SCOTTISH COMPANY ACCOUNTING, 1870 to 1920

SELECTED CASE STUDIES OF ACCOUNTING IN ITS HISTORICAL CONTEXT

ROSS ERNEST STEWART

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Department of Accountancy

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In Loving Memory

of my father,

Alan C. Stewart

and to

my mother,

Beryl D. Stewart

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ABSTRACT

The research presented in this thesis has been carried out in response to recent calls for a new awareness of the role of accounting history in increasing the present understandings of accounting and its role in society. The research takes the perspective that the historical approach can give a much needed insight into the processes of accounting change and can show how accounting is intertwined in its organisational and social contexts.

The aim of the thesis has been to examine the emergence and development of accounting in two Scottish companies from 1870 to 1920. This has been done by employing the in-depth case study research strategy. Although such a research strategy is inevitably a more modest enterprise than the narratives and syntheses of traditional historical accounts, it has enabled a more rich, complex and nuanced description of accounting change to be given. The historical case studies have been ideally suited for studying accounting as a contextual phenomenon.

The contextual approach to the emergence and development of accounting has meant that the historical accounts presented are more holistic and interdisciplinary; and it has enabled accounting to be examined as it was practiced. Prior research on accounting practices has generally examined, with some notable exceptions, how accounting practices have either preceded or have reacted to accounting regulation. This research has emphasised the processes of accounting change and has examined both financial data and non-financial data which has brought about a broader, contextual study of accounting.

A benign continuity has not been assumed between accounting and changes in its environment; rather such changes have been seen as a complex interplay of individuals and organisational and societal structures. The view of history taken in this thesis has been that there is no pre-determined path of accounting development, where accounting has simply progressed from one stage of development to another. Rather, accounting development has been seen more as a contingent, lurching process which is in the process of becoming. In addition, accounting has been viewed in a sceptical, questioning manner and the constitutive, as well as the facilitating role of accounting, has been recognised.

The historical case studies, therefore, have explored the conditions and consequences of the production and use of accounting. It has been found that accounting was not a neutral discipline which provided unproblematic facts about organisational life. Rather, accounting has been seen as an interested activity that was intimately involved in the contexts in which it operated. Accounting was called upon to serve a wide variety of different and changing purposes. It emerged and developed in a domain where strategems and tactics of complicity and compromise ruled.

CHAPTER ONE

INTRODUCTION

A. INTRODUCTION TO THE RESEARCH

The aim of this research is to provide a historical study of the emergence and development of accounting practices in their organisational and social contexts.

The task and status of accounting history have been questioned recently. Some have suggested that it has been too narrow with much of the emphasis on documenting chronological accounts of technical developments per se, rather than probing into the rationales for these developments (Burchell et al., 1980, p. 23; Hopwood, 1983, p. 289). Others have suggested that accounting history itself is of dubious value and they have challenged accounting history's worthiness as a subject of serious academic endeavor (Lister, 1984).

In the midst of this rather pessimistic diagnosis of accounting history, there have been recent calls for historical studies taking a broader perspective in studying the accounting craft. These calls have suggested that accounting should be situated within both its immediate organisational context and its broader social context (Hopwood, 1983, 1985; Johnson, forthcoming). Hopwood (1983, p. 303), for example, states that more substantial investigations orientated towards providing explanations of the workings of accounting as practiced are needed.

This call for a new awareness of the role of accounting history in increasing the present understandings of accounting and its role in society has been the stimulus for this research. These recent calls have been informed by the interdisciplinary perspectives of disciplines such as history, business history, economic history, organisation theory and sociology (Hopwood, 1985; Johnson, forthcoming). Such perspectives on accounting broaden the debate and give additional insights into such fundamental questions as: what is accounting? What is the object of accounting? What is the function of accounting? Goldman (1983, p. 588) comments that when writing historically on any discipline, the author is confronted time and time again with defining and redefining the discipline under study. In fact, Burrows (1977) suggests that such an enterprise can be highly contentious when the discipline is situated in the social sciences. On the basis of this research the situation is no different in accounting.

The objectives of this chapter are to introduce the research presented in this thesis; explain its significance and show how the research will be carried out.

B. THE RESEARCH PROBLEM

This research takes the perspective that historical accounts of accounting change can give a much needed insight into accounting change and can show how accounting is intertwined in its organisational and wider social contexts. There has been a paucity of such research in the accounting literature. The emphasis of much of the prior research on company records has been concerned with documenting compliance or non-compliance with legislative reforms; or the documentation of the sequences of technical change; or showing how accounting has responded to various business and organisational needs. Such work tends to be unidimensional and seldom explores the processes of change. If it does, it occurs in a perfunctory manner, such that the explanation of <u>how</u> accounting changes is subsumed under explanations of <u>why</u> accounting changes.

Much of accounting history, therefore, has been written from an adaptation, progressive perspective. The research in this thesis takes the perspective, however, that choice, conflict, failure and tension as contexts for accounting change are just as analytically significant as the effects of accounting change. Accounting is considered to be more fruitfully viewed as in the process of becoming (Abrams, 1982). Therefore, no pre-determined path for accounting's development is assumed. Accounting is viewed as having no pre-given essence which provides the goal of accounting's historical development. Rather accounting is seen as simply changing, becoming different.

The historical case studies presented in this thesis seek to probe the differing rationales for the existence of particular accounting practices and examine the constitutive role of accounting as well as its facilitative role (Burchell et al., 1980, 1985; Hopwood, 1983, forthcoming). This approach taken in the case studies has been enhanced by viewing accounting itself as an interested, problematic activity (Hopwood, forthcoming; Johnson, forthcoming). Accounting, therefore, is seen as emerging and changing in the context of very specific configurations of social and organistional relations. It is considered that such views on accounting provide a real basis for understanding accounting change.

Thus, the historical case studies presented in this thesis have been guided by the general hypothesis that in order to understand the way accounting operated, it is necessary to examine the contexts in which it was produced and given meaning. By taking a broader perspective, the processes of accounting change and the contextual meanings which brought accounting into existence and gave it significance, will be explored.

Specifically, the objective of this thesis is: to examine the emergence and development of accounting in two Scottish companies between 1870 and 1920. This will be done by employing an in-depth case study research strategy. The two organisations which are the subjects of the case studies are James Finlay and Company and The Champdany Jute Company Limited.

C. THE SIGNIFICANCE OF THE RESEARCH

The significance of this research is seen in the perspective that accounting history should be placed within the broader context of business, economic and social history. Accounting will be studied in its immediate organisational and wider social contexts. Such a contextual approach to the emergence and development of accounting means that the historical account presented is more interdisciplinary and holistic. This contextual awareness also means that there is not presumed to be a simple continuity between accounting and changes in its environment. Rather such change is seen as the complex interplay of individuals and organisational and societal structures. The aim is to give an empirical and historical description of accounting change, rather than impose broad, normative imperatives abstracted from specific contexts in a totalising, reductionistic way.

This research is also significant in that it is based on primary sources of company records. Little is known of accounting practices in the second half of the nineteenth and early twentieth centuries (Edwards, 1980, p. 242; Hopwood, 1981, p. 298; Lee, 1975, p. 34; Parker, 1981, p. 283). The advantage of examining primary documents is that accounting can be examined as practiced.

Prior research in accounting history has examined textbooks, accounting institutions, done biographical work, examined just external company records and some have examined both external and internal company records. This research will examine internal and external company records and, what will be particularly insightful for examining the processes of accounting change, will be the examination of non-financial data such as partnership minutes, directors' minutes, management minutes and various correspondence files.

To adequately explore the context in which accounting was practiced, the case study research strategy will be employed. Such a research strategy is particularly suited to studies which aim at exploring the context of accounting in its full complexity (Yin, 1981). There have been significant calls in recent accounting literature to have more in-depth studies of accounting practice (Hopwood, 1983; Kaplan, 1984, 1985). Kaplan (1985, p. 35) suggests that case study research is the ideal vehicle for communicating rich slices of organisational life. Although such research is not as tightly controlled as research employing traditional quasi-experimental designs, it is considered to be more productive in that the importance of phenomena that cannot be measured provides fuller and richer understandings (Kaplan, 1984, pp. 415-416).

D. HISTORICAL METHOD AND DATA

1. Theoretical Awareness

Recently, dissatisfaction has been voiced over the lack of an adequate methodology with which to understand the underlying influences and factors that have brought about change in accounting (Hopwood, 1983, pp. 296-297; Jinnai, 1984, p. 54). It has been suggested that a great deal of research into accounting history has adopted, consciously or otherwise, a very atheoretical stance which has ignored in the process the underlying social, institutional, economic and political forces at work (Hopwood, 1983, p. 296). This has been, in part, due to the fact that conventional accounting histories have tended to be informed by the economic and technical dimensions of accounting development only. This research aims at broadening and enriching such conventional histories by taking a more critical perspective.

The theoretical approach, therefore, taken in the research is to ground the study of accounting in the contexts in which it was practiced; by positing no pre-determined path of development for accounting; and, by taking a questioning, sceptical attitude to accounting and the way it functions in its context. The aim of this kind of approach is to ensure that the historical accounts presented do not adopt a view of history which is antiquarian or teleological and that the analysis of the historical development is not a dualistic, functionalist one - such as the contingency model of accounting change.

2. Historical Method

In this research, emphasis will be given to the processes of accounting change rather than just documenting the sequence of change. Of course, the historical perspective taken in the research gives the awareness that accounting does, in fact, change. Accounting is not a static phenomenon but one which is continually changing. The historical approach taken is one that views accounting as becoming what it was not (Abrams, 1982; Hopwood, 1983, p. 289). This is achieved by seeking the explanations of accounting change in terms of cleavages, conflict and tensions and in the purposive actions of individuals and groups in pursuit of their own ends.

Such descriptions and explanations have been organised in the case studies around various conceptual themes of analysis. The choice of the conceptual themes and topics of analysis were not determined at the beginning of the research by any general theoretical principles or model of development. Rather the themes of analysis have been generated from within the archival material itself. However, the decision to analyse the data in this way has been governed by the prior theoretical stance on accounting and accounting change. Such an approach is essential for clarity and focus to be achieved. However, this has not been done in a way of imposing a self-blinding framework on the material but has been done so that a incoherent, irrelevant and meaningless description and analysis may be avoided (Miles, 1979, p. 591).

The conceptual themes of analysis, therefore, have been grounded empirically and contextually in the archival material and yet because of the continuous interaction with that material, flexibility has existed for revising the topics and themes of analysis as the research progressed (Yin, 1981, p. 60).

3. The Case Study Approach

Accounting histories, taking a case study research approach, are inevitably a more modest enterprise than the narratives and syntheses of traditional historical accounts. However, the in-depth analysis of the case study data will be seen to disclose a complex and interesting history.

Historical case studies are not that susceptible to the application of experimental design and control used in the traditional quasi-experimental research methods. Consequently, the results of case studies are generally limited in their internal and external validity. Although one of the difficulties of case study research can be that the methods of analysis are not that well formulated (Miles, 1979), the generally looser and less well-specified approach is considered a strength of this research as it affords the possibility for rich, complex and interesting descriptions of accounting change.

4. The Archival Data

The archival data which is the basis of this study is located in the Adam Smith Business Records Collection in the archive of the University of Glasgow. The archival data for the two case studies is relatively complete and of good quality. The problem with any archival research is that the archive is selectively deposited. The company documents for these two case studies are no exception. The archival material, therefore, has provided the boundaries for the study and has vetoed explanations that have not conformed to the data.

The archival data that has been examined has been of a financial and non-financial nature. Any material that has impinged on accounting, or that has elucidated on the contexts of accounting, has been examined. This has been carried out using the informal techniques appropriate to archival research such as scanning, inspection and observation.

E. INTRODUCTION TO THE CASE STUDIES

1. Scotland

Scotland participated in the world's first wave of industrialisation and was part of the British empire, which by 1870, dominated the world. The West of Scotland, which is the focus of this study, was a key region in that industrialisation process. Initially the region gained its wealth through tobacco trading and cotton trading and manufacture. Then in the last quarter of the nineteenth century steel, shipbuilding, engineering and the coal industries predominated.

The West of Scotland is considered to be a good backdrop in which to study the development of accounting in the latter half of the nineteenth and twentieth centuries. This is because such industrialisation required capital accumulation which saw organisations grow in size, utilise new technology, and develop differing approaches to the organisation of production and trading. These kinds of changes provided the stimulas for the increasingly pervasive use of accounting. Also, Glasgow was one of the first areas in Britain where the professionalisation process of accountants received formal recognition in 1853.

2. The Time Period 1870 to 1920

This time period is an interesting period for the study of the development of accounting. It is a time when pressures for change in accounting were being articulated through avenues such as, increasing State intervention in accounting, the institutionalisation of credit, the professionalisation of accounting, the development of international business, and the increasing encroachment of accounting within organisations both for control and accountability reasons.

3. James Finlay and Company and The Champdany Jute Company Limited

James Finlay was a merchant and manufacturing company. From 1870 onwards the company expanded and diversified, by using the investment group-management agency strategy, particularly in India. From this period in time James Finlay primarily became a company providing managerial, financial and merchant trading services. The company was organised under the partnership form of organisation until 1909, when it became a private limited company.

James Finlay provides an interesting context in which to study the development of accounting. Accounting became an increasingly pervasive device which was called upon to serve a wide variety of different and changing purposes. Of particular interest is the way accounting was used to adjudicate distributional issues among employees and partners, and to overcome the distance between the Glasgow head office and the other branches, especially those in India.

Accounting seems to have been used more as a control, motivational and surveillance device rather than having a prominent decision making role. Commodity prices, exchange rates and interest rates provided the key decision making information.

The Champdany Jute Company Limited was one of James Finlay's investment companies. It was founded as a public company in Scotland in 1873, to operate jute mills in India. Again, the distance between Glasgow and India provided a stimulus for accounting development. This was a manufacturing company in which accounting information was used in the production process and was heavily implicated in distributional issues between majority and minority shareholders as it was a public company.

Archival material of sufficient quality and quantity exists for these companies for the time period chosen.

F. ORGANISATION OF THE RESEARCH

Overall, the thesis is organised in the following way. Chapters Two to Four review the historical accounting literature, in an expository and critical manner. Chapters Five and Six address historical method questions and introduce the case studies. Chapters Seven and Eight are the two substantial case studies and Chapter Nine concludes the thesis.

More specifically, Chapter Two reviews the historical research on company records in the United Kingdom in the latter half of the nineteenth and early twentieth centuries. The view of history contained in this work is described as an adaptation, progressive view.

Chapter Three introduces the recent organisational awareness in the accounting history literature, based primarily on the case study work of Johnson. The organisational appreciations of accounting have provided a much needed broader perspective in which to study accounting history.

Chapter Four analyses further recent work, taking a more critical perspective on accounting history. This research views accounting as an interested endeavor with distributional and social consequences. It places accounting within its social and organisational contexts and seeks to describe a richer, more nuanced view of the emergence of accounting in specific historical contexts.

Chapter Five builds on the views of history and the methodological points analysed in Chapters Two to Four. It explicates the historical method and theoretical awareness used in this research. Attention is given to the interrelatedness of theory, method of analysis and the archival data.

Chapter Six introduces the case studies, explaining their selection and the case study approach. In Chapters Seven and Eight the James Finlay and The Champdany Jute Company case studies are presented. Chapter Nine rounds the thesis off by summarising the case study findings and presenting some thoughts on accounting history.

CHAPTER TWO

PRIOR ACCOUNTING HISTORY RESEARCH ON COMPANY RECORDS

A. INTRODUCTION

The emphasis of much of the prior research in accounting history has been in the development of technical practice as an interest in and of itself. This has meant that much of the historical accounting literature has examined the development of, for example, double entry bookkeeping and generally comes from the time period of the fifteenth to the end of the eighteenth centuries. (See for example, Peragallo (1956) and de Roover (1956)). This research has, in some cases, taken a wider viewpoint by examining the role of double entry bookkeeping in the development of capitalism. [1] Yet, it is contended by Parker (1981) and Hopwood (1981) that for the nineteenth and early twentieth centuries, key under-researched areas exist. One of these areas is the emergence of internal and external accounting practices in organisations in this time period.

The idea that accounting has not developed in a vacuum but has developed within a broader framework of organisational, institutional, political, social, and cultural influences, has been recognised to varying degrees within the literature. Saito (1983) has suggested that the traditional approach of accounting historians as to how the environment influences accounting is directly through accounting regulations, so that accounting practices obey or are forced to obey, accounting regulations, which may change in response to changing environmental conditions (see Figure 1).

Environmental Conditions

↓

Accounting Regulations

↓

Accounting Practices

Figure 1

Traditional View of the Accounting Environment

Source: S. Saito, "Asset Revaluation and Cost Basis: Capital Revaluation in Corporate Financial Reports," The Accounting Historians Journal, Vol. 10, No. 1, Spring, 1983, p. 3.

