been personally associated with those pioneers. This paper places on record the more important biographical information that that correspondence gleaned about (in alphabetical order) Alexander Hamilton Church, Harrington Emerson, Emile Garcke and J. M. Fells, G. Charter Harrison, J. Slater Lewis, Sir John Mann and George P. Norton. It also comments briefly on their significance for the development of costing.

In a letter seeking biographical information that I wrote in November 1950 to G. Charter Harrison, one of the great names in the history of cost accounting, I said this:

The history of costing, when it comes to be written, ought, I think, to be more than a bald account of ideas. Some information about the men who formed the ideas ought surely to be available to a later generation.

I take it that the same thought has inspired this conference, and I welcome the opportunity to take part in it.

It is now over forty years since I started work on the long paper that became "The Historical Development of Cost Accounting", the introductory essay of my Studies in Costing, published in 1952. I believe that that volume was the first anthology on cost accounting, and it was preceded in that genre only by William Baxter's Studies in Accounting, published two years earlier.

The research for my essay, carried out in London, relied heavily on the resources of the library of the Institute of Chartered Accountants in England and Wales, which has an unrivalled collection of material on the history of accounting; on the library of the London School of Economics; and on the library of the Patent office in London. That library is a goldmine for material on nineteenth century technology, both British and

*A paper presented to the Accounting Biography Conference of the Academy of Accounting Historians at the University of Mississippi on December 3, 1993.
American. It must be remembered that much of the early work on cost accounting was done by engineers, not accountants, and was published in engineering journals. But I did not rely only on library research — of course in those days there was no such thing as computer search. I had notices published in the professional journals in Britain, asking anyone with personal knowledge of the persons who had worked in the costing field in its early days to write to me. Several of them did, giving me information, sometimes followed up in interviews, about their own work, but also giving me leads to other pioneers, to whom I could then write. The result was the collection of more biographical material than I could use in my essay. I have been waiting for forty years to find a suitable forum in which I could present it, and this conference has at last provided one.

So far as possible, I shall proceed chronologically, speaking first about the earliest writers I studied, and going forward from there. However, it is not easy to do that, because the trails cross; and in any case, most of the developments that I shall be discussing took place within a span of no more than 25 years.

**GARCKE AND FELLS**

When I was studying accounting as a young man in London in the early 1930s, a book on cost accounting first published in 1887 was still in use as a text. I refer to *Factory Accounts: Their Principles and Practice*, by Emile Garcke and John Manger Fells. This book went through seven editions, and in J. M. Fells' obituary in 1926 it was said to be "still regarded as a standard book on the subject." Yet Ronald Edwards, in a lecture he gave in 1937, quoted a review of the first edition in *The Accountant* as saying that the book was more theoretical than practical, that it was pedantic and involved "in the nature of a work on political economy." It did, in fact, attract the attention of the leading British economist of that time, Alfred Marshall, who referred to it approvingly in his *Principles of Economics*.

*Factory Accounts* was important for several reasons. It was easily the best known book on costing in Britain during a critical period in the development of costing, i.e 1890 to 1910. Beyond that, for the first time it integrated the costing records into the double-entry financial books; and it put forward an enlightened view of the distinction between fixed and variable costs, advocating that fixed costs not be distributed over "the various transactions or articles produced."
I had no personal contact with either Garcke or Fells, for they both died before I began to take an interest in their work — Fells died at the end of 1925 and Garcke in 1930 — but I did have a link with Fells through one Edward Baldry, a practicing accountant in London, with whom I served on a professional committee. He had been apprenticed to Fells in 1910.

Fells was born in Deal, in Kent, in 1858. He was educated in Deal and at the University of London. His early career lay in industry, an accountant and assistant secretary of the Anglo-American Brush Electrical Light Corporation, later the Brush Electrical Engineering Company. He stayed with Brush until 1894. It was there that he must have met Emile Garcke, who was with that company from 1883 to 1893, first as secretary and later as chairman and managing director.

Subsequently, according to Baldry, Fells became chief accountant to the London Electrical Railways, one of the predecessors of London Transport, and then general manager of the Salt Union, the forerunner of Imperial Chemical Industries. In 1899, twelve years after the first edition of *Factory Accounts* had appeared, he commenced practice in London as a consultant, and according to Baldry, who joined him in 1910, his practice then consisted almost entirely of work for the Railway and Canal Commission, the British counterpart at that time of our Interstate Commerce Commission. He must have interrupted his consulting practice during the first World War, for he became Director of Costings in the British War Office (i.e. the Department of the Army) and was on several War Office committees. For these services, he was made a Companion of the Order of the British Empire (C.B.E.). He died suddenly in 1925. Baldry described him as having "Quakerish tendencies".

Whereas Fells was an accountant with an interest in engineering, Emile Garcke was an engineer with an interest in accounting. He was born in 1856 and died in 1930. His early career lay with the Brush Electrical Engineering Company, where he met Fells, and by 1893 he had become its chairman and managing director. In 1895 he founded a company that became the British Electrical Traction Company, and relinquished his duties as chairman only in 1929, shortly before his death. He seems to have had a taste for founding companies for, according to his obituary in the *Journal of the Institution of Electrical Engineers* [Vol. 69, 1931, pp. 1320-1321], at one time he was associated with 30 companies, many of them established by him. But he also had other interests. In 1896 He established
Garcke's *Manual of Electrical Undertakings*, he founded an electrical journal. He founded and became chairman of sections of the London Chamber of Commerce devoted to electricity and electrical traction, and was chairman of the executive of the Industrial Copartnership Association. He was also one of the founders of the British Institute of Philosophical Studies. Somehow he found time to coauthor seven editions of *Factory Accounts*.

GEORGE PEPLER NORTON

George Pepler Norton was born in 1858 and died in 1939. His importance lies in the fact that his book-keeping system for textile manufacturing, which dates back to 1889, clearly foreshadowed standard costing. Indeed, in my essay on the history of costing, I described his system as "the nearest thing that the nineteenth century came to standard costing as we know it".

My link with Norton was through his son, Gilbert Paul Norton, with whom I corresponded in 1950, though I never met him. I quote from a letter that Gilbert Norton wrote to me on November 2, 1950 about his father's work:

My father's book on Textile Manufacturing Book-keeping was first published in January 1889. This quickly became the standard on this subject and was very widely used throughout the Textile Trade. This book was a complete treatise on the book-keeping in all its aspects for a Textile Manufacturer; it not only dealt very exhaustively with the financial books, but also with Mill or Factory and Warehouse books. In this book he devised and set out a method of keeping Departmental Accounts by which the actual cost of each Department or process was compared with a standard cost of the process. In those days there existed well-known trade prices for each process of manufacturing, generally known as "Country Prices", that is, prices at which work could be done by processing firms. My father used these country prices as a standard and so ascertained the profit (or loss) on each process as compared with this standard. The build up of the cost of a piece was ascertained by taking the cost of material and adding the country price of each process. The total of these costs, compared with the actual sales, gave the gross profit over the standard cost. The profit (or loss) on each Department or process was then added to or deducted from the gross profit. Warehouse and Office Ex-
penses and General Charges were also charged and the balance then agreed with the net profit (or loss) as shown by the financial accounts.

Gradually, country prices became obsolete and some other method had to be used to provide the standard cost. From country prices was gradually evolved the modern practice whereby normal expenses are related to a normal output to arrive at a standard cost. This evolution is described in Chapter I of my father's book — Textile Manufacturers' Book-keeping, Part II — called "Cost Accounting and Cost Control" [Part II was published in 1931, forty-two years after Part I]. This chapter clearly shows, I think, how the matter evolved in his own mind and that he regarded it as a logical outcome of his Departmental or Process Accounts.

George Pepler Norton was a chartered accountant, and was the senior partner in the firm of Armitage & Norton, in Huddersfield, Yorkshire. According to his son, who was also a partner in the firm, his main professional practice was with the textile trade. No trace of the firm remains in current directories of accounting firms in Huddersfield.

SIR JOHN MANN

Sir John Mann, who was born in 1863 and died at the age of 91 in 1955, himself saw my letter in The Accountant in 1950 calling for information about costing pioneers, and responded through his son James by sending me some notes on the sparse literature of costing at the turn of the century. James Mann, I should explain, was a colleague of mine on a London committee of the Institute of Chartered Accountants.

Sir John Mann was a link with the very beginnings of the accountancy profession in Britain, and therefore in America, for he was the son of one of the founding members of the Glasgow Institute of Accountants and Actuaries, which later merged with the Edinburgh and Aberdeen Institutes to form what became the Institute of Chartered Accountants of Scotland, the oldest professional body of accountants in the world. His importance to our subject lies mainly in his advanced views on the nature of overhead expense. As early as 1891 — here I quote from my "Historical Development of Costings" [p. 24] — he was arguing in The Accountant [August 29 and September 5, 1891]:

for a division of overhead cost into (a) buying costs
which vary with the cost of goods bought, (b) selling costs which vary with the sales, and (c) production expenses. So far as the last were concerned he dismissed quantity or value of material as a suitable basis of allocation and pointed out the danger of using wages as a basis where some workers are paid more than others. He emphasised time as the significant factor and put forward some proposals for machine hour rates.

Sir John Mann was educated at Glasgow University, entered his father's firm in Glasgow, and became its senior partner on his father's death in 1910. The firm later spread to London. Mann joined the staff of the Ministry of Munitions during the first World War, and became Controller of Munitions Contracts. It was this, presumably, that won him his knighthood. Further information about him can be found in his obituary in the Times in London on July 3, 1955.