This is a limited view of the environment of accounting because environmental influences can only be articulated through regulation, and regulatory influences are elevated above other factors that are equally important in the accounting environment. Saito (1983) goes on to suggest that a more dynamic approach is needed for examining the environmental determinants of accounting. This means seeing accounting regulation as only one of many influences in the environment.

This awareness of accounting's environment and how it has expanded and broadened during the period under study has been articulated by accounting historians. Littleton suggests that "accounting originated in known circumstances in response to known needs; . . . its changes can be explained in terms of forces current at that time" (1933, p. 362). Littleton and Zimmerman state that accounting "development is relative to the times . . . ideas which fostered changes in accounting technology were contemporary ideas and, therefore strongly influenced, perhaps generated, by the surrounding conditions and the needs of the times" (1962, p. 252).

Parker (1978, p. 53) states that accountancy, as we know it today, is a product of the nineteenth century and that accounting has developed in response to the needs of a complex and ever-changing commercial and industrial society. Hudson (1977) and ten Have (1976) also suggest that accounting has developed in response to particular and individual needs.

Previts (1972) has also stressed the need to consider the environment in evaluating comparative financial accounting thought in America. He recognised the profound influences, both economic and social, both direct and indirect, of the conditioning environment. Previts and Merino (1979, p. vii) likewise stated that, in writing their book on the history of accounting in America, that each era examined considers social, political, economic and personal elements and in doing so the authors consider accountancy to be a unique discipline, which has evolved from a complex fabric of influences, and which has increasingly played a vital role in the American way of life.

Such ideas set up a false dualism between accounting and its environment. No mention is made of how accounting, in turn, influences the economic and social environment. This lack of an interactive perspective on accounting and its environment is problematic under all functionalist explanations of accounting.

Before explaining and critiquing this functionalist explanation of accounting development, this chapter will firstly list existing accounting methods that were in general use or available for use at the turn of the nineteenth century; secondly, a review of research that has examined extant accounting records in the United Kingdom will be made.

B. ACCOUNTING METHODS EXISTING AT THE TURN OF THE NINETEENTH CENTURY

Accounting methods have been classified by Pollard (1965, Ch. 6) as follows:

1. Master and Steward System This was based on the notion of stewardship of the servant towards the proprietor and developed largely in the administration of large landed estates. This medieval manorial accounting system was based around the charge and discharge account. This account was developed in fifteenth century Scotland by government accountants, then adopted by manorial stewards and later used by executors in the eighteenth century (Chatfield, 1977, p. 25). Baxter (1980, p. 69) states that it was used by the British government in the nineteenth century and even used for trust accounting in the twentieth century.

The steward was charged with the sums for which he was responsible and in turn discharged of his legitimate payments; the balance at the end of the period showed what he must hand over to his lord or keep in his charge for the next period. The form of the account became standard on British landed estates, and had been routinised to the extent of being included in textbooks on land stewardship. The main and obvious achievement of the system was its check against any dishonest dealings or embezzlement by the staff of the estate. It provided the landlord with a general view of the estate and since items such as incomes, rent, sales of timber, etc. were classified in a common sense way, he could compare expenditure or movements in rents over the years. Even though this system was well suited to the landed estate and used by industries developed from the estates themselves such as mines, canals, and ironworks, it was defective for the industrial concern. This was because the charge and discharge system had no capital account, made no distinction between capital and revenue expenditures, and failed to determine total income or return on investment. [2]

2. Mercantile System This system arose out of the practices of overseas merchants and bankers especially in the fourteenth, fifteenth and sixteenth centuries in Italy. This system was usually associated with double entry bookkeeping, although it is questionable how widespread the use of double entry bookkeeping was at the turn of the nineteenth century in Britain. [3] Mercantile accounting was designed to eliminate errors, prevent embezzlement and establish the value of a business for probate or similar purposes. In this respect, it proved useful to industrial concerns in the nineteenth century. Also while controlling distant agents, merchants to some extent used stewardship accounting of the type used for landed estates.

The merchants were interested in profits but there was no sense in which they related those profits with any fixed investment or capital of a firm as a whole. Their calculations showed the costs and returns from individual journeys, or individual commodities, and were designed to allow an appropriate division of profits among the shifting groups of associates for each separate venture. This system's deficiencies then were similar to the master-steward system outlined above. Capital and revenue expenditure was not distinquished and as a firm's life lasted through many ventures, it was not practical to wait until liquidation to prepare financial statements.

Although this system was available to the industrialist at the turn of the nineteenth century, it is problematic as to how widespread its use was at that time. However, it was a likely system for adaptation by the industrialist.

3. The Putting-Out System This system was developed in the eighteenth century by the immediate predecessors of the factory-owners. It was primarily used to control materials handed over to the outworkers, rent on their equipment (if any), and on the workmanship of the finished goods handed back. Again there was no fixed capital worth speaking of and no costing problems, such as costs varying with output.

Pollard (1965, pp. 214-215) suggests this last method, at the end of the eighteenth century, had evolved in response to the practical needs of business; whereas the previous two methods had developed into a body of doctrine taught and transmitted by practitioners and textbook writers.

Pollard (1963) has reviewed research on company records up to about 1830. He examined capital accounting procedures drawing primarily on the research of economic historians. He concludes that up to 1830 the growth of fixed capital in the industrial revolution did not bring about any general rationalisation in accounting practices; rather great variety existed (1963, p. 91). "Each firm progressed at its own speed, neighbouring firms might be decades apart in their development, and generalisation is, therefore, virtually impossible" (Pollard, 1965, p. 215). He suggests, however, that four main developments can be detected in the nineteenth century. The first was the adoption of regular, periodic returns in place of the ad hoc, waste book or journal type of bookkeeping and forcing of the natural rhythm of work into regular periods of time. Secondly, accounting had some severely practical tasks, such as the detection of error or fraud. Further, what was particularly significant in this period was the growing pressure for the use of accountancy in costing and in aiding management decisions. Thirdly, the development of early attempts of cost accounting can be seen and finally, the determination of total costs and profits of a firm evolved.

C. A REVIEW OF RESEARCH ON THE DEVELOPMENT OF EXTERNAL ACCOUNTING PRACTICES IN THE NINETEENTH AND EARLY TWENTIETH CENTURIES IN THE UNITED KINGDOM

The primary data of this study is company records. It is appropriate, therefore, to review research that relates to work on company records within the United Kingdom for the nineteenth and early twentieth centuries. The focus of much of this research has been on external accounting practices. Only limited research has been carried out on company archives in accounting history since the 1830's onwards. Edwards and Baber (1979) provide one of the first studies examining a company's records in detail. They examined the accounting policies and procedures employed by the management of the Dowlais Iron Company from about the 1830's to the end of the nineteenth century. They used, among other material, company archives located in the Glamorgan Record Office. A brief history of the company is given, highlighting the main points of organisational development, such as, being made a limited liability company in 1889.

The accounting policies and procedures for profit measurement and reporting purposes were examined. Disclosure within the annual accounts over time was monitored with particular emphasis on treatment of capital expenditure. No systematic depreciation accounting was applied by the company, with the result that the profit figure obtained each year had to bear all capital and revenue expenditure immediately as such expense was incurred. This meant that profits were cautiously kept down so as to provide for future outlays. This system of capital accounting contributed to the firm growing to an immense size with virtually no recourse whatsoever to external finance. This, suggests the authors, was the reason that the joint-stock company was formed relatively late in comparison to other iron companies (1979, p. 149). Other work on this same company was undertaken by Jones (1978). His study examined profit measurement between 1831 to 1860. The study merely lists accounting practices and changes without suggesting reasons for the changes.

Edwards (1980) carried out another case study on another iron company (Shelton Bar Iron Company) from 1852 to 1919. Accounting practices relating to depreciation and capital were examined. Depreciation was viewed as an appropriation of profits rather than an expense. There was no consistent method of depreciation but rather the amount described as depreciation was fixed in line with external reporting requirements, and therefore, depended on the level of profits. There was the same kind of flexibility with capital expenditure. These findings led Edwards to suggest that the accounting practices and level of disclosure were those best suited to the fulfillment of managerial goals and they certainly were not dictated by best practice or any desire for consistency (1980, p. 242). This can be seen in the financing of the company. Management's choice of accounting practices was to attract sufficient finance in order to stay in business. Management, suggests Edwards, chose between retaining profits in the business and portraying results in order to attract external funds. In fact, as the company got into a better financial position there was more concealment rather than disclosure, showing the management's reliance on internally, rather than externally, generated funds (1980, p. 257). Furthermore, Edwards suggests this indicates a trend towards conservatism and understatement - a trend which remained unchecked until the Royal Mail case in 1929 (1980, p. 257).

Edwards (1981) continued his study of companies within the iron and steel industry. He examined twelve companies' annual accounts from 1900 to 1940. For two of the companies examined, the internal accounting records were studied in order to obtain some explanation for the external reporting procedures employed by management. The study examined which accounting procedures were adopted, where they were utilised and the dates when they found favour. The results of the research were presented within four broad categories, being the range of financial reports published, methods of presentation adopted, valuation bases followed and levels of disclosure.

The main emphasis of the study was to compare prevailing legal requirements, relating to accounting, with actual practice and observe the differences. The paper does not explain why directors voluntarily published more than they were legally required to disclose, although it does speculate that management's response to the demand for financial information could well be a powerful explanatory variable (1981, p. 54). Edwards, therefore, explains the existence of external accounting practices in terms of legal requirements and the diversity of managerial response to the demand for information.

A further case study, examining company records in the iron and steel industry was undertaken by Edwards and Webb (1982). The Wigan Coal and Iron Company accounting and reporting practices were examined from 1865 to 1929, because the company was an example of an early limited liability company which made significant investment in long-lived assets. Again, the underlying thesis of the authors was that the prevailing legal requirements and management choice of accounting methods in accordance with their objectives, were the main influences on the development of external accounting practices. The authors went on to suggest that throughout the period under study management, rather than statutory authority, was the dominant influence on corporate reporting practices (1982, p. 273).

The most recent Edward's study examined the development of group accounting in the United Kingdom to 1933 (Edwards and Webb, 1984). Again a survey of annual accounts was undertaken against the economic background of merger activity. Although 1910 was the first instance of group accounting discovered by the study, wholesale adoption of the method was slow because of the pervasive desire by management for secrecy in the early twentieth century. Another reason suggested by the study was the accounting profession's reluctance to be innovative and to lead practice (1984, p. 47).

Mason (1981) studied accounting development within three medium-sized brewing firms from 1882 to 1914. He examined turnover, the amount of fixed capital and the spread of ownership within each company. He suggested that deficiency in profit measurement could well have been remedied by sufficiency of disclosure prior to 1900. The directors were explicit in explaining their depreciation methods used even when it was used as a means of smoothing income. Mason noted, with interest, that a reason for smoothing income may have been due to the managing director's remuneration being calculated as a percentage of profits. [4]

In concluding his study, Mason stated that the level of disclosure was fairly high; profit measurement did not have the importance it later acquired; the standard of record keeping and quality of accounting information available to management was impressive; and although qualified accountants were not used directly, they undoubtedly exercised influence over the accounts in their capacity as advisers and auditors (1981, p. 74).

Hudson (1977) provides an interesting study of some aspects of accounting development in the West Riding textile industry. She approaches the research by stating "the fundamental requirement in studying business accounting techniques historically is to see developments as the response to particular and individual needs of industries as they themselves develop over time" (1977, p. 4). These needs are a product of such things as technical and organisational change, the size of business units, and the nature of products and markets. Hudson went on to state that this basic structural determinant can be tempered by two further factors. Firstly, there were external factors such as legal requirements, taxation demands or outside pressure which generally came from shareholders and other interested parties. Secondly, accounting developments were influenced by the state of accounting theory and practice and the background, education and abilities of entrepreneurs (Hudson, 1977, p. 4).

Hudson went on to develop a theoretical model in which factors of development that may influence accounting are delineated (1977, p. 7). She suggests that the demands placed on an accounting system are a function of the type of firm and its development over time. Depending on the type of firm, various aspects need to be considered such as: the nature of the product; the nature of the market; the level of vertical or horizontal integration; the extent of merchanting allied to manufacture; and the form of organisation - private partnership or public company.

Development considerations over time need to be recognised such as: the speed and nature of transition to factory production; the size of the factory unit and the amount of fixed capital; the pace of mechanisation and technical obsolescence; and the experience of changes in economic conditions over time (Hudson, 1977, p. 7). Hudson applies these determinants to the empirical evidence of the company archives of certain Yorkshire textile companies. This is done against the existing background of the available "tools" of accounting - for example, the influence of mercantile and estate accounting; the existence of trained bookkeepers; the background of entrepreneurs; the desire for financial secrecy; the development of the accountancy profession and various legal requirements.

The empirical evidence, Hudson examined, was structured around four major areas: the use of accountancy in costing and aiding management decisions; the adaptation of accounting to large scale manufacture; the adoption of regular accounting periods and returns and balance sheets; and attempts to estimate the profitability of an entire concern. This approach used by

Hudson is one of the few attempts in the historical accounting literature at developing variables of accounting development in any systematic way which are then used to investigate archival evidence empirically.

Another feature of Hudson's research is placing the development of accounting within the development of the organisation and the broader economic background of the industry in which the organisation operates. Hudson believes this kind of approach "may eradicate the problem of inferring purpose from the form and content of accounts and of analysing nineteenth century books with the hindsight produced by twentieth century concepts and requirements" (1977, p. 17).

Hudson's approach is almost becoming a contingency theory of financial accounting. Therefore, the kind of accounting practices in existence will depend on the existence of situational contingencies, such as, type of firm, firm size, level of vertical or horizontal integration, and the form of the organisation. Such an approach again fails to see that accounting can influence these contingencies and is not passively being influenced, but also helps create such structural variables. These issues will be analysed further.

This appears to be most of the work on the development of external accounting practices in the United Kingdom based on the primary source of records. [5] In the last decade there has been some new work, led by Johnson, on internal accounting records which will be examined in the next chapter. However, most of the research on company records to date has been on the external reports to shareholders without any recourse to other records, such as directors' minutes and company correspondence.

D. THE TRADITIONAL VIEW OF THE HISTORY OF ACCOUNTING CONTAINED IN THIS RESEARCH

The general hypothesis, underlying much of this research, states that accounting practices have developed in response to the various pragmatic needs of users.

Brief's (1966, p. 1) thesis of accounting development was the basis of Hudson's, and much of Edward's, research. This states that an organisation in the absence of any institutional compulsion will develop business accounting practices in accordance with their usefulness. That is, a set of practices actually selected by a firm should be consistent with its goals and objectives, and given a choice, the set of accounting practices chosen will be those that would be expected to yield maximum economic benefits.

Brief states the following working hypothesis: "accounting behaviour will change only in response to internal economic criteria unless external contraints, such as an influential independent public accounting profession, judicial precedent, and/or statutory authority, effectively restrict the choice of accounting procedures" (1966, pp. 2-3).

Brief's hypothesis denies any organisational rationale for the emergence of accounting practices by linking the emergence of accounting practices into economic criteria only. There could be many other rationales for the adoption of particular accounting practices other than just economic (Burchell et al., 1980).

Hudson's (1977) research points out that closely allied to the organisation's development, is the owners need for information, especially when separation from management occurs. Thus, there is the need for information for shareholders and investors. Along with these factors, the development of accounting for fixed capital seems to be another key factor. The work of Edwards, Mason and Hudson develops these ideas.

Another factor mentioned is the need to attract sufficient finance in order to survive. Therefore, the influence on accounting varies according to whether finance is obtained internally or externally. This could mean, as Edwards (1980) points out, a firm making a trade-off between retaining profits in the business and obtaining a good result for shareholders.

Further variables articulated by Edwards (1981, 1982, 1984), Mason (1981) and Hudson (1977) are the influence of the accounting profession and legal requirements, such as company law and tax law. The influence of conservatism and the quest for objectivity can also be seen in order to mitigate uncertainty and anxiety associated with accounting numbers. (See Hofstede, 1980).

This idea that accounting responds and adapts to needs and various influences has been articulated for a long time in the accounting literature. For example, May (1929) listed the following influences as being important for accounting development: regulation; taxation; changes in the form and distribution of the ownership of business; radical changes in price levels; and case law. Littleton suggests that the development of accounting has been brought about by the "intermingling of economic forces, business institutions, industrial methodology and social growth with men's ambitions, ideals, plans and failures" (1933, Preface).

This kind of historical approach has been characterised as functionalist (Hopwood, 1983, forthcoming). Laughlin and Lowe (1985) used Burrell and Morgan's (1979) taxonomic framework of social theory and suggested that much of accounting was essentially functionalist in its character.

Functionalism is an approach used in sociology that was developed from Durkheim's work, especially by the American sociologists, Robert Merton and Talcott Parsons (Abrams, 1982, p. 112). Functionalism regards society as a self-maintaining system in which any routine activity functions to "keep it going." Parsons worked with the functionalist notion that society is similar to a body, a biological organism, in which each part may be seen to function in relation to the whole.

He developed the notion that all societies have particular needs to be met, such as adaptation, goal attainment, integration and pattern maintenance (Parsons, 1971). Laughlin and Lowe suggest that as a basis for accounting theory, functionalism seems eminently reasonable on first thoughts. They suggest this is because functionalism attempts to explain "job or purpose or point and thus employed properly either when we have purposive action to explain or else when we have events dependent on purposive action" (Ryan, quoted in Laughlin and Lowe, 1985).

Abrams (1982, p. 12) has described functionalist accounts of change as necessity theories. Such theories emphasise the role of accounting's conditioning environment.

In the research just reviewed, accounting was seen to have met certain needs by developing techniques to cope with each new need as it arose. The view of history underlying such accounting histories is one of adaptation (Gordon, 1981) and necessity (Abrams, 1982).

Accounting techniques and practices are viewed as technical, facilitative rules, used to meet the needs of management and other users. Accounting is seen as a value-free, neutral discipline that responds to the various influences and pressures in and outside the organisation. The technical practices are given the status of supra-historical techniques transcending time and space. Furthermore, accounting is viewed as a problem-solving technology that responds or adapts to the needs of the emerging organisation so as to facilitate organisational action. Accounting's task is, therefore, to improve the adaptive technology and to help identify the needs. Once needs have been identified, the next step is to evaluate how well accounting practices serve those particular needs - for example, the capital market's needs for financial information or a "better" income figure.

The problem with this viewpoint (that every accounting practice exists because of some need), is that there has to be some way of distinguishing present needs from obsolete needs. Gordon states "that some notion of historical direction seems to be required by any adaptation theory....that goes beyond the purely prescriptive" (1981, p. 1025).

Burrell and Morgan state that functionalism is characterised by "a concern for providing explanations of the status quo, social order, consensus, social integration, solidarity, need satisfaction and actuality" (1979, p. 26). [6] They continue by stating that "the functionalist approach to social science tends to assume that the social world is composed of relatively concrete empirical artefacts and relationships can be identified, studied and measured through approaches derived from the natural sciences" (1979, p. 26). Functionalist histories of accounting have tended to view accounting in a positivistic, deterministic manner. Such histories, therefore, have needed a view of history that is teleological, progressive or evolutionary (Hopwood, 1985, pp. 365-366), which thereby licenses most existing accounting practice as adaptive. Maladaptive accounting is interesting for antiquarian reasons only.

Evolutionary and progressive views of accounting history have tended to judge the past in terms of the present (Johnson, 1983; forthcoming). Johnson (forthcoming) suggests there is a "Littleton school" [7] of accounting history which views accounting history in evolutionary terms. Johnson states:

> "The ideas involve a dominant concern with the mechanical, procedural, and technical aspects of accounting. For proponents of the 'Littleton School,' cost accounting is above all a bookkeeping practice necessitated primarily by financial reporting requirements. Although Littleton's adherents concede that the arrival of industrial establishments may have precipitated the immediate search for ways to do cost accounting, they believe that the industrialist's need to report income in a particular way is what drove him to do cost accounting as we know it today. Littleton's followers also regard cost accounting as a given. To them it is an independent variable. While it serves vast organizational ends it neither shapes, nor is shaped by, those ends. Adherents of the 'Littleton School' seem to say that cost accounting practices have necessarily and inevitably evolved into their present shape, a viewpoint that has been characterized as 'accounting Darwinism'" (forthcoming).

"Accounting Darwinism" was used by the American Accounting Association's 1977 Statement on Accounting Theory and Theory Acceptance to describe this approach to accounting history. Under this view, Johnson (forthcoming) suggests that the past is now irrelevant and only to be studied to see how the accounting practices of the past were an imperfect prelude to the present and how they developed into the present day practices. Littleton's view on the development of cost accounting not only limits our understanding of the emergence of cost/managerial accounting, but also evaluates accounting practices in the light of financial reporting needs.

The idea of progress and evolutionary development behind such functionalist histories can be attributed to Enlightenment thought and to the work of Auguste Comte (1798-1857), Charles Darwin (1809-92), and Herbert Spencer (1820-1903). Comte, the father of positivism, taught that all knowledge is based on observation, experiment and the ascertaining of scientific laws. This, he suggested, was the final stage of man's knowledge, in which knowledge of the relation of observed facts is recognised to be all that is possible (Charlton, 1959, p. 29). Darwin linked and reinforced the notion of progress with the idea of evolution. Spencer even more explicitly posited progress as the basis of his social theory. He stated: "Progress....is not an accident, but a necessity....what we call evil and immorality must disappear. It is certain that man must become perfect" (Spencer, 1851, p. 79f).

Evolutionary theory affected historians and showed itself in what has been labelled the "whig interpretation of history." [8] Under this view, historians tend to interpret the past in light of the present and so "only the successful (in the sense of those whose aspirations anticipated subsequent evolution) are remembered" (Thompson, 1968, p. 13). One suspects that the use of assumptions of progress in history (including much of accounting history) is done at times unconsciously. Nevertheless, Butterfield (1931) suggests that behind such histories is a conviction that the past tells a story of improvement, and there is the belief that the values of the present are unchanging. The Whig view organises history according to "an unfolding principle of progress" (Butterfield, 1931, p. 45).

The kinds of histories this approach produces are very mechanistic and they tend to document how accounting practices have evolved to meet the various needs of users. These technical histories tend to view accounting change as largely internal to the craft itself, and fail to take into account any broader understanding of accounting change found in accounting's broader social, organisational or institutional contexts. Hopwood states:

> "Conventional understandings of accounting view it from a relatively unproblematic technical perspective. It is presumed that accountings are there to facilitate organizational and social action (see Burchell et al., 1980 for a further discussion of this point). Only rarely, if ever, is the nature of that facilitation and the ends that might be so served examined. Although notions of cost, profit and other indices of financial performance may not be seen as being unproblematic, the difficulties which they give rise to stem, according to such a conventional view, from the problems of operationalizing pre-given aspects of organizational and social reality and achievement. Accounting, so conceived, is essentially a revelatory endeavour, aiming merely to reflect rather than more actively to construct a view of organizational reality and ends. Seeking, albeit often with difficulty, to explicate and make visible an unproblematic view of the means for organizational achievement, accounting is seen as a phenomenon divorced from the social, as distinct from technical, struggles and innovations that have resulted in its emergence" (1983, p. 290).

This sums up the conventional viewpoint and introduces the possibility of criticising such views of accounting history.

E. A CRITIQUE OF THE TRADITIONAL VIEW

The research reviewed in this chapter described as functionalist and evolutionary, generally failed to explore the nature and meaning of accounting and how accounting change occurs. The approach used in this research is an accounting-centered one. Accounting is reified and equated with "accounting today." Such an approach is unnecessarily restrictive and tends to view accounting practices as technical, context free phenomena (Laughlin and Lowe, 1985). Hopwood has suggested that conventional analyses of accounting history seemingly were:

> "....more concerned with documenting the changing accounting phenomenon and the technologies that are at its deployment than providing an insight into the underlying social, institutional, economic and political forces at work. Indeed it was recognised that a great deal of research into accounting history had adopted, consciously or otherwise, a very atheoretical stance, ignoring, in the process, the problems involved in trying to provide an adequate social understanding of the accounting craft. The roles of accounting had been seen in relatively unproblematic and often very contemporary terms....And accounting scholars of the historical had seemingly distanced themselves from the concerns of both social theorists of the corporation and the corporate state and more recent theoretical advances in historical inquiry" (1983, pp. 296-297).

Criticisms of the functionalist perspective have been made in the accounting literature (Hopwood, 1983; forthcoming; Laughlin and Lowe, 1985). Although there have been cautionary warnings about misinformed critiques of functionalism [9] (see Donaldson, 1985; Grace and Wikinson, 1978), Hobsbawn suggests that such analyses omit major questions such as "why the system consists of specific components and not other functional equivalents; and what the effect is of operating with historically given components which are adapted to functions for which they may not have originally been designed. Or alternatively, how far the historically given situation inhibits such adaptation" (1981, p. 636).

The identification of function meeting certain needs, explains why things happen with such power, that how they happen comes to be seen as quite unimportant in functionalist histories. The process of change is not considered important. "Choice, conflict and coercion as contexts for action are neglected because only the effects of action are of real analytical significance" (Abrams, 1982, p. 127).

The adaptation/progressive view of accounting development implied by much of the functionalist histories of accounting is a limited view of accounting development. The approach taken in this study is to situate accounting in the contexts in which it operates. This includes both the immediate organisational context and the wider social, institutional, economic and political contexts. The historical approach adopted will, by contrast to functionalist histories, proceed on the assumption that the explanation of why things happen is inextricably contained within accounts of how things happen (Abrams, 1982, p. 128).

Accounting history does not need to be seen as being adapting and progressing. Rather accounting can be seen as simply changing, becoming different. Historical accounts of accounting change can probe differing rationales for the existence of accounting practices and can examine the constitutive role of accounting, as well as its being a reflective phenomenon (Burchell et al., 1980, 1985; Hopwood, 1983, forthcoming). Such an approach to accounting history "is enhanced by seeing accounting itself as a problematic activity and that change in accounting is often a result of social and organisational factors that originate outside the technical practice of accounting" (Johnson, forthcoming). [10]

Lister (1984) has recently questioned accounting history as a subject of serious academic pursuit. He suggests that the history of accounting is found wanting through to modern times; both internal and external financial reporting "has offered little to its users in the way of meaningful, reliable economic information for decision purposes" (1984, pp. 62-63). Lister argues that because there exists this lack of any systematic pattern in accounting's past development, that it provides no lessons or is of no use today. Because accounting as practiced appears to have failed, was irrelevant to economic and social progress, and lacked any scientific basis, accounting history is for antiquarians not historians (Lister, 1984, pp. 67-68).

Lister displays an extremely limited and restrictive view of history. He uses static, Whiggish interpretations of history which treat accounting's sole pre-given role as being to provide information for decision making. This pre-given imperative of accounting is used as the inevitable end point from which accounting's past is judged. Lister concludes that he sees nothing but failure in accounting's attempt to realise his presupposed view of accounting. It is interesting that others who have imposed similar pre-given imperatives on accounting development, interpret what Lister sees as failures, as signs of the gradual realisation of their pre-given imperative (Johnson, forthcoming).

Burchell et al. (1980) provide a list of other imperatives that could be used to interpret accounting. They suggested these might include the provision of relevant information for decision making; the achievement of a rational allocation of resources; the maintenance of institutional accountability and stewardship; being reflective of the organisation of social relationship; and lastly, being reflective of various contingent variables of the organisation such as size, degree of decentralisation, and degree of vertical integration (1980, pp. 9-10). Any of these imperatives could be used as a pre-given statement of accounting's essence and used to guide necessarily selective and partial histories of the way past accounting practices have either realised or failed to realise a pre-given functional imperative.

Lister's mode of historical inquiry, and functionalist histories generally, are a historical and deterministic and fail to grapple with the historical contingency of accounting. Such views of history have inhibited the development of richly empirical and historical descriptions of how people in society, members of organisations, accountants and others, actually experience the accounting craft. The adaptation/progressive view of history assumes a benign continuity between accounting and organisational and economic change. Rather than taking it as problematic, adaptation/progressive views of accounting change view organisations and society as a largely determined background of forces that nobody can do much about, but sees accounting as the largely free creation of accountants and managers, who can adapt to pre-determined organisational and institutional change more or less efficiently, depending on how cleverly they create the appropriate accounting practices (Gordon, 1981, pp. 1056-

1057). Or in Lister's case, how woefully accounting failed to design what could be deemed to be appropriate accounting practices to meet the decision making needs of economic agents.

In this study, concern will be given to the historical processes through which particular conceptions of the functionality of accounting have emerged (Hopwood, forthcoming). More emphasis will be given to the puzzle of human agency rather than treating it as a trivial or distracting detail (Abrams, 1982, p. 127). The approach taken will seek to understand the processes of change situated in the historical context in which the change occurs, rather than imposing broad, normative imperatives abstracted from any specific context. The needs that accounting responded to, will be questioned in a broader context, with a greater emphasis on how accounting adapted and shaped the social and economic life in which it was practiced. Emphasis will be placed on the "becoming" of accounting, which is a way of "discovering the relationship of structure and action, the structural conditioning of action and the effects of action on structure" (Abrams, 1982, p. 7).

Chapter Three will examine the recent development in accounting history of situating accounting history in the emerging history of the business enterprise. Although such an approach can also be seen as deterministic and functionalist, it has provided additional insights into the emergence of accounting by situating accounting in its organisational context.

FOOTNOTES

CHAPTER 2

1. For some of the research on Sombart's thesis of the relationship of double entry bookkeeping and the development of capitalism, see: Yamey (1964), Frishkoff (1970), Most (1972), and Strachan (1980).

2. Baxter (1980, pp. 70-71) suggests that as charge and discharge system flourished long before company accounting grew up, it is reasonable to assume that the system gave the prime push to notions of income and valuation.

3. Yamey (1962, p. 25) suggests, in fact, that the widespread adoption of double entry bookkeeping probably did not take place until the latter part of the nineteenth century.

4. This suggests an agency theory perspective may provide insight into the emergence of accounting. This will be developed more fully in the case studies. However, such a perspective has been used by Watts (1977), Watts and Zimmerman (1979), Ma and Morris (1982), and Morris (1984).

5. A work worth mentioning, that relates to an earlier time than this research, is Forrester (1980). Also, work on audit reports has been undertaken by Boys and Rutherford (1982) and Watts (1979). Lee (1979) examined company reports but emphasised their usefulness or otherwise for business history.

6. Functionalist sociology, according to Burrell and Morgan (1979, p. 26), is carried out from the standpoint that tends to be realist, positivist, determinist and nomothetic.

7. Johnson summarises this view of accounting history, who he names after A.C. Littleton, (Evolution of Accounting to 1900, 1933, Chps. 20-21) in stating that "accounting history was the history of both double-entry bookkeeping and modern twentieth-century financial reporting. Thus, he equated management accounting with cost accounting and he viewed cost accounting in terms of product costing - a method of attaching costs to products in order to achieve 'proper' matching for 'correct' income measurement" (Johnson, forthcoming).

8. This was used by H. Butterfield in his book The Whig Interpretation of History.

9. Some criticisms are aimed at the ideologically conservative position of functionalism but not at the method of functionalism. Other criticisms are purely at the method and its restrictive context of analysis (Grace and Wilkinson, 1985, p. 190).

10. The problematic nature of accounting has been explicated recently in the accounting literature. Generally, such a view sees accounting as an interested activity and not an isolated technical endeavor that has its own inherent rationale (see, for example, Hopwood, 1985, forthcoming; Loft, 1986; O'Leary, 1985). This will be discussed in Chapter Four.

CHAPTER THREE

AWARENESS OF ORGANISATIONAL CONTEXT IN ACCOUNTING HISTORY

A. INTRODUCTION

There has been a call in the accounting literature recently to locate accounting in its organisational context (Burchell et al., 1980; Hopwood, 1983; Johnson, 1983, 1984; Roberts and Scapens, 1985). It has been suggested that accounting researchers have adopted a rather accounting-centric approach to their research. "Accounting has been treated as if it were a functionally autonomous sphere of practice, and consequently there has been a corresponding neglect of the relationships between accounting and other functional areas within organisations, - e.g., marketing, production, and personnel" (Roberts and Scapens, 1985, p. 444). Johnson has stated that "accounting historians seldom explore the organisational conditions underlying the emergence and role of accounting. Nor do they examine the organisational processes through which accounting affects society. Instead they seem to believe that accounting systems are ... independent variables, standing in organisational isolation" (Hopwood, 1977, p. 188 quoted in Johnson, 1983, p. 139).

However, Johnson (forthcoming) has recently stated that there has been an organisational awakening in accounting history, particularly the history of management accounting. In management accounting history this has meant a re-examination of Littleton's view that internal cost accounting emerged due to the desire to have "correct" income measurement for financial accounting and reporting purposes.

Johnson (forthcoming) contends that studies following Littleton's perspective have tended to be narrow and partial. For example, Pollard (1965), in his study on cost accounting, failed to find features of the financial accounting procedures associated by Littleton with cost accounting. Johnson states that "since these procedures were not in evidence, Pollard, concluded that cost accounting was not a feature of early (i.e., pre-1850) industrial management practice" (forthcoming). Not only is Littleton's way of doing history excessively narrow and deterministic, as already noted in Chapter Two, but also, the conclusion reached by Pollard has been challenged by Johnson (1972) and Stone (1973).