Here are some extracts from the notes he prepared for me in 1950:

When I began to study the subject [costing] about sixty years ago, the only books on the subject I could then find were:


(Second) Garcke & Fells on “Factory Accounts” (and another on “Engineering Estimates’) both published by Crosby, Lockwood & Son at 12/-.


My first writing on the subject was a paper I read to the profession in Glasgow nearly sixty years ago. (Pubd. “The Accountant” 29/8 and 5/9/81 pp. 23, and reprinted [I referred to this paper earlier]. Five years later I was invited to repeat my paper to the Edinburgh Chartered Accountants and a revised version was submitted on 9/1/1896 published by St. Giles Printing Co., Edinburgh 1896 (p. 30). Both these papers were entitled “Notes on Cost Records — a Neglected Branch of Accountancy” and they both concluded with the sentence: “I look forward to the time when a proper cost system will form a part of every well-conducted office and the knowledge of Costing Principles will form part of the equipment of
every trained accountant." Did I make a mistake in attempting to prophesy to my own countrymen?

Sir John Mann also contributed two articles to an Encyclopaedia of Accounting, edited by George Lisle, a Glasgow accountant, in several volumes between 1903 and 1907, one on "Cost Records or Factory Accounting" in volume 2 (1903) and the other on "On cost or Expenses" in volume 5 in 1904.

ALEXANDER HAMILTON CHURCH

I have little to add to what others have written about the life and work of Alexander Hamilton Church, one of the great names in the history of costing. My claim to have a link with him rests on the fact that I met and talked with one Percy Lightbody, a former president of the Institute of Cost and Works Accountants in Britain, the predecessor body to what is now the Chartered Institute of Management Accountants there.

Mr. Lightbody, whom I met in 1951, when he was about 70 years old, had, like Church, trained as an engineer and had gone to work for Hans Renold's engineering company in Manchester in about 1901 as a cost clerk. At that time, Hamilton Church was installing a cost system there as a consultant. He had previously worked for the National Telephone Company, and Lightbody thought that the Renold system was the last one that Church installed before moving to America. He said that Church's writings had had little appeal in Britain but had a wide success in the United States.

Much research has been done on Alexander Hamilton Church since my 1952 essay was published, and those seeking biographical information about him should consult Vangermeersch [1988] and Scorgie [1993]. Vangermeersch also has much to say about Church's contributions to costing and to scientific management.

Church was born in 1866 in Uxbridge, Middlesex, near London, and died in 1936 in Taunton, Massachusetts, almost a pauper. He left Britain for America in 1909 or 1910. Lightbody's conjecture that the Renold job was Church's last consultancy before leaving Britain may not be wrong, since Church was working as an editor and journalist for several years before moving to America.

Perhaps Hamilton Church's main contribution to costing was his refinement of the process of overhead allocation by distinguishing between works cost and what he called general es-
tablishment charges, and then breaking down a factory department into several production centers, according to whether they used heavy or light equipment, or none at all, and allocating factory overhead by means of appropriate machine hour rates. Somewhat ironically, however, Church’s name is generally associated with what was in fact his principal failure. His other contribution was to refine the distinction between absorbed and unabsorbed overhead. But here he went too far. His ‘supplementary rate’ was a clumsy device, and it was soon discarded.

Church’s ideas on these matters were set out in six articles published in the Engineering Magazine in 1901 under the title “The Proper Distribution of Establishment Charges”. They were reprinted in book form in 1916.

Mr. Lightbody, in some notes he had prepared in 1946 and which he gave me in 1951, wrote of Church’s system that “the adoption of the machine hour rate would appear, in retrospect, to have been the greatest single step in costing, chiefly in my opinion, because it brought to light more problems than it solved. He also wrote of Church that he “did more, directly and indirectly, to promote costing, than anyone I know; chiefly, in my opinion, because he promoted thought”.

J. SLATER LEWIS

In an article that Church wrote entitled “The Meaning of Commercial Organization” in The Engineering Magazine in 1900, he gives credit to one J. Slater Lewis for making the distinction between what he called shop charges and general establishment charges; and Lewis, in the preface of his book, The Commercial Organization of Factories, published in 1890, acknowledged a debt to Church. In trying to track down information about Slater Lewis, I was able to make contact with one W. Taylor, the chief accountant in 1952 of the company in Manchester for which Lewis had worked over fifty years earlier. Mr. Taylor had not known Lewis personally, but he had found some records of his work for the company, P. R. Jackson & Co., Ltd. Lewis left the company in 1900. His salary at that time had been £50 a month. Taylor put me in touch with the company’s former chief engineer, Isaac Monk, who had been a junior under Lewis at the beginning of this century. Monk told me that when Lewis left the company he had taken a position as general manager with the Brush Electrical Engineering Company in Loughborough. It will be remembered that both Emile Garcke and J. M. Fells,
mentioned earlier in this paper, had at an earlier time also worked for Brush Electrical.

GEORGE CHARTER HARRISON

My biggest live capture during my research for "The Historical Development of Cost Accounting" was G. Charter Harrison, who installed the first full standard costing system in 1911 for the Boss Manufacturing Company, of Kewanee, Illinois, then the largest manufacturer of work gloves in the world. In 1920 he produced the first set of formulae for the analysis of cost variances. Of a series of articles entitled "Cost Accounting to Aid Production" that he wrote in *Industrial Management* between October 1918 and June 1919, I wrote in 1952 that "they have a sureness of touch and a comprehensiveness in their treatment which shows standard costing to have left the experimental stage and to have attained the status of established practice".

Having been impressed by his book, *Standard Costs*, published in 1930, I wrote to Mr. Harrison at the end of 1950, c/o the National Association of Cost Accountants as it then was (now the Institute of Management Accountants), asking him for information about his personal background. My letter produced a richer response than I had dared hope for. It came from Madison, Wisconsin, where he was then in practice as a consultant in partnership with his elder son, G. Charter Harrison, Jr.

George Charter Harrison was born in London in 1881. He was educated at the University College School in London, was articled to a London firm of chartered accountants, and became a member of the Institute of Chartered Accountants in England and Wales in 1905, when he was 24. In the same year he came to the United States, and in 1907 joined the staff of Price Waterhouse. He continued his membership of the English Institute until 1932, in which year his membership ceased, according to the Institute, "by reason of his nonpayment of his annual subscription". He left Price Waterhouse for a while to become controller of a large nut and bolt manufacturing concern, but rejoined the firm and stayed with them until 1916, at which time he was a principal and head of its systems department. It was during that stage of his career, in 1911, that he installed the Boss Manufacturing Company standard costing system.

When Harrison left Price Waterhouse in 1916 he entered into partnership with Baker Sutton & Co. in New York, practicing as Baker, Sutton & Harrison, but after May 1918 he prac-
ticed in his own name, first in New York and then in Madison.

Here is an extract from the notes about his work that Mr. Harrison sent me in 1950:

The standard cost system at Boss Manufacturing Company had its inspiration from a book by an engineer, the late Harrington Emerson, published in 1909 with the title of "Efficiency As a Basis for Operation and Wages". In this book there was a chapter on Cost Accounting recommending the use of both actual and standard costs, the general principle being that only by comparing actual costs with should-be or standard costs could inefficiencies be brought to light. Full credit in "Cost Accounting to Aid Production" by G.C.H. is given to Mr. Emerson's influence in this standard cost development.

Up to 1924 the work of G.C.H. in accounting was largely confined to Mr. Emerson's conception that the primary purpose of cost accounting is to aid in the reduction of costs through disclosing the existence of inefficiencies in manufacturing. In 1924 the scope of G.C.H. accounting methods was expanded to include the use of accounting to stimulate selling efficiency. The body of principles and practices developed in this connection has been given the title of MARGINAL BALANCES.

In the year 1922 G.C.H. was called in by Rolls Royce Ltd. of Derby, England to design a system of standard costs for their company.

HARRINGTON EMERSON

I had already encountered Harrington Emerson's work in the course of my research, and Charter Harrison's acknowledgment of his debt to Emerson prompted me to ask Mr. Harrison for more information about Emerson. In a letter to him in March 1951, I wrote as follows:

Turning now to Harrington Emerson's work, there is one fact about it on which you may be able to throw light. In an article entitled "Percentage Method of Determining Production Costs" in The Foundry for October 1904, one finds no hint of standard costing. In his articles for the Engineering Magazine in 1908/9, his ideas are altogether more advanced and he has no time for costing without standards. It seems clear, then, that
his development of the idea took place between 1904 and 1908. It would be of great interest to me to know what happened to him during those years and what it was to cause his thoughts to turn to standard costing.

The reply I received three months later was full of interest. Though it did not fully clear up the mystery of the missing years. Harrison said he believed that Emerson “started to experiment with comparisons of actual costs with standards considerably before that time”, i.e. before 1904, and in support of that view he sent me some biographical information about Emerson that had appeared in the introduction to a lecture by Emerson entitled “Cost and Efficiency Records” that was published by the Alexander Hamilton Institute in 1914. This stated that Harrington Emerson had been born in Trenton, New Jersey in 1853. His grandfather was a manufacturer, coal operator and railroad builder, and his father was a college professor, thinker and writer. Most of his education was obtained abroad, and he graduated with an M.A. degree from the engineering course of the Royal Polytechnic in Munich, Germany.

According to the same source, which was presumably based on information provided by Emerson himself, he spent the next twenty years “on the American frontier from the Mexican border to Northern Alaska”. It is not clear what he was doing there, but it seems to have been connected with business for, the note goes on:

Shortly after this, he was appointed to investigate a number of American manufacturing plants and other operating enterprises for a London syndicate. This gave him exceptional opportunities to study accounts, difficulties, methods and results.