Johnson (forthcoming) suggests that the organisational perspective has been introduced to accounting historians by business historians, who have had to examine past accounting practices in order to understand the history of managed organisations. Some business historians have warned their fellow colleagues about the danger of using such materials (Marriner, 1980), yet Johnson (forthcoming) notes the insights that some business histories have made to accounting. [1]

The organisational impetus given by business historians to accounting history was enhanced by various organisational theories that have offered an explanation for accounting's role in organisations. Such perspectives, suggest Johnson, have questioned Littleton's view of the history of cost accounting. Internal and external accounting has emerged due to organisational structures and strategies, not necessarily because of the desire to report income.

This push to study accounting history in its organisational context has inevitably meant a research approach which does not selectively examine company records which deal only with the external or public side of accounting records. Rather, this has meant examining internal accounting records and other company information, as well as external accounting information. In Chapter Two, the research reported on looked primarily at the external/public accounting records, and mostly ignored internal records or a broader organisational perspective. Invariably such histories fail to examine internal accounting practices in their own right or question the external accounting practices from an organisationally based viewpoint. Such research also tends to promote the idea that the modern division between financial and managerial accounting was unproblematic in the nineteenth and the first half of the twentieth centuries.

An organisational approach to accounting history tends to question the view that all accounting information is for making decisions and sees accounting as having other roles such as control. This chapter will first give some historical background to the growth of business organisations in the eighteenth and nineteenth centuries in the United Kingdom; secondly, the chapter will examine, in the light of this historical background, organisational development; thirdly, the accounting implications will be discussed; and lastly, a brief critique of such approaches will be made.

B. HISTORICAL BACKGROUND

The historical emergence of the firm has had major effects on accounting practices (Johnson, 1983, 984). In the broadening environmental context of the nineteenth and twentieth centuries, firms grew from small family partnerships into large corporations.

Few societies have undergone a greater change in a shorter period than that which transformed the shape of Britain between 1770 to 1870. Britain changed from a relatively simple rural agricultural country, to a densely populated, urbanised and industrial country. Total manufactures increased in value from some £30 million in 1770 to over £348 million in 1871, from about twenty-four per cent to thirty-eight per cent of GNP (Rostow, 1975, pp. 194-195). By 1870 Britain was without doubt the greatest industrial nation in the world. "Over half of the world's coal was raised from her pits, over half its pig-iron and forty per cent of its steel came from British furnaces, and almost half its cotton cloth was spun and woven in British mills. Britain produced well over a third of the world's output of manufactured goods. Her export trade was greater than that of France, Germany and Italy put together, and four times that of the United States" (Turner, 1971, p. 3).

The manifestation of these changes were visible on all sides. Factories had sprung up everywhere attracting their attendant smoking chimneys and increasing population. More interestingly, there was the corresponding development and change in the structure of business organisations. The church, manors and guilds were the purest expression of social structure in medieval society; yet in the eighteenth and nineteenth centuries the industrial enterprise or factory became the dominant form of organisation - bringing in the age of industrial capitalism (Ashton, 1948).

Enormous differences existed between the production unit of the manors and guilds and that of the industrial enterprise or factory. Of course, in both, the factors of production, land, tools and labour are combined. However, the combination of these factors in the manor and guild was organic and largely traditional. These production units had a fixed and acknowledged place in the social hierarchic order and the guideline for production was the internal provision for the sustenance of the manors' inhabitants. The economic motive of profit was of subordinate significance (Goudzwaard, 1979, p. 62).

In contrast, the combination of the factors of production in the factory was mechanical and based on the dynamics of technical innovation. The factory was not rooted in the social stability of a traditionally recognised place in society but was founded on the flexibility of the will of the entrepreneur and his personal initiative with respect to capital. In the factory, the guideline for production was maximum financial yield by means of the most profitable expansion of an external market for its products. Therefore, industrial enterprise's primary concern was to stay ahead of its competitors and in this way serve the highest purpose of society as a whole, namely the creation of a maximum quantity of goods to increase the common welfare (Goudzwaard, 1979, p. 62).

Closely associated with the rise of the industrial enterprise was the rise of the market economy. Polanyi has suggested that all other changes "were merely incidental to one basic change, the establishment of a market economy" (1957, p.

40). Although Polanyi's comment is perhaps an exaggeration, gradually the old restrictions on the mobility of capital and labour and to a lesser extent, land disappeared, thus enabling a period to develop in which the market came as close as any market has ever done to operating as freely as economic theory suggested it should (Atiyah, 1979, p. 228).

From 1770 to 1870 the size of the market was being increased by developments in transportation. First the new turnpike roads, then the canals, and finally from around 1840, the railways had rendered much of Britain as one market for the new industrial manufactures. At the same time the growth and improvement in shipping services was breaking down the physical barriers to international trade. [2]

The existence of middlemen contributed to the expansion in trade which necessarily accompanied the industrial expansion. By the end of the eighteenth century bankers, factors, merchants, foreign currency brokers, insurance brokers and shipping brokers were all well established and facilitating the huge expansion in international trade which had taken off in the second half of the eighteenth century (Ashton, 1955, pp. 66-7).

The economic growth that took place in the industrial revolution and on into the latter half of the nineteenth century came about because entrepreneurs realised the importance of at least three factors - first, the possibility of using human labour more efficiently through division of labour; secondly, the use of tools and machines; and thirdly, the development and use of technical innovations. These three factors, developed in the factories and manufacturing concerns, were most effective when they reinforced each other and were applied in mutual coherence

(Goudzwaard, 1979, p. 68).

Hartwell (1971) has summarised the forces making for economic growth in the eighteenth and nineteenth centuries as follows:

1. Capital Accumulation: increased savings (from commerce and agriculture), low interest rates, increased investment (e.g. in transport); ploughing-back of high proportion of increased industrial profits; increased investment from profit inflation; better mobilising of savings because of improved financial institutions; economy of savings (e.g. inventories) because of improved transport.

2. Innovations -Changes in the Technology and Organization of Agriculture and Industry: new and improved machinery; new sources of power; more roundabout and larger-scale production (e.g. enclosures and factories) with greater division of labour; industrial localization (external economies).

3. Fortunate Factor Endowments: coal, iron ore, and other minerals necessary for industrialization; favourable size of the economy (short hauls); favourable trading site for growth markets (America and Asia); skilled labour force; increasing labour inputs (because of absolute increase in population, and a relatively larger industrial labour force, the result of greater agricultural productivity); entrepreneurial and inventing talent in good supply.

4. Laissez-faire: long-term changes in philosophy, religion, science, and law, culminating in the eighteenth century in secularism, rationalism, and economic individualism; propagandists for free enterprise and receptive statesmen; Adam Smith; and social mobility.

5. Market Expansion: increasing foreign trade; increasing

domestic consumption because of (a) increasing population and (b) rising real incomes; urbanization; improved transport which (i) lowered costs and prices, stimulating demand and (ii) unified and increased the market; relatively lower prices of industrial goods, increasing demand.

6. Miscellaneous: Continental wars which favoured English and discouraged continental development; 'the bounty of God' (the decline of plague and the good harvests of the 1730's and 1740's); the autonomous growth of knowledge; 'the English genius'.

This kind of economic growth was first seen in the textile industry which, within several generations, changed from a pre-industrial, home based, craft industry into a highly mechanised, capital intensive factory industry (Hannah, 1983, p. 8).

In the first half of the eighteenth century cotton manufacture was typically organised and financed by merchant manufacturers who "put out" the cotton wool to be spun into yarn and woven into cloth by workers in their own homes. The unit of production was small and family based. In Scotland, domestic out-work and the use of the hand loom remained important right up until the 1790's but the spread of power spinning was soon to disrupt this old family unit of production (Slaven, 1975, p. 97). Mechanical innovations in the processing of cotton and the use of water and then steam power, enhanced the need for close control over labour and for the centralisation of operations to gain full access to the economies of scale provided by such technical innovations.

The advantages of factory based production thus increasingly made themselves felt, and the number of mills grew rapidly.

Hannah (1983, p. 9) points out that it could be expected that this development would lead to the concentration of production in fewer and larger plants in the hands of a small number of firms. However, this was not the case; for although the size of firms was increasing rapidly, the growth of the market matched their rate of expansion and in some years even outstripped it. This pattern of development continued for most of the nineteenth century. For example, between 1792 and 1850, the number of factories increased from about 900 to 1400, with their average throughput increasing by thirteen times over the same period (Hannah, 1983, p. 10).

This pattern of development in the textile industry during the industrial revolution was the harbinger of future developments in all industrial sectors. Although some industries still maintained the structure of small workshops and enterprises in which the master worked closely with only a few men, by 1871 over half the working population were employed in factories and considerably more than one half of output was produced in the factories (Hannah, 1983, p. 11).

In the 1870's and 1880's after a century of rapid growth, both for individual firms and for the economy as a whole, competition in the manufacturing sector was strong. Hannah comments:

> Most industries had a multiplicity of what, by modern standards, would be considered small firms, and most consumers faced an expanded choice between the goods of a larger number of sellers from a wider area. Product differentiation enabled a few manufacturers of specialized products to obtain a favoured market position and other producers enjoyed a local market protected by local tastes or long distances from other potential competitors. In general, however, such factors mitigating the severity of competition were rare. In

> almost all industries demand was growing rapidly and, in many, more rapidly than the size of firms. Thus, despite their explosive nineteenth century growth, it is unlikely that the largest 100 firms in 1880 accounted for even as much as 10 per cent of the market, compared with something nearer 50 per cent which they control today (1983, p. 13).

Yet Hannah goes on to state that "these very conditions of competition and rapidly expanding markets contained within them the impetus to the division of labour which in the long run was to result in the greater concentration of output in the hands of large firms" (1983, p. 13). Therefore, towards the end of the nineteenth and early twentieth centuries, a tendency towards greater industrial concentration took place. This was partly due to the growth of firms, coupled with the slower expansion of the market as the pace of economic growth in Britain slowed down. [3] Kemp (1978, p. 102) states that the overall tendency at this time was towards overproduction which exerted pressure on prices and profits. Britain now faced foreign competition in many markets after enjoying a virtual monopoly. She also faced foreign competition in her home market.

In some industries, leading firms responded to this pressure by extending their plant to the new optimum efficient size and through technical innovations reduced prices, thus eliminating many of their rivals still operating with earlier technology. In other industries, trade associations were formed attempting collective price and output control. Turner (1971, p. 27) suggests that these trade associations were essentially instruments for maintaining the status quo and for suppressing any tendency to severe competition; they appealed particularly to the smaller and less efficient enterprises, and actually held up the process of rationalisation and merger.

One of the problems of trade associations was that individual firms had a powerful incentive to secretly expand production and sell below the agreed price. This problem disappeared in a more permanent merger of interests. This merger of interests took place initially under the partnership form of organisation, then subsequently under the corporate form of enterprise once institutional developments in both company law and stock exchange practices had taken place.

Hannah states that "on a number of fronts - technical, commercial and also financial - there were, in the closing decades of the nineteenth century, both strong pressures and new opportunities making for larger scale enterprise" (1983, p. 23). Payne (1967) states that the merger waves of these years were far more intense than any which had been experienced earlier in the century. Between 1888 and 1914 an average of at least sixty-seven firms disappeared in mergers in each year, and in the three peak years of high share prices and intense merger activity between 1898 and 1900, as many as 650 firms valued at £42 million were absorbed in one hundred and ninety-eight separate mergers (Hannah, 1983, p. 23). Therefore, from around 1910 onwards the structure of British industry was becoming very different from three or four decades earlier. The foundations of the modern corporate economy were already discernible in the large firms that had been created (e.g. Imperial Tobacco, Watney, Dunlop, GKN and Vickers).

Initially the larger companies were in the more traditional and staple industries such as textiles, tobacco, brewing, and engineering. However, after the First World War, these staple industries faced the strain of war and economic depression and a decline in their traditional markets. The contrast between pre- and post-war periods in industry was marked. The pattern of production over a wide range of industries was transformed as business sought to meet war time requirements. The State during the First World War was able to bring pressure to bear on industry such that product differentiation was discouraged and investment in long runs and mass production came about in order to meet government demand. [4] Indirectly, this resulted in more merger activity, as firms made acquisitions to expand their capacity (Hannah, 1983, p. 30).

New industries were also encouraged at this time, such as the chemical, motor and electrical engineering industries. However, after the war, economic depression hung over Britain and businessmen began to question the desirability of the configuration of firms and markets which they had inherited from the pre-war era. The rationalisation movement of the 1920's and 1930's came about in response to this situation. The rationalisation movement, states Hannah, "was an important aspect of the build up of dissatisfaction with the market mechanism and of the movement towards greater reliance on large firms for economic organisation" (1983, p. 32). Rationalisation was a programme of merger, inter-firm agreements and "scientific" management and was used by businessmen to reach their goals of profit maximisation and growth of their firms, in a time of economic depression. Therefore, in the decade after the First World War a sustained and rapid rise in industrial concentration took place with the largest one hundred firms gaining control of approximately one quarter of manufacturing output (Hannah, 1983, p. 105).

The rise of a corporate economy was a gradual and emerging process. After several decades of slightly increasing industrial concentration, the period of 1919 to 1930 saw an acceleration of structural change and it is in this period that the rise of the corporate economy is most naturally dated (Hannah, 1983, p. 114).

C. ORGANISATIONAL DEVELOPMENT

As mentioned in the previous section, around 1870, British industry was still widely fragmented and competitive. Most businesses were still in the hands of individual entrepreneurs; although some of them had taken advantage of the Companies Acts to incorporate with limited liability, the majority had not, and even those who had, still generally resembled the modern family company or partnership.

However, in the last twenty to thirty years of the nineteenth century this situation began to change. Whereas in earlier decades the railways, insurance, mining and banking industries had been chiefly prominent in the corporate form, now manufacturing industry itself began to join in the conversion. Yet, the response was slow so that by 1885 limited companies accounted for at the most between five and ten per cent of the total number of important business organisations. It was only in shipping, iron and steel, and cotton that their influence could be said to have been considerable (Payne, 1974, p. 19). Furthermore, although a legal structure existed in Britain by the mid-1860's which made possible changes in the structure of the individual enterprise, few trod the path and it was only by 1930 that the corporate economy became important and significant in the British economy (Hannah, 1983, p. 114).

Therefore, throughout most of the nineteenth century, the fundamental business unit was the individual proprietorship or partnership. This was not simply a consequence of the Bubble Act of 1720 whereby the creation of a joint-stock company with transferable shares and corporate status was possible only with the consent of the State, but because there appears to have been no pressing necessity to depart from the traditional organisational structure (Payne, 1974, p. 17).

Much of the work by business historians on the development of organisations against this historical background in the United Kingdom has involved interaction with theories of internalisation stemming from work done in the United States. [5] Research by Scott (1970), Chandler (1962, 1977), and Williamson (1975) has been commented on and modified within the context of the United Kingdom by Alford (1976, 1977), Chandler (1980), Chandler and Daems (1979, 1980), Child and Kieser (1981), Hannah (1976, 1980, 1983) and Johnson (1984).

Chandler (1962) set out the stages of organisational development from a small owner-run concern to vertically integrated, multi-divisional organisations. The firms he studied in the United States began as single unit operations, generally owner-run. They had a single function and operated in one industry. Such firms initially developed through volume expansion which led to market expansion. The problems that ensued were ones of coordination between the different operating locations or areas.

The next phase in organisational development was that vertical integration occurred. The firms stayed in the same industry but acquired other functions. So the manufacturing firm acquired distribution and supply facilities. This kind of organisational structure gave rise to planning, control, and coordination problems across the various functional areas in the organisation.

The third phase in the development of these firms (which were large scale mass producers) concerned an increasing tendency towards diversification of the companies' activities. As the firm's original markets became more saturated or declined they moved into different product or service areas. This strategy gave rise to the administrative problems of planning and controlling different industries and different markets. Chandler states:

> "The inherent weakness in the centralized, functionally departmentalized operating company....became critical only when the administrative load on the senior executives increased to such an extent that they were unable to handle their entrepreneurial responsibilities efficiently. This situation arose when the operations of the enterprise became too complex and the problems of coordination, appraisal, and policy formulation too intricate for a small number of top officers to handle both long-run, entrepreneurial, and short-run, operational administrative activities. To meet these new needs, the innovators built the multi-divisional structure with a general office whose executives would concentrate on entrepreneurial activities and with autonomous, fairly self-contained operating divisions whose managers would handle operational ones" (quoted in Williamson, 1970, p. 113).