As an outcome of these experiences he was made manager of a small manufacturing plant, which up to that time had been unsuccessful. The enterprise was of a simple type to which basic principles of control and development could be easily applied. Mr. Emerson had by this time thought out some of the theories which were to distinguish him and this was his first opportunity to try them out. The results were great and convincing.

Charter Harrison put these events as occurring round about 1900, and dated Emerson’s interest in standards from that time. But the absence of any reference to standards from his 1904 article still needs to be explained.
Harrison’s letter to me of June 1951 then went on to give much information about his association with Emerson. Even though it repeats some of the information already given, it is worth reproducing here in his own words:

I met Mr. Emerson early in the year 1909 when I was controller of a large manufacturing concern namely Russell, Burdsall and Ward Bolt and Nut Company located in Port Chester, New York. The president of the company, Mr. William L. Ward, employed Mr. Emerson to undertake what was then known as “efficiency engineering work” in our three factories. I had already become associated with Mr. Emerson’s ideas regarding cost accounting through reading his book “Efficiency as a Basis for Operating (sic) and Wages” and was greatly intrigued with his standard cost conception. I was therefore delighted to have an opportunity to become acquainted with this distinguished man. When Mr. Emerson learned that I, a chartered accountant and a former member of the staff of Price Waterhouse & Co. in this country, was in sympathy with his ideas he was very much pleased that fate had thrown us together because, as he told me, I was the first qualified accountant who had taken the least interest in his standard cost idea.

Mr. Emerson urged me to develop his standard cost conception. He pointed out to me that he personally knew nothing about accounting and further that his management engineering work would take all his time. Later on an opportunity presented itself in the form of an invitation from my old firm Price Waterhouse & Company for me to become manager of its system division which I did in January 1911. Early in that year we were called in to design cost methods for the Boss Manufacturing Company of Kewanee, Illinois, then and now the largest manufacturers of work gloves in this country. The Boss system was without question the first complete standard cost system on record as far as I know and by a system I mean a complete whole which was not the case with the system work Mr. Emerson had done which was directed primarily to the determination of efficiencies and the disclosure of preventable inefficiencies by comparing actual costs with standards.

Apart from the acknowledgment that I sent Mr. Harrison in August 1951, that was the end of my correspondence with him I have been unable to find our when he died. He appears in the
New York Times Index of Names only in connection with a lecture that he gave in New York in 1933. Apparently he did not rate an obituary in that august paper.¹

CONCLUSION

All of the men discussed here, except for Harrington Emerson, were born and educated in Britain. Some of them spent their whole lives there, while some of them moved to the United States. Of course there were other costing pioneers, of American origin, who deserve attention, like Captain Henry Metcalfe, whose book, Cost of Manufacture, was first published in New York in 1885 and was mentioned by Sir John Mann as one of the few texts available to him as a student in or around 1890. Others were Frank Webner, a CPA, whose book, Factory Costs, was published in 1907, and J. Lee Nicholson (1862-1924), whose Factory Organization and Costs [1909] was described by a reviewer in The Journal of Accountancy as “the first American treatise on cost accounting proper” [Taylor, 1979]. It would hardly be possible now to have the same kinds of contacts with Americans who were working in this field at the beginning of this century as I was able to have in 1950 with their British counterparts. But as Vangermeersch and others have shown, there is still a trail to be followed.

REFERENCES


¹Stephen Zeff has informed me that in 1971 he wrote to the County Clerk of Madison, Wisconsin to find out whether there was a record of the death of G. Charter Harrison and was told that there was no death record for an individual by that name.
Retrospective: David Solomons

Lisle, George, ed. Encyclopaedia of Accounting, 1903-1907, Edinburgh, W. Green & Son.
Mann, John, "Cost Records, or Factory Accounting", in Encyclopaedia of Accountings (see George Lisle above).
Metcalfe, Henry, Cost of Manufacture, New York, Wiley & Son, 1885.
I am honored and pleased to introduce Robert Sprouse on this noteworthy occasion. Among the many positive words that might be used to describe Bob Sprouse are: intelligent, dependable, pleasant, good-humored, gentlemanly, good listener, articulate, and fun to be with.

I met Bob and Fran Sprouse at Bill Vatter’s house in California in January 1959, over 35 years ago. I first heard about Bob in 1955. Bill Vatter was seeking new young talent then for the University of Chicago. Bill mentioned that some doctoral student named Sprouse at Minnesota was a sparkling star in teaching.

Many academics are clearly outstanding teachers. Too often, their reputations and recognition are confined at best to their home institutions. For those who may be unaware, Bob Sprouse has an enviable record as a superb teacher in every dimension of that important role.

Before reading the citation, let me share a few Sprouse items that may not be well known.

(1) He is about the only person I know whose handwriting is a model of flawless penmanship. He writes like an accountant should.

(2) Bob Sprouse has had a variety of interests. Of course, he was the staid vice-chairman of the Financial Accounting Standards Board. But shortly thereafter, he became a part-owner of a race horse and an avid $2 bettor at the Tijuana racetrack and elsewhere.

Even as a two-dollar bettor, a couple of years ago Bob bought an $8 ticket in an attempt to pick the winners of all nine races at Santa Anita. No one had eight...
or nine winners that day. For his seven winners, he received $45,000. He now is the full owner of two fillies.

Bob's long-time friend, Bob Jaedicke, once asked why Sprouse wasted his investment dollars on a horse. Why didn't he sell? Bob Sprouse responded that he had too much money invested therein. Perhaps he never did understand the concept of sunk costs.

When Bob Sprouse and I were Stanford colleagues, one afternoon I was a passenger in his car. He was driving at or above the speed limit in the fast lane of a busy Bay Area freeway. Suddenly we ran out of gas. I do not recommend that situation to anybody. Fortunately, after a few harrowing moments, we were able to coast off to the side.

Bob Sprouse was suitably embarrassed. Bob, I'll always cherish the memory of our sharing this near-death experience. I am glad that we are both still alive to enjoy today's grand occasion.
Although he has a lifetime of achievements, he started his life in very humble circumstances. Born in rural San Diego county in 1922, he lived with his mother and four brothers and sisters after his parents separated. For a while they lived on the earnings of his two older brothers who caddied on weekends. His mother worked for 25 years sorting lemons in a packing house.

He was the only member of his family ever to attend college. After high school, he attended San Diego State College, the older brother helping out financially. He did not do well in college. After two years, he was on probation and decided to quit. His brother agreed. Until he was drafted in 1942, he worked at a Piggly Wiggly grocery store and then a nursery/flower shop, starting at a salary of $15 a week. He had never held a rifle in his hands before infantry basic training, but he qualified as an expert. As a result, he was promoted to corporal and later to sergeant. He was accepted in Officer Candidate School and, in 1945, was commissioned as a 2nd Lieutenant in the infantry. During three years in Germany, he served as a prosecutor in General Courts Martial where he met his wife, Fran, who was a U.S. civilian court reporter. They spent their honeymoon in Venice.

He left the service in 1949 to pursue a college degree, relying heavily on the GI Bill, which helped finance higher education for veterans. Returning to San Diego State, he was inspired by Professor Charles W. Lamden to major in accounting and undertake an accounting career. A visiting professor from the University of Minnesota offered him an assistantship to do graduate work at Minnesota. There he studied under Professor Carl L. Nelson. He received his University of Minnesota Ph.D. in 1956. Subsequently, he served on the faculties of the University of California at Berkeley, Harvard University and Stanford University. In 1973, he began a term of nearly thirteen years on the Financial Accounting Standards Board. He was the Board’s vice chairman for eleven of those years.

With his colleague, Accounting Hall of Fame member Maurice Moonitz, he co-authored Accounting Research Study No. 3 for the AICPA’s Accounting Principles Board.
his many published writings have been reproduced in a book of readings and translated into foreign languages. He was president of the American Accounting Association in 1972-73. Following his service on the FASB, he became the first AAA director of publications. He has received a number of other honors.

He and Fran, his wife of 47 years, have a daughter and a son. Since retirement, he has become involved as an owner and breeder of thoroughbred race horses. For recreation he runs competitively as well as for pleasure, gardens, and swims. He is the 54th member of the Accounting Hall of Fame.
RESPONSE

by Robert T. Sprouse

I have often day-dreamed about an opportunity some day, somehow to be able to pay public tribute to certain individuals who have played a special role in my most rewarding career. This is the opportunity that I have been waiting for. I shall appreciate your indulgence and I do apologize in advance if I should embarrass anyone here.

Charles W. Lamden:

When I left the army in 1949 with the intention of attempting to establish an academic record at San Diego State College that would permit me to enter a law school, Charles W. Lamden was a full professor of accounting there and, simultaneously, a full partner in the largest public accounting firm in San Diego. None of the big-eight firms had an office in San Diego at that time.

Charles Lamden was the consummate professional, both as a teacher and as a practitioner. From him I learned much more than the subject matter — I learned a great deal about ethics, personal values, personal conduct, and teacher/student relationships. To him, accounting was the most important activity in the world. He simply exuded integrity, and his enthusiasm and high standards were contagious. It was his energy and example that inspired me to embark on a career in accounting.

Carl L. Nelson:

My exposure to Carl L. Nelson at the University of Minnesota was responsible for my deciding to pursue a doctoral degree and a teaching career rather than a career as an accounting practitioner. The classes that I took from him were the most challenging, the most valuable, and the most stimulating that I had ever taken or observed. His personal interest and encouragement outside the classroom were even more important. Striving to cope with his constantly probing inquiries was an exciting experience. He alone was responsible for my first academic appointment at the University of California at Berkeley and his influence throughout my academic and professional careers has been unmistakable.