The multi-divisional form emerged as an innovative response to the administration problems created by diversification into different products and markets. [6]

Chandler (1976) has also described large-scale enterprise in terms of ownership and control rather than in terms of strategy and structure. Chandler states:

"Until the late nineteenth century, owners nearly always managed their enterprises. Those few that hired managers rarely employed as many as four or five, and they retained a close personal relationship with their managers, often making them partners in the firm. Such an enterprise may be termed a **personal one.** As firms grew large and began to carry out more than one function, the number of salaried managers increased, reaching 20 or 30 or even 50. Such employees or, to use the British term, servants of the company rarely held large holdings of its stock. These shares remained in the hands of the entrepreneurs who built the company, or in those of their families. These share-holders continued to have a major say in the selection of managers, in the making of over-all policy, and in long-term planning and allocation of resources. Such manager-manned but owner-controlled enterprises can be termed **entrepreneurial** ones. As firms grew larger and as their activities were extended and diversified, stock ownership tended to become widely scattered. Full-time, salaried career managers who owned little or no stock took over positions in top as well as middle and lower management. They made long-term as well as short-term decisions. Owners became rentiers, more concerned with the dividends than the operation of their company. The owners had neither the time, information, experience nor commitment required to manage. Such manager-dominated enterprises can properly be termed **managerial**" (1976, p. 28).

Chandler (1977) put forward some general propositions as to why this organisational development took place - why in Chandler's phrase "the visible hand of management replaced the invisible hand of the market mechanism" (1977, p. 6). His analysis drew on the fields of business history, the history of technology, the analysis of economic growth and the economics of the firm. The analysis centered around the following eight propositions: (a) modern multiple-unit enterprise replaced small traditional enterprise when the volume of economic activities reached such a level that administrative coordination made for greater productivity, lower costs, and higher profits than coordination by market mechanisms; (b) the advantages of internalizing the activities of many business units within a single enterprise could not be realised until a managerial hierarchy had been created; (c) modern business enterprise appeared for the first time in history when the volume of economic activities reached a level that made administrative coordination more efficient and more profitable than market coordination; (d) once managerial hierarchies had been formed and had successfully carried out their function of administrative coordination, these hierarchies themselves became sources of permanence, power, and continued growth; (e) the careers of the salaried managers who directed these hierarchies became increasingly technical and professional; (f) the multiple-unit business enterprise grew in size and diversity and, as its managers became more professional, the management of the enterprise became separated from its ownership; (g) in making administrative decisions, career managers preferred policies favoring the long-term stability and growth of their enterprises rather than policies that maximized current profits; and (h) as large enterprises grew and dominated major sectors of the economy, they altered the basic structure of these sectors and of the economy as a whole.

Chandler's work was done in the context of the United States. Chandler suggests that multi-divisional, managed organisations did not exist in the same way in the United Kingdom until after World War II (Hannah, 1980, p. 42). However, Hannah (1980) has suggested such organisations, or at least many of their characteristics, existed in organisations in Britain in the 1910's and 1920's. As already mentioned, Hannah has stated that the corporate economy was well in place by 1930 with all that involved for individual organisational structures.

Chandler and Daems (1979) suggest that social, economic and legal factors account for the difference in the emergence of multi-divisional organisations between the United States and United Kingdom. Family management, in many British companies, limited the expansion of the firm, so that it could continue to dominate and control the company. This resulted in the managerial backwardness of these companies relative to United States companies. Other social differences mentioned by Chandler and Daems (1979) were that management controlled along the lines of respect and social pressure and that a degree of paternalism was shown to labour.

Economic factors included the size and growth rate of the markets in the two countries. The nature of consumption was different in the United Kingdom, in the sense that regional and class tastes generally varied more widely. Johnson has suggested that "Britain's geographically concentrated economic infra-structure....incorporating the world's most sophisticated financial services, market exchanges and transportation networks, gave British organizers a relatively slight incentive to internalize economic activities in the nineteenth and early-twentieth centuries" (1984, p. 14). Chandler and Daems (1979) suggest that mass markets only developed in Britain after World War II. Hannah (1980) challenges this assertion by stating that Britain viewed the Empire as her home market. However, Hannah concedes that the markets were generally different in the two countries.

Another difference between Britain and the United States was in their legal situations. Cartels and restrictive practices were legal in Britain, but not in the United States where the coordination of sales policies and securing monopolistic control over prices had to be achieved through merger (Hannah, 1980, p. 67).

Although there is some debate on these differences between the United States and Britain, [7] it is generally recognised that the partnership form of organisation persisted into the early twentieth century in Britain and that Britain's corporate economy only started to become dominant in the 1920's. The notion of stages of development in organisations is clearly an over-simplification intended to capture the typical path of organisation development. Child and Kieser state: "It does not of itself, for example, tell one about the processes by which this development takes place, and the lags which might be involved. How far in practice do managers adjust structures to suit strategies as the scheme implies they do, as opposed to treating structures given for a considerable period of time and allowing this to act as a constraint upon the strategies chosen?" (1981, p. 50).

The stages-of-development model of Chandler has been used by Johnson (1972, 1975, 1978) and Chandler (1977) to describe the development of management accounting in organisations at different stages of development.

D. ACCOUNTING IMPLICATIONS

Johnson carried out three historical case studies examining management accounting in three different organisations at three different stages of development. His first study (1972) examined the cost accounting system of Lyman Mills, a New England textile mill. The system enabled the coordination of the process involved in the conversion of raw materials into finished goods by the textile mills. The system was based on the company's double entry book of accounts and provided information on finished goods, on the productivity of workers and as a control on the stock of raw cotton.

Johnson's (1975) second case study examined management accounting in the vertically-integrated firm. This was a study of the DuPont Powder Company management accounting system which had been developed to control and coordinate the diverse activities of the company. Johnson states:

> "The DuPont Powder Company became a centrally managed enterprise coordinating through its own departments most of the manufacturing and selling activities formerly mediated through the market by scores of specialized firms. A centralized accounting system was indispensable to the DuPont Powder Company's elaborate department structure.
>
> Information provided by the Powder Company's centralized accounting system enabled top management to carry out two basic activities that comprised the task of planning: the allocation of new investment among competing economic activities (including the maintenance of working capital) and the financing of new capital requirements" (1975, pp. 186-187).

The decentralised, functional organisation required a performance measure system to motivate and evaluate departmental performance and guide overall firm strategy. The DuPont Company devised the accounting measure, return on investment (ROI), which served as an indicator of the efficiency of its diverse operating departments, to allocate funds across departments, and to measure the financial performance of the company as a whole. [8]

The third case study made by Johnson (1978) was in General

Motors in the 1920's. Johnson describes the innovative management accounting system developed to meet the demands of General Motor's new multi-divisional structure:

> "GM's management accounting system did three things to help management accomplish 'centralized control with decentralized responsibility.' First, it provided an annual operating forecast that compared each division's **ex ante** operating goals with top management's financial goals. This forecast made it possible for top management to coordinate each division's expected performance with company-wide financial policy. Second, the management accounting system provided sales reports and flexible budgets that indicated promptly if actual results were deviating from planned results. They specified, furthermore, the adjustments to current operations that division managers should make to achieve their expected performance goals. The sales reports and the advanced flexible budget system provided, then, for control of each division's actual performance. Third, the management accounting system allowed top management to allocate both resources and managerial compensation among divisions on the basis of uniform performance criteria. This simultaneously encouraged a high degree of automatic compliance with company-wide financial goals and greatly increased the division manager's decentralized autonomy" (Johnson, 1978, pp. 493-494).

Johnson further states that "the use of ROI in the multi-divisional organisation represents the culmination of accounting's evolution as a source of decision-useful information about the internal non-market activities of an organisation" (Johnson, 1984, pp. 12-13).

The thesis which lies behind Johnson's work is that the history of accounting has to be studied in the light of the history of the firm as it emerged in a Western market economy (Johnson, 1975a, 1981, 1983, 1984). Johnson (forthcoming) argues that of interest to accounting historians in such endeavors, is the growing literature on organisation theory, particularly

Williamson's organisational failures approach. Johnson (1983) states that management accounting emerged to resolve organisational difficulties in those firms which increasingly internalised market activities. He states:

> "Management accounting systems in multi-divisional organizations (such as the one used by General Motors during the 1920s) accomplished the same objectives that cost accounting, budgeting, and other internal accounting procedures fulfilled in factories and vertically-integrated firms. They defined an internal, non-market domain in which search for gain was governed by the objectives of a firm's organizers. And they enabled organizers to intensify their search for ways to take every advantage of resources within that domain. But the management accounting procedures in a multidivisional firm also facilitated a unique kind of quest. The search for gain as it was conducted by organizers in factories and vertically-integrated firms focused simply on deriving the most benefit from resources in production processes or in raw material and consumer markets. However, the organizers of the multidivisional firm associated gain with deriving the utmost benefit from their treatment of other organizers; specifically, the manager of divisions" (1983, pp. 144-145).

The market-hierarchy internalisation approach has built on the seminal works of Coase (1937) who gave the rule for internalisation: given transaction costs, firms would exist and "tend to expand until the cost of organising an extra transaction within the firm becomes equal to the cost of carrying out the same transaction by means of an exchange in the open market" (1937, p. 395). Accordingly, the organisation failures framework of Williamson (1975) states that transactions that might otherwise be handled in the market at considerable cost or loss of efficiency are performed internally and governed by the administrative processes within a hierarchy. [9] Johnson suggests that to understand accounting "one must, therefore, understand the forces that cause people to co-operate consciously in economic exchanges rather than to rely on unconscious 'market' coordination" and that the organisations failures framework predicts why management accounting should exist (Johnson, forthcoming).

Spicer and Ballew (1983) suggest that the organisation failures framework approach can be used to analyse a firm's management accounting system in two ways. First, to see how the accounting and control system controls and evaluates employees in an organisation, especially how it alleviates bounded rationality and reduces opportunistic behaviour. Secondly, the framework can be used to see the significance organisational structures have for accounting systems and how a wrong match of structure to accounting system may affect overall transactional efficiency.

Johnson (forthcoming) comments that the emerging synthesis of historical accounting and organisational theories have contributed much to management accounting history. The awareness of the organisational context of accounting and the study of company records have been important contributions to the study of accounting history.

E. CRITICISMS OF THE ORGANISATIONAL APPROACH TO ACCOUNTING HISTORY

Criticisms have been levelled at using the market-hierarchy internalisation approach to examine accounting change at two levels. Firstly, the market-hierarchy theory has been questioned; secondly, the view of accounting change implied by such an approach, has been questioned.

Flamholtz (1983) has commented on the applicability of the organisation failures framework for understanding the development of accounting. She suggests that Johnson's work provides a much-needed focus away from financial accounting in the history of accounting, and correctly, in her view, examines accounting change within the broader context of economic history. However, Flamholtz states that the framework has limited applicability when used historically, especially when applied to "the vast variety of organisational structures found in pre-industrial societies" (1983, p. 148); and also given the fact that the emergence of hierarchies in many cases had more to do with the State's desire to have political and economic power than with lower transaction costs. North (1985), however, seeks to incorporate the role of the State in developing totalising historical explanations based on a theory of transaction costs.

Nicholas (1986) critiques the market-hierarchy approach as being too narrow. "Firms are not islands of planned coordination in a sea of market relations" (1986, p. 65). The study of multinationals has indicated that there are intermediate institutional arrangements, such as contracts, franchises, licenses, and agents which also attenuate transaction costs. [10]

The second criticism leveled at the organisation failures framework is that it is a static concept. It does not examine the processes by which transition between alternative organisational forms takes place (Child and Kieser, 1981; Nicholas, 1986). From an accounting point of view, the processes of accounting change under these organisational perspectives remain unexplored (Hopwood, forthcoming). Neimark (1983) criticises organisation theories such as agency, contingency and market-hierarchy internalisation theories, as lacking a sociohistorical perspective. She states that researchers using these theories "situate their analysis within a timeless space and thereby fail to spell out the social origins of control systems or how they evolve over time" (1983, p. 67). [11] Such theories tend to look only at the relationship between accounting and the organisation, and pay little attention to the broader social context (Loft, 1986, p. 138).

Johnson (forthcoming) acknowledges that much of the research, which views the development of accounting as answering economic-organisational needs, is one-sided. He states: "Interpreting accounting practices through their contribution to various features of organisational activity, these studies often portray accounting in an enabling role: accounting plays a role that permits an organisation to achieve a foreordained purpose more efficiently than it could do otherwise" (Johnson, forthcoming). Accounting, therefore, is seen to have emerged from the problems created by the need to manage and coordinate in a particular organisational form. Such organisational insights into accounting tend to be functionalist in that they see accounting adapting to the needs and requirements of the specific organisations in which it functions (Hopwood, forthcoming).

Hopper et al. (1985) states that the historical development of accounting implied by this research is one which sees accounting as the result of technical and organisational progress. [12] Accounting is viewed in the conventional manner, from a relatively unproblematic, technical perspective. Hopwood cogently states:

> "....the organizational calculus implicit in accounting adaptation is still one thatis posited on the functional roles that accounting plays in the enhancement of an

> external concept of organizational performance. The path of accounting movement is seemingly an unproblematic one. Accounting becomes what it next should be, apparently guided by a rational, even if still poorly understood, calculus of organizational improvement which is not unrelated to that which is implicit in more traditional conceptions of the craft. Little role is acknowledged for 'managerial discretion and choice' let alone the active exercise of 'politics and power.' Accounting change is seen as a reflective rather than a constructive organizational endeavour. The craft strives to adjust in the name of an independent and unproblematic end to a context that it has no role in creating. And generally it is presumed that it is adequate to the ends that it serves. Enabling rather than more actively shaping organizational affairs, other organizational factors are seen as impinging on accounting but accounting seemingly has no similarly active role to play. The analysis of accounting diversity thereby has resulted only in a presumption of change rather than more specific analyses of the processes by which accounting becomes what it is not that make no prior assumptions as to either the underlying logics at work or the organizational roles and consequences of the accounting craft" (Hopwood, forthcoming).

Despite these criticisms, the organisational appreciations provided by this research are useful. The history of accounting is being seen from the broader perspective provided by economic and business history. Accounting is being shown as existing in the context of the organisation with its strategy and structure, its kind of ownership and control, and its approach to the segmentation of work and other organisational technologies and practices. Another emphasis of this organisationally-based research has been on the practices of accounting itself, rather than researching external reports per se and textbooks. Such an emphasis has meant that Johnson's research has highlighted accounting's role in control, rather than the financial accounting/decision making role elaborated on in much of the historical literature.

However, recent commentators on organisationally-based research suggest that the insights from this work can be enriched and deepened by taking a more problematic, critical view of accounting (Hopper et al., 1985; Hopwood, 1983, forthcoming). Such a view would recognise the interactive nature of accounting. Accounting would be seen not just as reflecting its context, but would also show how some aspects of that context might in turn be shaped by accounting itself.

Chapter Four will examine the recent emergence in the accounting history literature of taking a more critical perspective on accounting. This research views accounting as an interested endeavor with distributional and social consequences. It seeks to place accounting within its broad social, political, and institutional environment and seeks to describe a richer, more nuanced view of the emergence of accounting in specific historical contexts.

FOOTNOTES

CHAPTER THREE

1. In a United Kingdom context, Jones (1981) draws on the work of business historians in his work on the public accounting firm, Ernst and Whinney.

2. In attempting to account for Britain's priority in industrialisation, emphasis is often given to the important role of international trade. Yet, Kemp (1978, p. 13) points out that other parts of Europe enjoyed a boom of foreign trade also. He suggests that what distinguished Britain was not so much her success as an exporter, but the character of the home market from which the export industries drew their strength.

3. Deane (1965, p. 196) states that GNP grew at 2.4 per cent per annum between 1840's and 1870's, but only 1.9 per cent per annum between the 1870's and 1914.

4. For the effect on the accounting profession and the practice of management accounting see Loft (1986).

5. Although work by Jeffreys (1977) and Hunt (1936) have always been important.

6. Chandler argues that structure follows strategy. However, Alford (1976) suggests that the relationship between structure and strategy should not be seen as causal, but rather, it should be viewed as being symbiotic.

7. See Chapter 7 for some comments on James Finlay's investment group-managing agent strategy which achieved many of the advantages of a multi-divisional organisation.

8. For an excellent review of Johnson's case studies in fuller detail, see Kaplan (1984).

9. Dahlman (1979, p. 149) states that transaction costs represent resource expenditures necessitated by a lack of information. They include: (1) pre-contract search and information costs incurred because of imperfect information about the existence and location of trading opportunities or the characteristics of available items, (2) bargaining and decision costs spent in investigating mutually agreeable terms and conditions, and (3) policing and enforcement costs incurred to preclude ex post violations of the contract by one or both parties to the agreement.

10. This view has been endorsed by Williamson who analysed transaction costs in terms of "the comparative costs of planning, adopting and monitoring task completion under alternative governance structures - whereby governance structure I have reference to the explicit or implicit

contractual framework within which a transaction is located (markets, firms, and mixed modes - e.g. franchising - included" (1981, p. 1544).