Maurice Moonitz:

At the University of California at Berkeley, technically Maurice Moonitz was a colleague but, of far greater signifi-
cance, he was in fact my mentor. A scholar in the most literal sense of that term, Maurice was always willing, if not anxious, to join me and other colleagues for a coffee break to discuss economics, world events, baseball, music (he himself is an accomplished violinist), Greek mythology, or you name it. His interests and his knowledge are both boundless.

Moonitz has little patience for mediocrity or sloppy thinking, but at the same time he has a remarkable talent for identifying positive contributions or possibilities in the works of others. He was immensely helpful to me in my earliest efforts for publication. As the first AICPA Director of Accounting Research, he invited me to assist him in the preparation of two research studies that were commissioned at the time the AICPA’s Accounting Principles Board was created. We ended up as co-authors of the second of the two, Accounting Research Study No. 3. In spite of the reception given that study — or perhaps because of it — my academic career seemed to “take off.” I shall ever be indebted to Maurice for his confidence and friendship.

Colleagues:

In addition to Lamden, Nelson, and Moonitz who played such vital roles in the development of my career. I have been blessed with extraordinary colleagues wherever I was. I cannot acknowledge all those great colleagues here, but I particularly want to mention a few.

During my three years at the Harvard Business School, I benefited from an especially valuable working and social relationship with Bob Anthony. Bob not only was an interested and constructive colleague at Harvard but he continued to be after my moves to Stanford and to the FASB. I learned a lot from Bob but, unfortunately, he was never able to teach me how to write those short, direct sentences he uses so effectively.

In arriving at Stanford in 1965, I joined Bob Jaedicke whom I had first come to know and respect when we overlapped in the doctoral program at Minnesota. He was one reason that I decided to move from Harvard to Stanford. Arriving at Stanford at the same time as a visiting professor was Chuck Horngren, on leave from the University of Chicago. Those of you who know Bob Jaedicke and Chuck Horngren personally will have no trouble appreciating what capable, collegial, and constructive colleagues they are — never too busy to be helpful and never a disagreeable exchange among the three of us.

My extraordinary good fortune followed me to the Financial
Accounting Standards Board. Marshall Armstrong, the first Chairman, would be the first to admit that he was quite apprehensive about an academic's membership on the Board. Happily, that apprehension dissipated fairly quickly, enough so that he recommended me to replace John Queenan when John retired as Vice Chairman. That appointment bolstered my confidence as an accepted member of the Board. Probably only a few of us will ever fully understand and appreciate Marshall's effectiveness in launching the FASB. Without the dignity, good humor, unruffled demeanor, and dedication that characterized his unique leadership style, those first few standards might never have seen the light of day.

For me, Don Kirk's facility for mastering the most complex accounting issues was a constant source of amazement and admiration. During my tenure, foreign currency translation, accounting for oil and gas producing companies, and pension accounting probably were the most intellectually challenging. Don was in command of the intricacies of each of these before anyone else. Assuming the responsibilities of Chairman had no effect on his leadership in addressing accounting issues. His intellectual capability, personal integrity, poise and self-confidence, dedication to the Board and its mission, effectiveness as a spokesman, and remarkable capacity for work served him and the Board well. It was indeed a privilege and a joy to work closely with Don for nearly thirteen years, eight of those years as his vice-chairman. Don has been a faithful, highly valued friend.

Oscar Gellein is something special. In addition to being highly intelligent and always having done his homework, Oscar is an especially affable and reasonable guy. His thought processes are invariably logical. Especially noteworthy among board members, he had the unique talent for being able to disagree with you and making you enjoy it. I certainly was never able to emulate that talent, but Oscar's presence on the Board meant a lot to me.

A number of long-time members of the FASB technical staff were especially willing and helpful to me — in particular, J. T. Ball, Paul Pacter, Jules Cassell, and Reed Storey. I am indebted to them for their assistance, their patience, and their friendship. During my later years at the FASB, it was a joy to work with Jim Leisenring. With his energy, mental quickness and, usually, good humor, Jim was an incredible Director of Technical Activities. He and Don Kirk were some combination.
The Accounting Historians Journal, December 1994

**FASB Independence**

Within financial reporting circles, certain concerns about independence seem to be on the front burner these days. As I look back on my experience on the FASB, I am singularly impressed with the importance of individual board members' independence. The Wheat Commission proposed specific safeguards to insure that independence. The Rules of Procedure governing the Board's activities that were adopted by the Board of Trustees of the Financial Accounting Foundation implemented those proposals, and include the following statement:

A principal factor in determining the organization of the FASB was the need to establish to public satisfaction the independence and objectivity of those responsible for establishing and improving standards of financial accounting and reporting. To this end, the Foundation's Trustees have adopted policies in respect of personal investments and other personal activities of FASB members and staff designed to prevent potential conflicts of interest. Among other things, the policies applicable to FASB members restrict financial and other obligations being owed by or to former employers or clients and arrangements or understandings for future employment, and restrict investments or other financial involvement or personal activities that might affect or reasonably create the appearance of affecting a member's independence or objectivity or that might create or reasonably create the appearance of a conflict or potential conflict of interest.

Over the years, among the most common questions I have been asked both by individuals and in meetings with groups is the extent to which the Board's decisions are affected by pressures from outside special interests, especially, but not exclusively, pressures from business enterprises. Based on my own experience and observation, I am aware of no instance in which the Board has taken a decision based on anything other than a consensus of Board members' individual conscientious conclusions. How else could one possibly explain the Board's decisions on some of its most significant and controversial projects, such as eliminating contingency reserves and catastrophe reserves, employers' accounting for pensions, and employers' accounting for postretirement benefits other than pensions. To some, strong opposition by affected parties may be bad news, but the good news is that the greater amount of controversy, the greater the
amount of information made available to the Board, and the less likely that the consensus of the Board members cannot be effectively defended.

**FAF Independence**

I my opinion, if there is a legitimate concern about independence in the standard setting organization, it is not about the FASB and its decisions, but about the Board of Trustees of the Financial Accounting Foundation and its responsibility for raising funds and appointing board members. Occasionally, a contributor of funds has notified the Trustees that, because of certain actions by the FASB, no further funds will be forthcoming. As far as I know, that has not become serious but the threat is always lurking in the background. The method of funding has never been completely satisfactory.

A mixture of trustees who are professionals and trustees who are clients of professionals is certainly not ideal. If the chief executive officer of a large contributor of funds were to insist on the ability to veto candidates for the next board member appointment, what might happen? The reality is that members of sponsoring organizations that are expected to foot the bill are bound to strive for some influence, no matter how circumscribed. I readily recognize that it is easier to identify problems than to offer constructive solutions. I do think the AICPA's Public Oversight Board and the independence it enjoys might be an adaptable model for the Board of Trustees.

**Acceptance:**

Finally, since my part of this morning's program is billed as "acceptance," now that I may have bitten the hand that fed me, let me assure you that I do accept induction into The Accounting Hall of Fame with unbridled enthusiasm and great pride, but also with sincere humility. I am sure than you can appreciate how rewarding recognition of this kind can be following more than 45 years of studying and writing about accounting, teaching accounting and, although I never managed to achieve the status of CPA or to practice accounting as a management employee, practicing accounting in my own way consulting, standard setting, and testifying.

I am deeply appreciative of the signal honor of being included in the Accounting Hall of Fame.
## THE ACCOUNTING HALL OF FAME MEMBERSHIP

<table>
<thead>
<tr>
<th>Year</th>
<th>Member</th>
</tr>
</thead>
</table>
| 1950 | George Oliver May*  
      | Robert Hiester Montgomery*  
      | William Andrew Paton* |
| 1951 | Arthur Lowes Dickinson*  
      | Henry Rand Hatfield* |
| 1952 | Elijah Watt Sells*  
      | Victor Hermann Stempf* |
| 1953 | Arthur Edward Andersen*  
      | Thomas Coleman Andrews*  
      | Charles Ezra Sprague*  
      | Joseph Edmund Sterrett* |
| 1954 | Carman George Blough*  
      | Samuel John Broad*  
      | Thomas Henry Sanders*  
      | Hiram Thompson Scovill* |
| 1955 | Percival Flack Brundage* |
| 1956 | Ananias Charles Littleton* |
| 1957 | Royal Kester*  
      | Hermann Clinton Miller* |
| 1958 | Harry Anson Finney*  
      | Arthur Bevins Foye*  
      | Donald Putman Perry* |
| 1959 | Marquis George Eaton* |
| 1960 | Maurice Hubert Stans* |
| 1961 | Eric Louis Kohler* |
| 1962 | Andrew Barr  
      | Lloyd Morey* |
| 1964 | Paul Franklin Grady*  
      | Perry Empey Mason* |
| 1965 | James Loring Pierce |
| 1968 | George Davis Bailey*  
      | John Lansing Carey*  
      | William Welling Werntz* |
| 1974 | Robert Martin Trueblood* |
| 1975 | Leonard Paul Spacek |
| 1976 | John William Queenan* |

*Deceased

(continued on page 163)
1977  Howard Irwin Ross*  
1978  Robert Kuhn Mautz  
1979  Maurice Moonitz  
1980  Marshall Smith Armstrong  
1981  Elmer Boyd Staats  
1982  Herbert Elmer Miller  
1983  Sidney Davidson  
1984  Henry Alexander Benson  
1985  Oscar Strand Gellein  
1986  Robert Newton Anthony  
1987  Philip Leroy Defliese  
1988  Norton Moore Bedford  
1989  Yuji Ijiri  
1990  Charles Thomas Horngren  
1991  Raymond John Chambers  
1992  David Solomons*  
1993  Richard Thomas Baker  
1994  Robert Sprouse  

*Deceased
BOOK REVIEWS

VICTORIA BEARD
University of North Dakota

REVIEWS OF BOOKS AND OTHER PUBLICATIONS


Reviewed by
Paul J. Miranti, Jr.
Rutgers University

This outstanding work written to commemorate Price Waterhouse's (PW) first century in America is an important addition to the accounting historical literature. The cogent analysis rendered by David Grayson Allen and Kathleen McDermott, a gifted team of professional business historians, glides smoothly on a plane far above the amateur chronicles that have thus far characterized this genre and also evidences the rich potential for first-rate scholarship that is inherent in practice histories.

A major strength is the delineation of the study into three epochs based on a changing mix of socioeconomic circumstances which shaped the course of professional development. The first, which spans the years 1850 to 1926, describes the firm's British origins and explains how a small representative office in New York soon became transformed into an autonomous practice with a clientele national in scope. The take-off in America began during the early years of the current century. It was fueled by investor needs for new types of professional knowledge that were effective in resolving the agency problems associated with the separation of ownership and control in emergent giant business enterprises. In this transition British professional firms had special significance because of the position of London as the leading international center for raising business capital.

The later integration of public accountancy into the complex federal structure for regulating American financial markets is the central theme of the second epoch which spanned the
years 1926 to 1961. The reforms of the 1930s guaranteed a permanent place for audit services in corporate governance, provided a framework of legal sanctions which strengthened the role of public accountants as monitors of financial reporting and won broad public acceptance for a substantial degree of professional self-regulation. These developments contributed to the strong growth experienced by PW and other national firms after World War II.

Although the profession has continued to prosper since 1961, the most recent epoch is marked by considerable turbulence and a fundamental change in the tone of practice. Public accountancy became burdened with mounting overheads that resulted from adverse malpractice litigation, the extension of professional standards intended to strengthen practice quality, and increased competition in the market for professional services. The domestic economic environment in which accountants operated also experienced severe shocks from rising inflation, a decline in industrial competitiveness, a growing dependency on foreign energy sources, deregulation and financial market instability. Moreover, larger practices units were also drawn overseas as the barriers to international trade continued to crumble. This flux compelled leading firms to reassess the fundamental strategies and structures they employed in managing their practices.

Against this general backdrop, Allen and McDermott skillfully embellish their rich narrative by analyzing the firm-specific qualities that contributed to PW's long-term success. Foremost was the firm's leaders who from earliest days recognized that success was not solely dependent on technical practice competency; it was also contingent on the ability both to contribute to the advancement of accounting professionalism and to persuade government and business leaders of the relevancy of public accountants' specialized skills. Second, the pressing demands of practice were found to be better served through decentralized administration which allowed local office partners a high degree of discretion in decision-making. Third, PW established a strong economic base by emphasizing in its practice development the quality rather than the quantity of its clients. Such a strategy had positive implications both for its fee structure and for limiting its exposure to litigation. Fourth, the firm was sensitive to the need to redefine its target clientele in response to major patterns of economic change: thus, an initial strong commitment to heavy basic industries was gradually challenged by the
rise of a vibrant service sector. In these and other ways, this unique entity assure its professional leadership.

This book should be read by all serious students of accounting history. Its achievement is not limited to providing an understanding of the factors contributing to the successful rise of one of America’s leading public accounting firms. It also serves as an excellent example for the professional scholar of what may be achieved in institutional history.


Reviewed by
Paul Shoemaker
University of Nebraska-Lincoln

This book is a 30-year anthology of selected writings by the author delineated into six sections, or themes. The common threads tying the themes together are the concepts of estimation and measurement in accounting and the impact of their errors. Much of the debate contained in this book is documented to date back at least 100 years.

The first theme highlights the theoretical foundation of measurement and uncertainty which has plagued the profession since its founding over a century ago. This foundation, called "first principles," sets the rhetorical stage for the remaining sections of the book. Beginning with Dicksee's pedagogical trademark, the agency of a ship in which the life of the entity is one shipping venture, the concepts of depreciation and profit determination are explained with emphasis on the inaccuracy (error) of interim reporting (i.e., any reporting period less than the life of the enterprise).

Brief refers to the old adage "history repeats itself" when discussing controversies surrounding full disclosure, alternative accounting choices, and auditor responsibility. These unresolved controversies were as relevant a century ago as they are today. According to Brief, these controversies persist "because profit calculations involve uncertainty about the future" [p. 25]. Moreover, he posits that uncertainties cannot be mitigated through regulation.

The second theme deals directly with the book's title: *The Continuing Debate Over Depreciation, Capital and Income*. A dis-
cussion of depreciation theory of 100 years ago is presented as well as evidence of internal economic and external institutional forces affecting depreciation methods. Brief shows that the argument of valuing assets at cost, replacement value, market value, etc., were alive 100 years ago and remain unresolved today. The choice of depreciation methods is analytically shown to affect the growth in financial capital and ultimately to impact capital and income measurement. A corollary issue is that depreciation is an allocation problem, not a valuation problem.

Given that depreciation is an allocation problem, the third theme addresses the theory of cost allocation under uncertainty. Each succeeding article in this section builds on the former. Using statistical properties, Brief begins with a simple least squares model to estimate proper cost allocations by minimizing squared measurement errors. The two succeeding articles build on this concept to develop more sophisticated models. An applied concept of measurement error is first introduced in this section.

The fourth theme, interest rate approximations, at first seems incongruent with the flow of the book. However, interest rate approximations appear to be the first formal attempts at estimations for business purposes; and the Rule of 69 [p. 182], an actuarial approximation of the number of periods in which a sum will double at a given interest rate, was first articulated using a depreciation problem.

The fifth theme is comprised of financial reporting practices, past and present, and the intentional and unintentional errors contained in them. First, financial reporting practices at the turn of the century are chronicled. These included diverse practices and inadequate disclosures. This time period was also characterized by an increased awareness of fraud and increased distrust for business. The heightened public concern mandated the need for uniformity and adequate disclosure in financial reporting.

The remainder of this section deals with normative theory regarding measurement and valuation in financial reporting. A graphical alternative for cumulative reporting is presented which, in the author's view, shows more accurate reflections of rates of returns as income and cash flows change over time. In another article, a valuation model is developed using pseudo IRR which is a long-term (i.e., constant) IRR estimate. The pseudo IRR proxies economic IRR using accounting data under a comprehensive income concept.
The final theme focuses on accounting error with a review of the nature and behavioral consequences of accounting error in the nineteenth century. Accounting error is defined as "the failure to systematically distinguish between capital and revenue expenditures and the failure to periodically allocate the original cost of fixed assets to expense" [p. 254]. The lack of a regulatory environment in the nineteenth century allowed unscrupulous businessmen to present financial positions favorable towards shareholders to attract investment capital. Much of the financial reporting deception of this era revolved around asset accounting. Businessmen appeared only to be concerned with showing the highest possible rate of return per annum available on invested capital. "The rate of profit became the dominant concept" [p. 271].

Accounting error has been described as intentional — serving self-interests and therefore having economic consequences, and as unintentional — by "disinterested, independent scorekeepers" [p. 284]. Cause and effect relationships are difficult to identify in accounting and accounting error is difficult to identify because one first must know what is "correct" accounting. Brief considers the "true" ("correct") value of accounting as that method which produces the lowest reported profit among alternatives. Using the conservative method as the "correct" method, Brief discusses the historical nature of accounting errors and their potential behavioral consequences for product-costing and fixed asset accounting.

In summary, Brief historically documents the economic and institutional forces surrounding measurement and reporting and reminds readers that the accounting controversies of today are not new but were relevant 100 years ago. As long as uncertainty exists, interim reporting will contain errors. The best we can do is develop and rely on artificial measures of correct accounting measurement and allocation (perhaps based on conservatism) and statistically minimize their errors. This is a prerequisite for uniform reporting and adequate disclosure. We would be remiss as accounting practitioners and researchers if we did not learn from past errors so as not to repeat them.


Reviewed by
Howard F. Stettler
University of Kansas (Emeritus)

These companion volumes offer an interesting insight into the early development of auditing in the cradle of professional auditing — the United Kingdom. The period 1875-1900 was chosen for the more extensive volume, the earlier date marking the approximate commencement of publication of the weekly journal *The Accountant*, from which all 104 articles selected for *Recurring Issues* have been drawn. That journal provided a forum for discussion among practitioners of current accounting and auditing issues, often prompted by reprinting of critical articles, editorials, or correspondence from other periodicals, as for example, five from *Vanity Fair*, four from *The Pall Mall Gazette*, and eleven others from such notable publications as *The Economist* and *Financial Times*. The close of the period is marked by the adoption of the Companies Act of 1900. A key provision of that law required every registered company to have an auditor who is not a director or officer, the auditor to be appointed by the shareholders in general meeting with remuneration to be determined at that time. No qualifications were set for the appointed auditor, and it was not until later that the auditors of public companies were required to be members of the Institute of Chartered Accountants in England and Wales.

The importance of case law in establishing auditors' liability and setting minimum audit requirements is evident in the various cases such as the landmark Kingston Cotton Mills and London and General Bank cases analyzed in articles in *The Accountant*. Reports on these two cases and twenty-five other leading cases form the content of the companion *A Case Law Perspective*. The reports are reproduced from either *The Accountant* or from *The Accounting Law Reports*, which is a supplement to the journal.