11. Burchell et al., (1985) level the same critique at agency theory in that the complex processes whereby differing groups with an interest in accounting (e.g. certain agents), come into existence is largely neglected. Agency theory tends to assume the creation of accounting as a given. It elaborates on accounting rather than explains how it is created.

12. Tinker states that the historical perspective underlying Chandler's (1962, 1977) work is a social darwinist one that takes for granted that competitive markets are directly analogous to evolutionary mechanisms that allow only the fittest (or the most efficient organisational form) to survive (quoted in Neimark, 1983, p. 69).

IV

CHAPTER FOUR

CRITICAL APPROACHES TO THE HISTORY OF ACCOUNTING

A. INTRODUCTION

The criticisms levelled at much of the traditional (Chapter Two) and organisationally-based (Chapter Three) research is that accounting is viewed as a technical, neutral discipline and that accounting is not seen as a constitutive phenomenon. The view of history taken in this conventional research is generally one of adaptation and progress. Critical approaches to historical research have, on the other hand, tended to question and problematize accounting itself, and examine the way accounting shapes its context rather than being completely determined by it. The view of history taken in these studies has not been one of continuity in the midst of change (Littleton and Zimmerman, 1962), but one of discontinuity, emphasising the conflictual, political and interested aspects involved in and around accounting when looking at accounting change.

The dissatisfaction with traditional accounting histories was voiced in the late 1970's by a committee set up by the Social Science Research Council [1] in the United Kingdom. This committee was set up to explore the need and potential for research on the social and political aspects of accounting (Hopwood, 1985, p. 361). In the committee's deliberations, the nature of historical research in accounting was addressed. They were concerned with questions such as "How had accounting become what it now is? How can we understand the processes of change? How have wider issues and concerns impacted on accounting practice?" (Hopwood, 1985, p. 365). Most of the committee expressed dissatisfaction at the then state of knowledge and directions of historical research in accounting. Much of the historical research was, in the committee's estimation, either antiquarian or teleological (Hopwood, 1985, pp. 365-366).

The committee noted criticisms of antiquarian/teleological notions of history in the social sciences and the availability of other appreciations of the dynamics of historical change. Furthermore, they recognised the need to improve understandings of the socio-political history of accounting "not only because of its own intrinsic interest but also because of the role such appreciations might play in casting light on what might be at stake in current pressures for accounting to change" (Hopwood, 1985, p. 366).

Hopwood (1985) [2] gives his own personal interpretation of differing viewpoints held by the committee on the history of accounting. He contrasts the critical approach to accounting history with the traditional:

> "Was....the history of accounting to be seen in terms of an unfolding of technical progress - a progress which facilitated the achievement of a common social goal through the enhancement of accepted notions of organisational efficiency, effectiveness and accountability? Or was accounting to be seen as emerging and changing in the context of very specific configurations of social and institutional relations? Whilst the former perspective would tend to see accounting activities as both illuminating and enhancing a broadly pre-given set of notions of corporate performance and accountability, the latter view results in more strategic, social and indeed political roles being attributed to the accounting craft" (Hopwood, 1985, p. 372).

The critical approach seeks to situate the study of accounting history in the broader social, economic and institutional contexts in which it is implicated. In general, the broader outlook taken by critical histories has meant a more interdisciplinary approach to accounting history. Insights have been gleaned from disciplines such as sociology, political theory, linguistics, as well as, economics and organisational behaviour.

The aim of this chapter is firstly, to examine accounting and its context, and to see how a critical approach problematizes this dualism; and also to examine accounting's claim to be a neutral discipline. Secondly, taking a critical perspective, the chapter will review some of the work in accounting history. Lastly, the chapter will examine the view of history implicit in these studies.

B. THE INTERACTIVE NATURE OF ACCOUNTING

The interested nature of accounting has started to be articulated recently in the accounting literature (Bolland, 1985; Burchell et al., 1980, 1985; Cooper and Sherer, 1984; Hopwood, 1983, 1985, forthcoming; Loft, 1986; O'Leary, 1984; Tinker, 1984; Tinker et al., 1982). Hopwood suggests that such a view of accounting "is best seen as representing a context for a different way of questioning and understanding the accounting craft" (n.d., p. 3). It provides a context in which to explore the relationship accounting has to different organisational and social interests.

Seeing accounting as an interested activity is more than just seeking out the ways in which accounting might be used by different interested groups - for example, trade unions and consumer organisations. Such a view of accounting development still tends to assume a technical neutrality for accounting. Accounting under this view is seen as primarily a technical process with economic, social and political consequences. However, taking the perspective that accounting is an interested activity, problematizes accounting itself and states that it is an activity which is social and political in itself (Hopwood, 1985; Loft, 1986). Accounting, therefore, only has meaning in the context and culture in which it is practiced. Under this view the emergence of accounting is seen as just as much the pursuit of various interests as that of facilitating particular interests. Accounting change is as much a history of the construction of organisational and social reality as the realisation and reflection of the organisational and social. Hopwood develops this idea in this way:

> "Rather than seeing organizational accounts as a technical reflection of the pregiven economic imperatives facing organizational administration, they are now being seen to be more actively constructed in order to create a 'particular economic visibility' within the organization and a powerful means for positively enabling the governance and control of the organization along 'economic lines.' Accounting, when seen in such terms, is not a passive instrument of technical administration, a neutral means for merely revealing the pregiven aspects of organizational functioning. Instead its origins are seen to reside in the exercising of social power both within and without the organization. It is seen as being implicated in the forging, indeed the active creation, of a particular regime of economic calculation within the organization in order to make real and powerful quite particular conceptions of economic and social ends" (forthcoming).

Burchell et al. (1985) have summarised two attempts in the accounting literature at looking at and describing accounting change, and the accounting-environment dualism used to organise such descriptions. One view of the pressures for accounting change is that given by Gilling (1976). Burchell et al. (1985, pp. 382-384) largely describe Gilling's view as a contingency theory of accounting change, where accounting was differentiated from its environment and was seen largely as a reflective phenomenon which adapted to meet certain needs in the environment. Burchell et al. (1985) point out how, in the contingency perspective on accounting change, the environment can be defined in many differing ways. For example, for Gilling the environmental stimulus for change was the public character of accounting information which had arisen out of a greater public concern over the activities of business corporations. Others have identified the power of labour, increasing recognition of consumer rights, the recognition of significant externalities associated with the conduct of business (Burchell et al., 1985, pp. 383-384), not to mention organisational stimuli initiating accounting change. [3]

Another view described by Burchell et al. (1985, pp. 384-385) of accounting change is that given by Wells (1976). Basing his analysis on the work of Kuhn (1970), Wells outlines an enlightenment view of accounting change in which accounting is the product of virtually autonomous developments within accounting theory. Burchell et al. suggest that Well's arguments are suggestive of the constitutive capacities of accounting, where accounting has a power to influence its own context.

Both Gilling (1976) and Wells (1976) recognise the duality of accounting change and the interactive nature of accounting and its environment:

> "He (Kuhn) argues that the change takes place only after a serious malfunction has occurred in the sense that 'existing institutions (or practices have ceased adequately to meet the problems posed by an environment that they have in part created'" (Wells, 1976, p. 472).
>
> "The interdependency of accounting and its environment results in change being brought about by a process of mutual adaption. Environment demands lead to changes in accounting practice and changes in accounting practice lead to changes in environmental demands and expectations" (Gilling, 1976, p. 61).

The international accounting literature has also addressed the environment-accounting dualism. Much of this work in this area, however, tends to only see accounting as being a product of its environment rather than acknowledging any constitutive capacity for accounting. For example, the comparative accounting literature [4] attempts to classify and explain why different accounting objectives and practices exist from country to country. A general explanation given for the differences in accounting objectives, standards, policies and techniques is that they result from differing environmental factors existing in each country. Frank states "if environmental factors differ significantly between countries, then it would be expected that the major accounting concepts and practices in use in various countries also differ" (1979, p. 593).

Arpan and Radebaugh (1981) and Choi and Mueller (1984) state that accounting fulfils a service function; it is a form of technology that can be borrowed and shared depending on suitability. Therefore, accounting systems evolve, respond, and reflect the environments they serve and its technical and social usefulness depends on its ability to mirror these conditions (Choi and Mueller, 1984, p. 25).

There have been various attempts made at identifying the environmental conditions likely to affect the determination of national accounting principles. [5] In identifying these factors it is implicitly assumed that social, cultural, political, as well as economic factors, may explain differences in accounting principles and practices between countries. Nobes specifically mentions the following factors as influencing accounting development: the nature of the legal system (common law or Romano-Germanic); the prevalent types of business organisation and ownership; stock exchange requirements; the influence of taxation; the strength, size and competence of the accounting profession; and "unnatural" influences such as new laws enacted directly affecting accounting brought about by economic crisis or the theoretical considerations - for example, microeconomics in the Netherlands (1984, pp. 3-16).

Choi and Mueller (1984, Ch. 2) list the following as having a direct effect upon accounting development:

1. The legal system
2. The political system
3. The nature of business ownership
4. The differences in size and complexity of business firms
5. The social climate
6. The level of sophistication of business management and the financial community
7. The degree of legislative business interference
8. The presence of specific accounting legislation
9. The speed of business innovations
10. The stages of economic development
11. The growth pattern of an economy
12. The status of professional education and organisation

Arpan and Radebaugh (1981) use the Farmer and Richman [6] framework to group their description of the environmental influences; they classify the influences as educational, cultural, legal, political and economic. The cultural factors are many, but among the important ones are society's degree of conservatism, secrecy, distrust and fatalism, coupled with the people's attitudes towards business and the accounting profession itself. Legal and political factors include legislation, both direct and indirect, and the political factors depend on, for example, whether a country is a western democracy, or part of the eastern bloc communist countries.

Lastly, economic factors depend on a country's stage of development and economic orientation. Further economic influences are the degree of government involvement, the source of funds (creditor orientation or investor orientation), the development of the stock exchange, and the degree of inflation. Environmental analysis undertaken by the authors, suggests that economic factors are the most influential. They have direct effects on accounting and also indirect effects on other environmental factors (Arpan and Radebaugh, 1981, p. 25). Again, these are generally static views of accounting, in which accounting is seen as being primarily determined by its environment.

Accounting, if seen as a merely reflective phenomenon, assumes the functions to which it is instrumental; and the needs to which it responds, are exogenous to the accounting craft itself. That is, accounting and its organisational and social contexts are viewed as mutually exclusive domains. Such a perspective creates a false dualism between accounting and the organisational and social interests it serves. Although dualism has been a powerful tool of analysis, and gives heuristically useful accounts of accounting reality, it should not be mistaken for a reliable description of that reality. Accounting and its environment are in fact aspects or phases of a unified reality and not necessarily distinct entities (Abrams, 1982, pp. 227-229).

Therefore, by recognising the interactive nature of accounting, [7] accounting and its contexts can be richly described and analysed. Such descriptions and analyses would elaborate on "the processes by which accounting becomes what it is not that make no prior assumptions as to either the underlying logics at work or the organisational roles and consequences of the accounting craft" (Hopwood, forthcoming).

The view of history underlying the interactive nature of accounting change is one which sees accounting in the process of becoming (Abrams, 1982). Hopwood has articulated this in the accounting literature in his assertion that "repeatedly changing, accounting continually has had the tendency to become what it was not" (forthcoming, 1983; Johnson, forthcoming). Rather than positing any direction on the change or judging the change on the basis of some present day imperatives of accounting, change is examined because it is of interest in itself, and it gives a place to the human agency aspects of change and to the contexts of accounting.

Roberts and Scapens (1985) have suggested that the conventional view of accounting is that it acts like a mirror or picture which neutrally and objectively records the "facts" about what has happened in an organisation over a particular period of time. [8] It is the point of view which states that accountings are, or should be, good representations of the situation they represent, and that the purpose for which they are used should not be allowed to distort this basic fact. Another analogy used to support this view, likens accounts to maps (Solomons, 1978).

Roberts and Scapens have, however, suggested that a more fruitful analogy, and one which recognises accounting as being an interested activity, is to view accounting like a photograph. "A photograph always pictures events from a particular point of view, at a particular moment in time, and with a particular lens and focus" (Roberts and Scapens, 1985, p. 454). In an analogous manner, the image of an organisation, given through a certain set of accounting information, will be given from a particular point of view, at a particular point in time and will be selective in its focus. The set of accounting information will necessarily be partial, selective and potentially distorted. If such a view is taken of accounting, there is more potential for seeing accounting as shaping and constructing organisational and social reality rather than merely being a reflection of it.

C. CRITICAL HISTORIES OF ACCOUNTING

1. Introduction

In general, critical histories view accounting as a problematic and interested activity. They are generally interdisciplinary in nature, integrating accounting with perspectives from such disciplines as sociology, political theory, linguistics, organisation theory and economics. The histories generally examine specific events - for example, the emergence of accounting practices in particular organisations (Hopwood, forthcoming), or the history of the value added statement in the United Kingdom (Burchell et al., 1985). The view of history taken is not a teleological, evolutionary one, but rather one which studies the past for its own sake and to perhaps shed some light on what may be at stake in current pressures on accounting to change. This section will first examine alternative macro histories; secondly, alternative micro histories of accounting practices will be examined; and lastly, alternative histories of the accounting profession will be reviewed.

2. Alternative Macro Histories

The traditional histories of accounting development have examined the way accounting techniques, like double entry, developed to meet merchants' needs in the Middle Ages; or how industralisation brought a new set of pressures, such as an expansion in the size of firms and greater complexity in manufacturing operations - accounting now had to account for capital items and to report in some cases to investors in a growing capital market; or further, how the increasing influence of the State impacted on accounting and the emerging accounting profession (see for example, Littleton, 1933).

This kind of macro history of accounting is in contrast to the macro history provided by the interesting work of Hoskin and Macve (1986). It is interesting because the development of accounting, in a macro sense, is discussed in the context of Michel Foucault's theory of "power-knowledge" relations. Hoskin and Macve (1986) suggest that there has been no coherent explanation advanced to explain why, after full-scale systematic accounting (e.g. double entry system) was developed in the thirteenth and fourteenth centuries, it remained sporadically used until the nineteenth century. And, in addition, why modern phenomena, such as cost accounting and other management accounting systems, only developed in the nineteenth century. Hoskin and Macve offer an explanation integrating a number of insights, elaborating on Foucault's "power-knowledge" idea and the technique of the examination. [9] They state: "Our thesis is that examination, discipline and accounting are historically bound together as related ways of writing the world (in texts, institutional arrangements, ultimately in persons) into new configurations of power" (1986, p. 107).

Hoskin and Macve situate the development of accounting, in the thirteenth and fourteenth centuries, in the wider developments taking place in the field of writing. Specifically, they show how the "new textuality," - alphanumeric writing, - coupled with a general shift to a new visual ordering and griding of writing, could be used as techniques of power. For example, in accounting the new systematic writing enabled control to take place through the use of the audit and the use of double entry. Yet, Hoskin and Macve state that "even in its sophisticated form this technology of financial examinatorial control never achieved an accountability of the human subject. It does not construct 'calculable man'....However, one kind of practical value....was its use for the purposes of memorability" (1986, p. 122).

The micro-technology for producing the "calculable" subject was, according to Hoskin and Macve (1986), due to the development of the examination mark in education. [10] Foucault, in his work <u>Discipline and Punish</u> (1977), has investigated the examination as a technique of knowledge and a technology of power. Hoskin (1982) has stated that what Foucault has called "hierarchical observation" and "normalising judgement" coalesced in the tecnhique of examination. The examination enables a systematic surveillance and observation of pupils to take place, especially as it becomes a regular means of testing performance and keeping students "up to the mark" (Hoskin and Macve, 1986, p. 106). The examination judges the individual while at the same time generates a measure of the overall standard of performance; it normalises while simultaneously making each individual into a case with a case history (Hoskin and Macve, 1986, pp. 106-107).

The examination combined the techniques of writing with a new kind of mathematization which was tending to articulate the principle that human qualities could be quantified. [11] Hoskin and Macve see the invention of the examination mark "as a crystallization of prior power-knowledge technologies, because only a mathematical marking system is simultaneously a record of acts and a currency which attributes a differential value to those acts. As such it is a quintessentially double sign of human accountability and profitability" (1986, p. 127).

Now that a power-knowledge framework existed, Hoskin and Macve note some examples of the operation of this disciplinary power. For example, they note Bentham's comments on how a business organisation can come under the gaze of an "accounting eye" - an expression of his Panopticon principle (See Hume, 1970). They go on to note Chandler's (1977) work on organisational development and how surveillance and judgement was enhanced by turning everything into writing. However, more importantly, they link the managerial practices devised by Whistler, manager of the Western Railroad, to his earlier training at the West Point military academy where Whistler was exposed to an examinatorial regime which was both hierarchical and ever present. [12] Whistler put in place a system of accountability in the railroad company similar to military procedures in which definite lines of authority and communication were established.