The selected articles from *The Accountant* are reproduced in chronological order with a few exceptions. The reduction of
certain articles to permit direct reproduction for the 17 x 25 cm (6¾" x 10") page size of the book results in some instances in exceedingly small type that is difficult to read. The editors selected articles that dealt with major issues and concerns of the day that have maintained a continuing prominence as auditing has evolved. The nine issues are stated in the Introduction, and under each issue the editors refer to pertinent articles with comments, observations, or brief quotations on some key aspect. The topics are Independence, Audit Fees, Auditors' Responsibilities, The Impact of Case Law, Extent of Audit Work, Manner of Audit Reporting, Code of Audit, Criticism of Auditing (prompted by public concern, often as a result of the failure of a well-known company), and Government Auditors (dealing with proposals for direct assumption of the audit function by the government, or regulation or supervision of practicing auditors). This material in the Introduction is helpful to the reader in selecting articles of interest to be read, but of greater helpfulness would have been a comprehensive index of the subject matter found in the articles selected for the book.

Especially evident in the articles is the often perfunctory mechanical checking of figures and the preoccupation with the balance sheet. The detection of fraud in the accounts was of major importance, but all too frequently the effort was unsuccessful, leading to the all too familiar cry, "Where were the auditors?" That auditors were expected to be "flexible" can be noted in a lecture by Mr. O. Holt Caldicott, F.C.A. to the Birmingham Chartered Accountant Students' Society where he states "... when profits are scanty, you will find a tendency to review the rates of depreciation, and to claim that certain assets have been written down quite enough for a time. Of course this is not a scientific treatment, but I think an auditor would be scarcely wise who refused to sanction a liberal writing off in good times, or to be a little tender in his dealings with assets during a temporary depression of trade" [p. 239]. Also noteworthy is the reticence of the auditing profession and its Institute of Chartered Accountants to prescribe auditing standards or audit procedures. Such matters and the attendant liability of auditors to injured parties were left almost entirely for the judicial system to decide.

Although a knowledge of present-day auditing demonstrates vividly how far the auditing profession has progressed since these articles from the last quarter of the nineteenth century, Recurring Issues also includes some visionary proposals, as for
example a Communicated Article by "Z" that suggests "... what are the auditor's duties? I think they ought to begin by the system on which the accounts are to be kept being submitted to and approved by him before opening the books, and if he be not satisfied that the system is one which will enable him to ascertain clearly the result of transactions at the end of the period, he should, in the event of opposition to his views for that purpose, at once resign" [pp. 10-11].

In *A Case Law Perspective*, the editors' Introduction points to the importance of case law in the development of audit practices, noting that the first edition of Dicksee's *Auditing* contains an Appendix of thirty-two pages that extracts from six cases decided between 1886 and 1891. A major purpose of the editors for this volume was to make more easily accessible to researchers the full report of important early cases, thereby conveying the flavor of the impact of the twenty-seven reported case decisions on the development of the audit process. In addition to these reports, Appendix A lists twenty-two additional cases along with references to the publications in which the cases were reported.

The core reports are reproduced without comment, although the editors do provide in their Introduction a helpful explanation of the structure of the courts and the appeal system in England and Wales. They also indicate the general content of the reproduced case reports: bankruptcy, negligence against the auditor, or cases in which the auditor came under fire but was not the subject of legal attack. It would have been more helpful, however, if the Contents Table had included a brief statement of the subject matter involved in each of the cases.


Reviewed by
Paul Solomon
San Jose State University

In "Objectives of Education for Accountants," the Accounting Education Change Commission encouraged accounting educators to integrate the history of the accounting profession and accounting thought into their classes. This book of readings satisfies this objective well by providing accounting instructors
eighteen diverse readings on the history of such financial accounting topics as the development of financial reporting standards, income measurement and reporting, asset valuation, stockholders' equity, capital maintenance and changing prices, pensions, and ratio analysis. In addition, this book contains two readings that are designed to provide guidance to scholars who are interested in conducting research in accounting history.

Although this book reports events that occurred in the eighteenth and nineteenth centuries, its primary focus is on events of the twentieth century. The readings themselves were written over the period between 1956 and 1993, with 60% being published during the last decade. Although this book is appropriate as a supplement to students in several financial accounting courses, its readings seem especially suited to the intermediate accounting sequence. They are organized in roughly the same order as the standard table of contents found in intermediate textbooks, they expose students to historical aspects of traditional intermediate topics not found in intermediate textbooks, and they help to offset the increasingly encyclopedic coverage of intermediate textbooks with a more in-depth and enriched coverage. This book of readings also provides instructors another means of developing the communication skills of accounting students. For example, the readings could be the basis of written assignments, oral presentations, and classroom discussions.

Clearly, some readings are more appropriate for assignment to students than are other readings. Examples include: "The Development of Accounting and Auditing Standards" in which Davidson and Anderson describe the important influence of British accountants, including Price Waterhouse & Company, on the economic development of the American West; Brown's clearly written "The Emergence of Income Reporting"; Davis's "History of LIFO" which features an excellent discussion of the base stock method; and Woodward's brief but insightful "Depreciation — The Development of an Accounting Concept." These and several other readings could easily be assigned to all accounting students who are beyond an introductory level. Other readings, however, presume more background than possessed by non-doctoral students; thus, their information would more efficiently be communicated to students through their instructor. Examples include Sprouse's unique perspective expressed in "Developing a Conceptual Framework for Financial Reporting;" "The Legal Significance of the Par Value of Common Stock: What Accounting Educators Should Know," in which McGough,
among other deficiencies in textbook coverage, pointed out that no texts explained that originally the par value of common stock was equal at issuance to its market value; and "A Short History of Financial Ratio Analysis," in which Horrigan described how the current ratio has had more of a significant impact on financial statement analysis than any other ratio.

One minor inconvenience is the fact that some readings include an abstract while others do not. Although this inconsistency is not surprising given the fact that the readings are drawn from journals with different stylistic conventions, the editors could easily have developed a standard abstract for all readings in the interest of conveniencing their readers.

Overall, this book provides a rich source of insights about the history of financial accounting for both accounting students and their instructors.


Reviewed by
William J. Schrader
Pennsylvania State University

Edwards' book is much less and much more than its title suggests. It is not a global work on financial accounting, but a more manageable survey of British practice. Nor is it only financial accounting; it deals with industrial development in Britain, legal responses to growing capital needs of professionally managed companies, notable frauds and consequent collapses of leading British companies and their effects on public policy, and the siblings of financial accounting — auditing and investigations, taxation, and management accounting.

The expected deferences to earlier civilizations are covered early in the book, including Babylonia, China, Egypt, Greece, Rome, and even Crete, India, Peru, and Hawaii (!). But these earlier contributions seem lost on Britain. The book depicts a nineteenth century "accounting" in Britain which is predominantly single-entry (even in government), not yet affected by an accounting "profession" except a few strident voices of individuals now legendary, not yet cognizant of management accounting or auditing (except for investigations of fraud) and resistance to disclosure.
Edwards makes his major contribution in Part III, Corporate Financial Reporting Practices, and Part IV, Rules and Regulations, which together occupy half of the book. In these pages he recounts the interaction between statute, company managements, the Stock Exchange, investors, and the accounting "bodies" by which reporting standards and "financial accounting" standards evolved.

He makes this political process fascinating reading. His is the British equivalent to George O. May's *Financial Accounting: A Distillation of Experience* [1959], which traces the negotiations between Federal Reserve System, Securities and Exchange Commission, New York Stock Exchange, the American Institute of CPA's and other bodies of accountants in industry and education that lead to GAAP in the United States.

Unintentionally, perhaps, he raises American accounting to parity with British. This will be a surprise to many Americans in teaching and in practice who suppose that America is as much indebted to Britain for accounting and auditing as for language, law and constitutional government.

On the contrary, Edwards shows that British auditing was little advanced beyond checking balance sheets to "the books" by 1900, and that accounting requirements for "regulated industries" evolved almost simultaneously in the two countries. Disclosure of income statement details, elimination of "secret reserves," requirements for depreciation accounting, consolidated statements, requirement for audits of listed companies and accounting for pensions, leases, business combinations, all developed concurrently in both countries or trailed in Britain.

By his own choice, Edwards mentions concepts and theory only as they are consequences of "accounting practice." One should not expect, therefore, analyses and critiques of the sort that distinguish the "financial accounting" books of Gilman in the USA or Baxter in the UK.

As Edwards expected, his book should be of interest to students taking formal courses in "History of Accounting." More importantly, his book should be read by all the international firm partners under fifty years old whose schooling neglected the social and political processes of the past century from which emerged the public accounting profession as it exists in the 1990s. How incredibly fast it has been thrust onto the stage and how equally fast it could be swept aside!

Reviewed by  
Cheryl S. McWatters  
McGill University

This volume is a collection of papers dealing with the history of Canadian accounting institutions, standard setting and practice. The title is misleading in that the volume does not examine in depth "Canadian accounting thought." The latter is dismissed in the introduction [p. 1] by stating that neither the academic literature nor its setting are included. The anthology is divided into five groupings: Early Records; The Profession; Standard Setting; Inquiries and Regulation; and Chronologies. The introduction provides a brief overview of the articles and the rationale for their inclusion.

The "Early Records" section contains four articles dealing with early-Canadian accounting practice. One article is a reprint of an early bookkeeping primer. The introduction states that it "is quite likely the earliest extant version of its kind in Canada" [p. 2]. Apart from antiquarian interest, this appears to be the primary justification for its inclusion, as there is no analysis of the document. The remaining three articles, all of which are written or coauthored by the same individual, are descriptive in nature. The articles have a notable tendency to compare past and present-day practice in terms of their relative sophistication and merit. The archival study by Felton and Mann does provide some limited comparison of the source records to textbooks and other documents from the period under review.