The last example of disciplinary power provided by Hoskin and Macve, is to use Foucault's insights as a way of understanding the emergence of modern professions. Loft (1986) provides an interesting example of cost accountants and their professionalisation process from a Foucauldian perspective.

Hoskin and Macve suggest that the "exploration of the inter-relationships between the histories and practices of education and accounting will yield further insights into the nature of the power-knowledge systems that they construct, and thereby enlarges or reforms the debate on the roles and value of accounting" (1986, p. 134). This interdisciplinary perspective, using Foucault's theoretical framework, has provided an interesting alternative history to the work of conventional accounting historians. Its major contribution has been to provide an alternative to the often unidimensional perspective of traditional histories and to provide a multidimensional perspective. In situating accounting in a broader context, and by using different conceptual lenses, they have outlined additional perspectives on modern accounting development than histories which loosely associate such development solely with the rise in industrialization.

Another example of a macro-type history is the work of Armstrong (1985a). Armstrong attempts to explain why accountants and accounting have come to hold such a dominant position in industry in the United Kingdom. Using largely a Marxist analysis, [13] he traces how accountants obtained a dominant position in British management hierarchies which enabled them to install financial modes of control.

Armstrong (1985a) firstly notes the foothold obtained by accountants through insolvency and audit work. He suggests that the nature of the capital market exaggerated the significance of the audit. Secondly, Armstrong suggests that the mode of wartime State intervention favoured accounting control rather than more directive forms of industrial mobilisation - for example, emergence of the widespread use of cost accounting techniques during the First World War. Lastly, Armstrong suggests the accounting profession has played a part in the rationalisation of British industry and has prospered on the basis of offering financial solutions to the control problems of large organisations.

Armstrong's argument is that "accountants have not simply achieved managerial pre-eminence on the basis of their possession of techniques for controlling the extraction of surplus value which then diffused in virtue of their obvious efficacy. Rather, accounting controls have been installed in British capitalist enterprises by accountants working from a pre-existing position of power within the global function of capital. This power-base was largely achieved through their role in the allocation of surplus value" (1985a, p. 20, emphasis in original).

Again, Armstrong's work develops explanations for accounting's emergence that do not appear in traditional histories. His work locates accounting history within the economic and political conditions which influenced it and which in turn it helped shape. His work might be criticised for being too reductionistic or of accepting accounting and its asserted pervasiveness uncritically. However, it does provide an alternative history which adds and deepens previous understandings of conventional histories.

The above has reviewed two of the alternative macro-type histories of accounting. Now this section of the chapter will examine a selection of micro histories of accounting practices.

3. Alternative Micro Histories of Accounting Practices

Micro histories of accounting tend to examine the emergence of accounting practices in their organisational context, or alternatively, examine a specific practice in a broader context. A recent example of a historical case study of the emergence of accounting practices in an organisation is provided by Hopwood (forthcoming).

Hopwood (forthcoming) draws on McKendrick's work on the eighteenth century English potter, Josiah Wedgewood, to describe the emergence of accounting in Wedgewood's business. The crisis which struck the pottery industry in the 1770's prompted Wedgewood to determine what his costs were so he might more knowledgeably price his pottery, having regard to the then low market demand. Wedgewood sought to discover the costs for each piece of pottery and reconcile this with his overall expenses. Hopwood notes that "the task was not an easy one. No established procedures were available for observing the inner workings of the organisation through the accounting eye. The economy of the organisation could not be readily penetrated. The facts of costing had to be laboriously created rather than merely revealed" (forthcoming).

On comparing his costings with his overall expenses, Wedgewood could not immediately account for discrepancies which he found. On further investigations he found that his clerks and cashier had been embezzling and were engaged in what Wedgewood called "extravagance and dissipation." To correct the matter, Wedgewood installed a system of cost accounts and rules for employee conduct. Hopwood makes the point that although "an organisational economy grounded in a domain of accounting facts had to be painstakingly forged rather than merely exposed, once constructed....Wedgewood had a powerful instrument for observing the inner workings of the organisation in economic terms" (forthcoming).

The initial stimulus for discovering costs and profits came from the crisis that faced Wedgewood's business. Once new knowledge was obtained on costs and profits, Wedgewood then found that he could interrogate, plan and coordinate the whole of his business in terms of the pervasive accounting eye now established. The common denominator of the economic had been created.

Hopwood (forthcoming) describes two further case studies in which he outlines the way accounting has intertwined itself in organisations in which accounting has been practiced for a long time. He describes how market crises in both cases provided a stimulus for accounting change. Emphasised in both studies is accounting's constitutive capacities. Hopwood states: "Accounting had provided an operational and influential language of economic motives, its calculations had infused and influenced important policy discussions, and the visibilities it created played an important role in making real particular segmentations of the organisational arena. Accounting not only reflected the organisation as it was and as it had been but it also had played a not insignificant role in positively making the organisation as it was" (forthcoming).

The two case studies show how early production policy decisions, that were mediated by accounting, came full circle and as such, accounting itself became subject to implications of its own effects. Another point emphasised in all three case studies is the way accounting provides a visibility mechanism - how the accounting eye sheds its calculating light on more and more areas of the organisation, and how accounting provides a language which bridges and commodifies functional areas in the organisation.

An example of a historical case study on examining an accounting practice in its broader social context is the study by Burchell et al., (1985) on the "fluctuating fortunes" of the value-added statement in the United Kingdom. In this insightful study the value-added event is analysed in terms of value-added's ambiguity and how it was advanced in the interests of widely differing groups in society. The study suggests that value-added not only represents the company as a cooperative in terms of shareholders, lenders, workers and the Government; but also it is seen as playing a constitutive role in the creation of this cooperative harmony. "...Value added may be seen as a determining factor in the process of social change, a harbinger of social change or a consequence of social change" (Burchell et al., 1985, p. 390).

The study looked at three areas in which the value-added statement was implicated. These were the explication of standards for corporate financial reporting, the management of the national economy and the functioning of the system of industrial relations. The principal actors in each of these areas were the government, trade unions and the accounting profession each with their various interests such as, productivity, strikes and wage bargaining, and accounting practices. The authors labelled their analysis as a three branched genealogical study drawing on the method of investigation used in some of Foucault's work (see Minson, 1985). In tracing the development within these three above mentioned areas, the study shows how value-added functioned as an inter-relating point in a discourse which was organised around notions of efficiency and democracy - two ideas which do not necessarily integrate well.

The study shows the complex network of intersecting practices, processes and institutions in which value-added was caught "and it was this network that governed how it might function as a calculative, administrative and discursive practice" (Burchell et al., 1985, p. 400). The study brings out the unintended consequences of pursuing interested activities in the accounting domain. The study shows how accounting shapes the contexts in which it operates and, therefore, the authors commend their historical, genealogical approach because it does not assume any pre-given roles or functions of accounting practice. Rather, "the genealogical study of the event attempts to show how certain roles came to be attributed to a number of processes within which value-added could be found functioning" (Burchell et al., 1985, p. 405).

At another level of analysis again, Merino and Neimark (1982) re-examine the traditional reasons given for the accounting provisions of the Securities Acts in the United States. They suggest that rather than removing the incentives for manipulation by eliminating information assymetries or changing investor trading rules that made such activities profitable, the disclosure regulations in the Securities Acts, were part of a continuing nineteenth and twentieth centuries' effort to reconcile corporate dominance with individualistic eighteenth century democratic and economic theories, without disturbing the existing set of social and economic relations. Furthermore, Merino and Neimark (1982) suggest that both disclosure and widespread stock ownership played an important part in reconciling the contradiction between economic reality and public policy. [14]

This study does not examine specific organisational accounting practices but rather looks critically at the State's role in mobilising accounting procedures to achieve political objectives. The next section will now examine some alternative histories of the accounting profession in the United Kingdom.

4. Alternative Histories of the Accounting Profession

Recent work by Armstrong (1985), Loft (1986), and Puxty (1985), all give alternative perspectives on the development of the accounting profession in the United Kingdom. There have been a number of "official" histories of the accounting profession in the United Kingdom (e.g. A History of the Chartered Accountants of Scotland from Earliest Times to 1984, 1984; Brown, 1905; Garrett, 1961; Hopkins, 1980; McClelland, 1869; McDougall, 1980). Loft has suggested that such works are "official histories" because of the "way in which they implicitly seek their explanations of the past to further the use of the techniques and social status of the practitioners of the present" (1986, p. 138). She also states that "these histories tend to assume not only that accountants are supremely necessary to society but also that the major factor enabling their current success has been their form of professional association" (Loft, 1986, p. 138).

Loft (1986), on the other hand, presents a critical history of cost accounting and cost accountants. She studied the period 1914 to 1925, and shows how accounting became intertwined with society at various levels. The emergence of cost accounting and cost accountants came as an almost unintended consequence of the legislation of the First World War aimed at preventing profiteering and at providing a basis for the pricing of contracts. As Loft states: "It came as part of an uneasy resolution between the desire to keep 'business as usual' and to set up a command type economy to cope with the massive problems of production of armaments and distribution of scarce resourses, including food, at a time of war" (1986, p. 166).

With cost accounting reaching a new found prominence after the War, Loft describes some of the concerns and mobilising factors behind the professionalisation project of the Institute of Cost and Works Accountants (I.C.W.A.) founded in 1919. Although the pioneering members of the I.C.W.A. worked in industry, they were explicit about their desire to achieve the professional status of the chartered accountants of the Institute of Chartered Accountants in England and Wales (I.C.A.E.W.). This was an exercise in social mobility. The increasing membership of the I.C.W.A. did not want to be seen as cost clerks, but rather they wanted to be seen as professionals and thus achieve the "gentlemanly status so desired by Englishmen" (Loft, 1986, p. 166).

The I.C.W.A. expanded their knowledge base in order to be compatible with their professional aims. They desired to be rid of the image of mere technicians in the service of industry. Loft shows how accounting itself had a constitutive role in post-

World War I Britain. "The concept of an efficient cost-effective nation was crucially dependent upon an assumption that modern costing systems would provide all the required information" (Loft, 1986, p. 167).

The theoretical inspiration for Loft's work is the genealogical perspective taken from Foucault. Such a genealogical history, according to Loft, provides "a detailed examination of the complex interplay between knowledge, techniques, institutions and occupational claims at one period in the history of accounting" (1986, p. 167). A genealogical history of cost accounting and cost accountants examines the "conditions under which the accounting techniques for knowing the business organisation emerged and spread" (Loft, 1986, p. 139, emphasis in the original).

Goldstein has suggested that the Foucauldian term "discipline" and Foucault's "power-knowledge" framework are particularly apt for the study of emergence of the modern professions. Goldstein states: "It has offered historians a way of conceptualising the relationship between forms of applied knowledge and their external environment, between the constitution of professional expertise and the organisation of professions as social entities; and it has, furthermore, illustrated a new perspective that can be fruitfully brought to bear upon the reading of documents of 'professional' provenance" (1984, p. 191). [15] This alternative perspective has enabled Loft to provide additional insights into the history of accounting.

Another alternative history of the accounting profession is the perspective provided by Armstrong (1985). Underlying Armstrong's work is Johnson's Marxist analysis of the professions, an aspect of which looks at the part played by accountants and their calculative techniques in the social relations of production. Armstrong offers an explanation that seeks to account for accountants' dominant position in management hierarchies in the United Kingdom. He suggests that all organisational professions are competitively engaged in "collective mobility projects" (Larson, 1977) aimed at securing access to key positions of command in management hierarchies. The means of competition is the monopolisation of a body of knowledge and expertise which offers or appears to offer, a solution to the key functions of capital. Armstrong further suggests that accountants achieved dominance within the managerial hierarchy because of the accountant's ability to control the labour process. He states (1985, p. 137) that accountants have controlled the labour process at least in three inter-related ways. Firstly, accounting is a solution to the problem posed by the demise of the internal contract system: that of how to ensure the loyalty and motivation of employees. For example, budget allocations are used to discipline and control departmental managers. "Secondly, by rationalising decisions of allocation....it enables concentration of capital and labour on those operations which yield the greatest surplus, so indirectly acting as a disciplinary pressure on those whose livelihoods are linked with those operations which yield the least. Finally, the language and pre-suppositions of accounting systems....function as vocabularies of motive which set the terms of and limit any challenge by workers and subordinate managers to senior management" (Armstrong, 1985, p. 137).

A further historical perspective on the accounting profession is provided by Puxty (1985). He uses Habermas's notion of crisis tendencies to show that the development of the accounting profession has been dependent on how well it manages to avoid crises. Puxty analyses the profession's relationship to the State and describes how the State manages crises by shifting them to other institutions like the accountancy profession, who in turn seeks to manage the crises by shifting them again. He suggests that the rise of the decision usefulness criterion and its being embraced by the leaders of the profession has its roots in the contradictory nature of late capitalism - that is, the fundamental split between finance and productive capital. "Finance capital desires high information quantities; productive capital opposes them for defensive reasons. Both the State and the accountancy profession have chosen to support financial capital in this, the former through its fiscal policies over many years,....the latter through its espousal of the user criterion" (Puxty, 1985, p. 17). The accounting profession has faced this contradiction between the two fractions of capital "by a process that initially favours the user criterion in its exposure drafts, while being forced to recognise the needs of productive capital in the subsequent negotiation process before the final standard is produced" (Puxty, 1985, p. 18).

Puxty's interpretation of the development of the accountancy profession is based on the fact that crisis is endemic to society, and hence endemic to the institutions of society. This differs from conventional views of changes in the nature of the accounting profession in society such as the view which posits a "basic equilibrium disturbed only by the occasional flurry of trouble;" or one in which "a conflicting set of interest groups vie for influence with an accounting regulatory body that constitutes part of a pluralistic democratic society" (Puxty, 1985, p. 25).

A review of a selection [16] of alternative histories offering differing perspectives from conventional histories has been presented in this section. This chapter will now conclude by examining the conceptual lenses and the view of history used in these critical studies.

D. CONCEPTUAL LENSES AND VIEWS OF HISTORY USED IN THESE CRITICAL HISTORIES

The common theme running through these critical histories is the desire to problematize accounting and to break away from a unidimensional picture of its development. Accounting has not been created just by capitalism or industrialisation or ownership structures or organisational structures. Rather, the emergence of accounting and its functioning in its various contexts is a complex phenomenon due to the interplay of many different influences.

The histories reviewed have undertaken their analyses at differing levels (macro or micro) and have either been informed by a general sociological approach (e.g. Hopwood, forthcoming) or have been informed by a specific social theorist (e.g. Hoskin and Macve, 1986; Loft, 1986; Puxty, 1985). They have also adopted differing research strategies either examining new historical material or reinterpreting previously analysed material. Furthermore, the histories integrate the theoretical insights outlined to varying degrees in their analyses of accounting.

Foucault has provided one set of conceptual lenses in the historical accounting literature recently (see Burchell et al., 1985; Hoskin and Macve, 1986; Loft, 1986). Foucault has also been used to analyse accounting in its organisational context (see Roberts and Scapens, 1985a). Hoskin and Macve (1986) use Foucault's mode of analysis to reinterpret accounting development at a macro level. Loft (1986) uses Foucault to provide theoretical insights as a mode of analysis but also follows Foucault's method of doing history. Burchell et al., (1985) use Foucault's genealogical method more as a strategy of analysis rather than explicitly using Foucault's theoretical schema. Although it may be considered a rather dangerous exercise, attempting to split Foucauldian based work up in this way, Foucault does seem to have been used differently by these authors. [17] It is appropriate, therefore, to briefly comment on Foucault and his historical approach.

Foucault's work has been divided up into two chronological stages. The first phase of his work comprises of a series of primarily historical case studies which he called archaeologies. These mainly concerned the conditions for the emergence of an array of modern human sciences. Foucault's primary unit of analysis is the discourse which is best understood as a system of possibility for knowledge (Philp, 1985, p. 69). He uses the term archaeology to denote a level of the analysis of discourses [18] which grasps their rules of formation without reference to the subject. Philp states: "But the rules of a discourse are not rules which individuals consciously follow; a discourse is not a method or canon of enquiry. Rather, these rules provide the necessary preconditions for the formation of statements, and as such they operate 'behind the backs' of speakers of a discourse. Indeed, the place, function and character of the 'knowers', authors and audiences of a discourse are also a function of these discursive rules" (1985, p. 69).

Foucault distinguished archaeology from a "history of ideas" which analyses "permanences which persist beneath apparent changes" (1972, p. 138). Abandoning the analysis of genesis, continuity, and totalisation in history, it is "an attempt to practice quite a different history of what men have said" (1972, p. 138). Foucault emphasised rupture and discontinuity in the history of ideas.