Section II examines "The Profession" with emphasis upon the development of chartered accountancy and auditing. A striking contrast is the tone of the articles written by practitioners and of those by Richardson. The former clearly state the professional responsibility of accountants in terms of (a) the financial well-being of clients, and (b) ethical obligation. Richardson is more critical, presenting professionalization in terms of intra-professional competition, professional identity and segmentation. Increased educational standards are viewed as a means of closing the profession, rather than as the profession's aim to better serve the client and the public interest. Three articles by Richardson are included here. They are somewhat repetitive, and their emphasis upon sociological theory diminishes their
readability for those less than well-versed in the theoretical constructs and vocabulary. Murphy's article on financial statement disclosure is out of place here, and overlaps to some degree with other articles in the anthology.

Section III reviews "Standard Setting" with articles which are more complementary. Gray's article provides insight into prevalent financial-statement presentation of the early-twentieth century. Quite simply, practice went beyond the legislative requirements of the period. Zeff's article contributes a comparative analysis of international developments which have influenced Canadian standard setting. Other articles examine the continued debate over a conceptual framework, including the efforts to develop a home-grown Canadian version. The resulting CICA Handbook "Financial Statements Concepts" (included in the volume) reflect parallel FASB concepts, but with the caveat that these concepts do not establish standards nor overrule any specific Handbook recommendation or any other generally accepted accounting principle.

"Legislation, Inquiries and Regulation," the topic of Section IV, broadly reviews these issues in terms of the gap between the expectations of the profession and those of the public. An article from the 1930s reinforces the long-standing nature of the issue, while the remaining articles are more contemporary in nature. One paper does compare two events separated chronologically by several decades. Overall, the emphasis is upon the required adaptation of the auditing profession and the standard-setting process in light of demands for greater quantity and quality of financial analysis and disclosure. The role of professional judgment must be soundly exercised and self-discipline strengthened in order to preserve the profession's credibility and to reduce the threat of increased regulation. In a number of articles, interesting parallels are drawn between the Canadian and U.S. experience, chiefly the greater tendency for litigation in the United States and the recent trend of the Ontario Securities Commission to use its powers (similar to those of the U.S. Securities and Exchange Commission) to influence the standard-setting process and disclosure requirements.

The final section contains two chronologies: the first of corporate financial reporting; the second of the development of accounting associations. The chronologies and their respective bibliographies are a useful starting point for future research.

Overall, the anthology suffers some limitations. The intended audience is not self-evident. Repetition and overlap, es-
especially the reliance upon three authors, have contributed to a lengthy and expensive tome. The quality of the typesetting and the reproduction of the articles make for difficult reading. The volume does not meet the title’s claim to be a history of Canadian thought and practice. However, the selected material does serve to provoke interest in certain elements in need of further research.


Reviewed by
R. H. Parker
University of Exeter

“The time is out of joint” but, unlike Hamlet, one critical accounting historian believes she was born to set it right — and through the medium of company annual reports. There are two themes running through this entertaining, thought-provoking, well-written book. One is that General Motors, and hence the America of which it is a symbol, is in crisis; the second is that the pictures and words in annual reports (not just the financial statements) provide useful information. Neither of these themes is new. The author herself has written previously on gender and class in GM’s annual reports in *Accounting, Organizations and Society*, vol. 12, no. 1, 1987. What the author does is to link them together, showing that one could write a history of General Motors from its annual reports. Not that she really attempts to do this. Her history is based mainly on secondary sources (fully acknowledged) with quotations (but, alas, no pictures) from annual reports used as supplementary evidence.

From the point of view of a non-American, non-critical accounting historian who used to drive French cars and now drives Japanese cars, the book has a number of weaknesses. First, it is very much aimed at an American audience and what is good for America is not necessarily good for the rest of the world. But maybe what is good for the rest of the world is good for America. More reference to other countries would have been useful, especially to continental Europe and Japan where both
corporate governance and the accountancy profession differ significantly from the American model.

Secondly, the author is much better in seeing the limitations of theories she disapproves of (the transaction cost approach to organizational change expounded in Chapter 2) than she is of theories she approves of (the dialectical approach to organizational change expounded in Chapter 3). Do they not both give partial but useful insights?

Thirdly, there is a surprising lack of empirical evidence. We are told that there are two commonly-held views of annual reports: that they are neutral reflections of reality; that they are outright fabrications. How does she know that these views are commonly held? It seems just as likely that GM shareholders and employees and other users believed that management was telling the truth but a partial truth that reflected its own interests. This is an area in which research would be worthwhile. The author’s own view is that annual reports form part of “the symbolic universe of language, signs, meanings, norms, beliefs, perception, and values, through which individuals and institutions define themselves and are defined by others” [p. 100]. Put more simply, we give ourselves away every time we open our mouths or put pen to paper (as evidenced by both the author’s book and this review).

The above arguments assume that annual reports are actually both read and understood. Here there is a literature but it is not referred to by the author. Curiously, she tells us nothing about how the annual reports were compiled, to whom they were distributed, and by whom they were read.

Dr. Neimark blames America’s ills on corporate America, on its governments, and on free-wheeling global capital. Her answer is a call for greater corporate accountability and one does not have to share her political views to agree with her that this is desirable. Disappointingly, however, her recommendations for reform are packed into the last few pages of the book, with no adequate discussion and no reference to an existing literature. She merely asserts that auditors should be assigned to clients by an independent body (what independent body?) and rotated periodically; auditing should be severed from consulting (how would this work in practice? is there any evidence from other countries?); the non-financial statement portion of the annual report should be taken out of the hands of management (but who then would be reporting to whom?).

In the last few paragraphs of the book, Dr. Neimark starts
to develop interestingly radical ideas about a “truly ‘public’ accounting profession” [p. 168] financed by taxes levied on corporate income. No doubt she will tell us more about these ideas elsewhere. Dr. Neimark will probably enjoy trying to change the world and this reviewer will enjoy reading what she writes, especially if her next book, unlike this one, has an index.


Reviewed by
Richard K. Fleischman
John Carroll University

This volume is a collection of six essays and accompanying critiques initially presented at a Conference on Microeconomic History at the National Bureau of Economic Research in October, 1990. As the editor notes in his introduction, the papers are linked by two unifying themes: (1) the pieces are all historical, concentrated on U.S. industry at the turn of the 20th century; and (2) the papers focus on the complexity, scarcity, and mutability of information as the “key element to the functioning of an enterprise.”

The list of 13 contributors strongly represents Ivy League universities (6) and M.I.T. Professor Temin’s home institution (4). Most are members of either an economics or a history faculty. Though accounting is a frequent theme as might be expected in a volume dedicated to the use of information in business enterprises, the only accounting academic featured is H. Thomas Johnson as author of one of the six essays, “Managing by Remote Control: Recent Management Accounting Practice in Historical Perspective.” Notwithstanding, the substantial contribution made by several of these articles to our knowledge of U.S. accounting history during this period reflects the cross-fertilization potential with history (non-accounting) and economics literature.

Three of the papers are not specifically focused on accounting’s role in American information systems within the historical perspective. Raff and Temin, in making a cogent case for the synergies between business history and economics, considered a number of firm histories (GM, DuPont, Campeau Corporation, Swift, AT&T) in advancing the point that information
systems vary only incidentally to support managerial decision making in such seemingly diverse areas as organizing the work of individuals, production, and financing. Lamoreaux studied 19th century New England banking to chronicle the changing informational requirements as the industry made the transition from heavy “inside” lending early on to a vastly higher incidence of borrowing by externalities at the century’ end. DeLong addressed the issue of whether the Money Trust, as typified by J. P. Morgan and Company, added value to the substantial number of firms they controlled through interlocking directorates or whether self-enrichment was the bottom line as so frequently charged by Progressive reformers.

Johnson’s article was a synopsis of the development of managerial accounting information systems at the Lyman textile mills, DuPont, and General Motors, and the way in which these systems lose relevance in the 1950s as they became increasingly subordinated to financial accounting requirements. I do confess to a measure of disappointment that the paper added little to what we as accounting historians have already been told in *Relevance Lost*. However, this venue might be the more appropriate for conveying the message to business historians and economists.

The articles by Levenstein on the maturation of cost measures that accompanied the growth of the Dow Chemical Company, 1890-1914, and by Yates on the Scovill Manufacturing Company as a case study illustrating the developing technology in information systems, 1850-1920, are both excellent examples of combining effective archival research with broader contextual analysis.

This work contains much good accounting history, as well as thoughtful contributions in kindred fields. The volume is nicely packaged and immaculately edited. The critiques on the various articles are conscientiously done, and raise issues for further consideration. My only criticism lies in the fact that the articles are homogeneous in terms of theoretical foundation. They are all Neoclassical in their orientation, very much in the tradition of Chandler, Williamson, and Johnson/Kaplan. Certain critical scholars may be offended by the omission of conflicting viewpoints.

Reviewed by
Joni J. Young
University of New Mexico

Based upon court documents and testimony and other evidence, *Anatomy of a Fraud* by Gary Tidwell provides a thorough description of the $150,000,000 fraud perpetrated by Jim Bakker and Richard Dortch of the PTL Club. These individuals “sold” lifetime partnerships that promised partners would receive free lodging each year for life at various PTL facilities. The sales of such partnerships were to be limited in number. Despite these promises, the actual number of partnerships sold far exceeded the promised limits and little of the money raised was used to construct the lodging facilities. Instead, the funds were used to pay PTL operating expenses including enormous bonuses to Jim and Tammy Bakker and other members of the executive staff.

The book also describes the subsequent litigation arising from the fraud as well as the role of various corporate officers in perpetrating the fraud. In subsequent chapters, Tidwell considers the effectiveness of the PTL board of directors, auditors, and the Evangelical Council for Financial Accountability. If boards of directors, audits and memberships in the ECFA increase the accountability of organizations, then “how could the fraud that occurred at PTL ever have happened? More importantly, how could it have gone undetected, given its magnitude?” [p. 112].

The author devotes a separate chapter to examining the roles of the board of directors, the auditors and the ECFA outlining first the legal and/or reported responsibilities of each and then discussing the ways in which each functioned at PTL. For example, the PTL board was not independent but controlled by insiders including Bakker and Dortch. Its outside directors were not especially knowledgeable of financial matters and remained apparently unaware of the cash flow difficulties confronting PTL even as they continued to approve significant bonuses for Dortch and the Bakkers. These directors did not interact with

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1The ECFA is “an accrediting agency for Christian Ministries . . . [with] a set of standards concerning governance of the organization, Board of Directors, composition function(s), audits and disclosure of financial reports, fundraising practice(s) [and] conflict of interests” [p. 249].
outside legal counsel nor the PTL financial officer who write numerous internal memos emphasizing PTL's financial difficulties and internal control problems. They also remained unaware of oversell of lifetime partnerships and the tax difficulties facing PTL. As a consequence, the Board was ineffective in preventing the irregularities that routinely occurred with PTL.

The discussion of the work of the auditors is particularly interesting for accounting students, academics and practitioners. In this chapter, the author focuses much of his attention in considering whether the auditors at PTL should have detected and reported the oversell of the partnerships. In particular, he asks whether the auditors exhibited an appropriate level of professional skepticism given the control environment at PTL [pp. 211-212] and its serious cash flow problems. Deloitte, Haskins and Sells, auditors until 1985, claimed to be unaware of the oversell of partnerships which began after year end but prior to their last audit sign off. Despite the GAAS requirement to consider subsequent events, the auditors testified that "we were auditing balance sheets as of May 31, and there was no reason in my judgment to look at this number [the sale of lifetime partnerships] after May 31" [p. 215]. The audit partner further indicated: "I don't think that their system provided adequate information that would give you a reliable number" [p. 211]. A statement that leaves one wondering how an audit could have been conducted. Although Deloitte did not consider whether PTL had exceeded the promised limit on partnerships, the firm did consider the sales of these partnerships in deciding not to issue a qualified audit opinion for PTL. Tidwell comments: "It is difficult to understand how Deloitte could understand PTL's future financial plans but yet not evaluate the current sales status of the Grand Hotel lifetime partnerships" [p. 218]. Laventhal and Horwath, who became the PTL auditors in 1985, argued that they were unaware of any promised limitations on the sale of lifetime partnerships. They did not examine any sales brochures for these partnerships as these documents were not financial documents [p. 221]. However, these auditors were aware of the number of partnerships sold and some simple mathematics would have suggested the near impossibility of keeping the promises made to the purchasers of these partnerships [p. 224].

The chapter on the role of the auditors raises several interesting issues regarding independence, responsibility for subsequent events and fraud detection. However, I wish that the author had also raised questions about the responsibility of
auditors (if any) in monitoring the activities of an organization. In broadcasts soliciting lifetime partnerships, Bakker indicated that the funds received would be used to complete production of certain lodging facilities and also for operations. However, much of the monies raised were used to pay for operating expenses rather than to build these promised facilities. Does an auditor have a responsibility to highlight the ways in which monies raised for certain purposes are subsequently expended? Further, does the auditor have a responsibility to prevent “mis-use” of the audit report? Although auditors do not tout their work as equivalent to a Good Housekeeping seal of approval, in his broadcasts Jim Bakker discussed the existence of outside auditors and their reports in ways that suggested their work provided proof of the propriety and integrity of PTL operations [pp. 243-245].

Throughout the fraud, PTL remained a member of the ECFA even though the ECFA was aware that PTL was purchasing expensive homes and cars for the Bakkers. Membership continued despite ECFA questions regarding the financial accountability of PTL and concerns about the percentages of donated income allocated to fundraising and management costs and that allocated to ministry and program services. What then is the significance of ECFA membership?

Tidwell's book documents very well the ways in which supposed “watchdog” institutions such as the board of directors, auditors and ECFA may be seen to have failed in their expected functions. This book could be usefully employed in auditing classes to raise questions about the role and purposes of auditors or in a more general discussion of business ethics and the role of institutions in “ensuring” accountability.


Reviewed by
J. R. Edwards
Cardiff Business School

The German version of this book was published in 1986. It was well received by the critical academic press and the English version has been translated by Sarah Hanbury Tenison. The purpose of the book is to add to the debate surrounding
Britain's relative economic decline during the latter part of the nineteenth century.

The period covered by Wengenroth's text, 1865-95, saw Britain lose its position as the "workshop of the world" and most powerful industrial nation, being overtaken by the USA and then Germany. Performance in relation to steel production — an area of rapid technological advance and one which has captured the imagination of historians — is seen as symptomatic of Britain's failure, with British levels of steel production overtaken by the USA in the late 1880s and Germany in the early 1890s.

This turn-around was for many years explained in terms of British entrepreneurial failure, with its management characterised as essentially pragmatic, technically ill-educated and no match for its efficient, university-trained, German counterparts. The accusation against management is seen to gain strength from the fact that all the major innovations in new steel technology, the Bessemer, Thomas and Siemens-Martin processes, were substantially developed in Britain in the 1860s and 1870s. Wengenroth utilises the records of numerous companies, governmental archives and the trade literature to build-up a picture of how British and German steel managers tackled the strategic problems and business opportunities implicit in rapid technological change.

Following a brief introduction, chapter one provides a detailed account of late nineteenth-century steel-making methods, with its purpose being to provide a technical perspective for the arguments developed in the later chapters. Chapter two deals with the early expansion of steel-making, resulting in over-capacity which was exacerbated by a decline in the level of railway construction. Chapters three and four examine respectively the individual and collective strategies used by firms to "surmount the slump." Chapter five contains an in-depth examination of the new steel-making processes and new markets, as a further preliminary step before moving on to reach a judgment concerning relative entrepreneurial efficiency in Britain and Germany.

The last chapter is divided into two parts. The first part re-examines the British debate concerning entrepreneurial decline and, specifically, the steel question. Wengenroth rehearses the respective stances of the two main British protagonists, Duncan Burn and Donald McCloskey. Burn believes that late-nineteenth-century British entrepreneurs missed opportunities for the development of Bessemer steel based on the use of iron ores available in Lincolnshire and Northamptonshire (these were not
exploited until Stewarts & Lloyds built the Corby works in the 1930s). McCloskey's reinterpretation of the evidence leads him to conclude that British entrepreneurs did as well as could be expected given the prevailing economic conditions and resource constraints. Indeed "by any cogent measure of performance, in fact, they did very well indeed" [McCloskey quoted in Wengenroth, p. 251].

Wengenroth sees strengths and weaknesses in both their cases. His overall conclusion is that late-nineteenth-century British managers were substantially innocent of the accusation of entrepreneurial failure. It was not the way steel-making processes developed technically which created Germany's growing strength on the world markets, but the industry's tight organisation, formed in the 1870s with the support of the banks and the state (by way of protection), which enabled it to suspend the market as a regulatory mechanism, in the majority of cases indeed forcing them to do so given that they were otherwise threatened with bankruptcy [p. 272]. British firms, doing reasonably well up to the early twentieth century, may be seen as complacent, although this is not a point pressed by Wengenroth. He is rather more critical of their inability to lobby the state for support and combine together to exert collective market power. Though the reader is left with the impression that Wengenroth regards this as the (reasonable?) price paid for entrepreneurial autonomy.

What opportunities does this kind of work open up for the accounting historian? Wengenroth himself makes use of costing data but comments on the lack of surviving material, relying for Britain mainly on that available for the Consett Iron Company Ltd and the Dowlais Iron Company. Wengenroth uses cost per ton data for these companies without giving any attention to their construction and comparability. Of particular importance are the fact that Dowlais almost never capitalised fixed assets so a depreciation charge does not enter into the cost per ton while Consett experimented with a number of methods of computing total cost in the 1860s and 1870s.

The accountant might also be able to help answer the question of how profits on steel-making were computed, and how useful they were as a measure of performance and a basis for resource allocation decisions. Towards the end of the text, Wengenroth refers to the profits and dividends of "iron companies" as if they were the profits on steel. However, most of the companies discussed by Wengenroth were producers of coal,
iron and steel, with varying proportions of the former two items used for internal consumption and, sometimes, sale. Management made calculations of profits from different sources, and the method of transfer pricing employed was naturally of crucial importance in deciding how much profit or loss was associated with each activity. This is, potentially, an exciting topic for research.

The one area where Wengenroth makes more than a passing reference to cost accounting is on pages 129-34 under the heading "Dumping and cost accounting." Wengenroth appears to doubt whether management scientifically applied marginal costing criteria for the purpose of pricing overseas sales. However, there does seem to be evidence that German industrialists realised that profits would be lower if dumping was discontinued and levels of production reduced accordingly, and a careful re-examination of the costing data may well reveal a clearer understanding of the costs which needed to be covered by marginal revenue than is indicated in this text.
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