In the second phase of his work, which he generally refers to as genealogies, Foucault retained his interest in the human sciences - in the archaeology of knowledge structures - but concerned himself more with the strategic role of these knowledges in certain fields of public administration and policy. In particular, he emphasised the constitutive role which power plays in knowledge. Minson describes the shift in Foucault's work in this way: "If archaeology in a general way may be thought of as an intervention into the historiography of knowledges, then genealogies for their part....bring a new theoretical and historical perspective to bear on the characteristic forms in which power is exercised in modern societies" (1985, p. 9).

Foucault attempted to reveal the development of different power rituals by describing specific models for exercising power. For example, in Discipline and Punish (1977) he explained Bentham's sketch of the Panopticon-prison, and in the first volume of the History of Sexuality (1979) he made use of the institution of the confessional. In both cases Foucault used these as an instrument for diagnosing power-relationships which infect man's body and form his ideas (Kemp, 1984, p. 95). As already noted, Loft (1986) and Hoskin and Macve (1986) explicitly use Foucault's concept of "power-knowledge."

"Foucault emphasises the ways in which knowledge and power are closely linked. He considers not only how knowledge enables the exercising of power but also how power itself tends to generate systems which produce knowledge. From such a perspective, 'knowledge' and 'truth' are part of the effects of power. However such a productive relationship needs to be seen in terms wider than knowledge being simply an ideology which legitimates power. For Foucault, the 'methods of observation, techniques of registration, procedures for investigation and research, apparatuses of control' are in fact very effective instruments for producing power and when power is 'exercised through these subtle mechanisms it cannot but evolve, organise and put into circulation a knowledge, or rather an apparatus of knowledge'" (Loft, 1986, p. 140).

"How....then is one to explain the modern significance of accounting and the ample rewards that accrue to its practitioners? This is a complex question but in this paper we propose to suggest how a history of accounting and an understanding of its power in modern society might be written in terms of Michel Foucault's theory of 'power-knowledge' relations" (Hoskin and Macve, 1986, p. 105).

Both of these works show how power and knowledge are not external to one another and show the appropriateness of the genealogical approach by analysing the cultural and social practice of accounting in which power and knowledge intersect. In viewing accounting as a disciplinary power, a key Foucauldian concept used is the concept of surveillance. Foucault identified three primary components of discipline: hierarchical observation (continuous inspection and surveillance); normalising judgement (a corrective rather than essentially retributive type penalty); and examination (a combination of observation and correction). Above all, disciplinary power is "that which acts by means of general visibility" (1977, p. 171). Along the lines of Bentham's Panopticon, it is a system whereby someone can see without being seen by the others. Power is exercised essentially by watching. The role of accounting in surveillance monitoring, often in an unintended way (see Hopwood, forthcoming) over production in the workplace, has been usefully highlighted by Hoskin and Macve (1986) and Loft (1986).

Foucault's view of power is essentially a coercive one. This has been questioned by Ignatieff (1983) and Kemp (1984). Ignatieff, for example, states that "by describing all social relations as relations of domination, Foucault neglects the large aspects of human sociability, in the family and civil society generally, which are conducted by the norms of co-operation, reciprocity and the "gift relationship" (1983, p. 203). Loft's (1986) and Hoskin and Macve's (1986) work highlight the coercive aspect of accounting. Yet is it possible, along the lines that Ignatieff has indicated, that accounting in certain contexts, like cooperatives, family estates, can have a consensual aspect in its operation.

Foucault's genealogical historical perspective is based on Nietzsche's historical perspective. "History, for Nietzsche and Foucault, is an endless struggle, characterised by diversity, chance, uniqueness and becoming" (Turner, 1985, p. 198). In history there are no constants, no comfort, and no consolation; history is both uncontrolled and directionless since:

> "nothing in man - not even his body - is sufficiently stable to serve as the basis for this self-recognition or for the understanding of other men. The traditional devices for constructing a comprehensive view of history and for retracing the past as a patient and continuous development must be systematically dismantled. History becomes effective to the degree that it introduces discontinuity into our very being - as it divides our emotions, dramatises our instincts, multiplies our body

and sets itself against itself" (Foucault, describing Nietzsche's historical work in 1977, pp. 153-154).

Foucault, therefore, opposed all progressive, teleological and evolutionary histories which attempted to chart the unfolding of humanity and reason from identifiable origins slowly and inexorably into the present. In contrast to such a view of history, Foucault's starting point in the genealogical approach is one described by Nietzsche: "the cause or origin of a thing and its eventual unity, its actual employment in a system of purposes, lie worlds apart (Nietzsche, 1969, p. 77, as quoted in Minson, 1985, p. 76).

Poster summarises Foucault's discontinuous view of history:

> "Foucault attempts to show how the past was different, strange, threatening. He labors to distance the past from the present, to disrupt the easy, cozy intimacy that historians have traditionally enjoyed in the relationship of the past to the present. He strives to alter the position of the historian from one who gives support to the present by collecting all the meanings of the past and tracing the line of inevitability through which they are resolved in the present, to one who breaks off the past from the present and, by demonstrating the foreignness of the past, relativizes and undercuts the legitimacy of the present" (1984, p. 74).

A key aspect of the genealogical approach, therefore, is the separation of origin and outcome. Minson (1985) and Turner (1985), however, suggest that there is a tension in Foucault's historical approach. The tension, on the one hand, is to maintain the disassociation of origins and outcome, yet on the other hand, insist on the constitutive and telling character of the origins. As Minson states "either genealogy remains a variant of teleological history or it is irrelevant by its own standard of relevance" (1985, p. 77). Turner also states that "despite Foucault's emphasis on diversity and historical chance, it is difficult, on the basis of his 'empirical studies,' to avoid the conclusion that contemporary society is subject to the inexorable logic of quantification, examination, and classification as techniques of surveillance" (1985, p. 200). These authors then suggest that Foucault's histories are organised around the theme of surveillance and as such have a teleological "ring" to them.

Philp suggests that this criticism of Foucault's historical method does not stick easily to him. This is because Foucault is not interested in philosophical considerations being taken as decisive in the evalution of his historical method. Rather his histories, he says, are fictions which seek to forge connections, establish relationships and transgress the established order and unity of discourse. "His intention is to throw our assumption and certainties into question; to allow variety and difference their rightful place....It is, then, difficult to criticize Foucault without associating oneself with the system which he attacks - we either stand with him, or we stand condemned of subjugation. Yet it is possibly the great strength of Foucault's work that it makes neither course attractive: much of what he says is sufficiently close to reality to be discomforting, and yet his own view offers no attractive certainties" (Philp, 1985, pp. 79-80).

Foucault described his aim as:

> "To give some assistance in wearing away certain self-evidentnesses and commonplaces about madness, normality, illness, crime and punishment; to bring it about, together with many others, that certain phrases can no longer be spoken so lightly, certain acts no

> longer, or at least no longer so unhesitatingly, performed, to contribute to changing certain things in people's ways of perceiving and doing things, to participate in this difficult displacement of forms of sensibility and thresholds of tolerance, - I hardly feel capable of attempting much more than that" (Foucault, 1981, pp. 11-12, as quoted in Philp, 1985, p. 80).

Hirst (1985) agrees with Foucault's own assessment of his work. Hirst suggests that Foucault is not engaging in presenting some kind of general history, as providing a complete description of a period. Rather Foucault's attempts to analyse certain historical discourses as strategic in relation to certain problems that he is concerned with. He is, in fact, diagnosing the present by asking "how did we get there?" (Dreyfus and Rabinow, 1982, p. 119). As Foucault stated, he is "writing the history of the present" (1977, p. 31).

Foucault's historical work has been critiqued by Marxist historians for dwelling too much on the "micro-physics" of power and not giving due consideration to the role of the State in exercising coercive power. Although Marxist historians are happy to use certain of Foucault's themes, Hirst suggests that they, in no sense, see Foucault as providing an alternative or comprehensive political or social theory (Hirst, 1985, p. 143).[19] Foucault has been critiqued for his aversion for economic explanations and class analysis, which often produces a failure to consider basic problems concerning the institutional mechanisms and apparatus by which knowledge is accumulated and transmitted (Turner, 1985, p. 211).

There is no doubt, however, that Foucault's work, used in a modest way, has provided additional insights into accounting as a disciplinary power and as a constitutive activity. The three accounting studies reviewed (Burchell et al., 1985; Hoskin and Macve, 1986; Loft, 1986), have placed accounting in the broad context of social, cultural and political history, and have shown that accounting is an interested activity.

Other conceptual lenses used in this new historical research have been provided by Marxist analysis, by Habermas, and by sociological perspectives such as that of Giddens and Weber. Marxist analysis has been at the heart of Armstrong's historical work. His analysis has tended to focus on accounting being used in the service of capital in order to extract surplus value and control the labour process. The strength of Marxist analysis is in the reaffirming of the fact that history is a necessary method for any understanding of one's own world - human societies are embedded in their own past. However, its weakness is in regarding the processes and relationships of production as the essential and defining processes and relationships, in the creation of human societies (Abrams, 1982, p. 35).

Armstrong's historical approach has tied accounting's development into the economic relations of the capitalist system. His analysis has shown how accounting and financial controls predominate in British capitalism. It has particularly shown the interested nature of accounting. Accounting is shown as a powerful means for positively enabling the governance and control of organisations along certain economic lines. Also, the "labour process in the organisation has been exposed, ordered and physically and socially distributed" (Hopwood, forthcoming). The interested nature of accounting and the fact that accountants participate in social conflict and do not just record the "facts" in a disinterested fashion can also be seen in the Marxist informed work of Tinker et al. (1982).

Marxist informed history has the primary aim of showing how accounting projects and reinforces the social position and political interests in the capitalistic mode of production. Johnson states "that Marxist history often provides....searching analyses of previously untapped primary sources; and it also sharpens....awareness of the social implication of accounting definitions. In their thought provoking investigations, though, Marxists seem unnecessarily rigid" (forthcoming). Although the rigidity of their economic determinism is a problem, Abrams suggests an even greater problem: "The problem is not that it too crudely explains all historical events and developments in terms of the relations of production, ownership and class, but that it makes such generous provision for the mediation of those influences by political, cultural and ideological factors that the causal connections between economic relationships and historical change become extremely difficult to trace" (1982, p. 49).

Accounting change in Marxist analysis depends heavily on the historical importance of ideological influences that are attributed to accounting. Consequently, other possible reasons for accounting change can be swamped in a sea of Marxist dogma. In a sense, too much can be attributed to accounting in such analyses. "Accounting is still seen as having an essence, a mission which mobilises its development. It still is conceived of as being advanced in the name of an abstract potential. Accounting, therefore, is still a revelatory endeavor, making real, by the active construction of the organisation as we know it, interests which are independent of both accounting and the organisational representation of them. And, like the more conventional presumptions of accounting in motion, it is still seen as an endeavor that is adequate to the abstract ends in the name of which it is advanced. Accounting is both purposeful and purposive" (Hopwood, forthcoming). The Marxist perspective on accounting history does offer an alternative analysis and reaffirms the need for historical analysis, but it does have the tendency of viewing accounting per se, uncritically.

The post-Marxist thought of critical theory, and one of its main proponents, Habermas, has also been used as a set of conceptual lenses, to analyse the emergence of accounting (see Laughlin, 1985; Puxty, 1985; Neimark and Tinker, 1985). Laughlin states that the "primary concern of all critical theorists....is with an historically grounded social theory of the way societies, and the institutions which make them up, have emerged and can be understood" (1985, p. 5). The concern of critical theory, in its integration with accounting, is to situate accounting in its context and in doing so give due consideration to aspects of human agency (Laughlin, 1985, p. 7). As a methodology of accounting research, it has been critiqued by Power (1985); however, Puxty (1985) has used Habermas's work to describe the way the accounting profession has developed. Puxty's use of Habermas again offers an interesting alternative perspective, though the broad sweep of development described can tend to underplay important detail. For example, divisions which he notes in the accounting profession are overly simplistic and the contradictions in the profession are just seen as internal to it rather than exploring other possible tensions, such as the capitalistic tendencies of the profession itself (see Neimark, 1985). The view of history implied in Habermas's work is an evolutionary one; however, there is not the dogmatic certitude in the true course of history as in Marxism, as more play is given to the role of human agency (Giddens, 1985, p. 138).

Other alternative perspectives have been integrated into the accounting literature examining accounting change such as Giddens (Roberts and Scapens, 1985) and Weber (Burchell et al., 1980; Macdonald, 1984). The interesting aspect to all these critical histories reviewed is the alternative perspectives they have given on the emergence and role of accounting with its organisational and social context. They have also emphasised the historical contingency of accounting. Most of the histories have sought to get away from projecting accounting as having an evolutionary development in a positivistic sense; rather they have tried to examine accounting change in its historical givenness. This has meant taking a problematic view of accounting itself. Accounting has been shown to be an interested activity and one which not only reflects but can actively shape the contexts in which it operates.

These histories have shown that accounting development has not been unidimensional and a simple movement from one stage to the next stage but rather accounting's emergence and development has seemed more like a lurching process where accounting change has intended as well as unintended consequences "which both limit and open up alternative possibilities for further change, leading toward no predetermined end" (Skocpol, 1984, p. 2). The danger with using any theoretical insights is to use theory in a deterministic way with the result that the historical account is totalising and reductionistic. This danger particularly lurks in critical histories where only certain 'facts' are seen by certain conceptual lenses. However, the alternative perspectives are instructive on historical method and the conceptual themes of analysis which they have provided can inform the historical study of accounting - for example, Foucault's theme of surveillance, Weber's theme of rationalisation, [20] Marxist thought on the labour process and Habermas's theme of crisis tendencies.

Conventional accounting histories have tended to be informed by the economic and technical dimensions of accounting development. Critical theories have broadened the agenda for accounting history and have enriched, deepened, and provided many additional insights to the emergence and development of accounting. This has been achieved by grounding accounting in the contexts in which it operates; by not practicing teleological history; and having a sceptical, questioning attitude to accounting.

The historical method used in this thesis will now be outlined. This will be done by bringing to bear the insights of conventional and critical histories with the aim of providing a satisfying account of the social construction and functioning of specific accounting systems in two specific organisations from around 1870 to 1920.

FOOTNOTES

CHAPTER FOUR

1. In 1984 the name of the Social Science Research Council was changed to the Economic and Social Research Council.

2. Hopwood (1985) entitles his article, "The Tale of a Committee That Never Reported: Disagreements On Intertwining Accounting With the Social." He records how the committee had several basic disagreements on the nature of accounting and how accounting impinged on the political and the social, to the extent that they could not draft an agreed final report to the Social Science Research Council.

3. This view of accounting change is primarily one of adaptation and progress.

4. Parker (1977, p. 6) notes the close links between comparative accounting and accounting history.

5. Choi and Mueller (1984) and Nobes (1984) review some of this work.

6. See Farmer and Richman (1974).

7. See Hrebiniak and Joyce (1985) for an interesting discussion of the organisation-environment dualism in the organisational behaviour literature.

8. Roberts and Scapens state: "It is possible to point to all kinds of practical interests which might lead individuals and groups to cling to and encourage such a reified view of accounting information. Academic and professional accountants may have an interest in mystifying their activity and presenting themselves as experts in the production of authoritative accounts of events (Armstrong, 1984; Tinker et al., 1982). For senior managers, encouraging a belief in the objectivity of information may serve to foreclose any negotiation either with subordinates or shareholders over the meaning or accuracy of the Accounts. In general, there is perhaps a sense of security, albeit a false one, to be had from ignoring the human origins of knowledge. Nevertheless, we believe there are considerable dangers in maintaining such a reified view, for it involves confusing the image or picture created by accounting with the reality of organisation life" (1985, p. 453).

9. Hoskin and Macve (1986) also draw on the deconstructionist views of Derrida (1976).

10. See Hoskin (1982).

11. Compare the history of quantification. See, for example, the history of IQ (Sutherland, 1984).

12. See Hoskin and Macve (1986a) for a more detailed account of this link.

13. Armstrong (1985, 1985a) points out that the prominence of accountants and accounting is not simply an inevitable consequence of advanced capitalism, because of the notable absense of accountants and accounting in senior positions in such countries such as Germany and Japan.

14. Merino (1984) has further examined the 1933 and 1934 Securities Legislation in the United States. She suggests that the disclosure regulations contained in those Acts were for symbolic reasons (i.e. Government had to be seen to be doing something about the problems in the stock market) rather than economic reasons (e.g. Posner (1974)).

15. For an alternative viewpoint on the applicability of Foucault in this context, see Armstrong (1985b).

16. For other examples of alternative historical case studies see Laughlin, 1985; Neimark and Tinker, 1985a; Newman, 1984; Thompson, 1985; Tinker, 1985.

17. See comments by Goldstein (1984) and Philp (1985) on the danger of taking from Foucault's work a particular research methodology or theoretical schema. Also see Struever's comments (1985, p. 254) and Minson's (1985, pp. 16-17).

18. Discourse "is simply language practiced. When Foucault uses the term it is understood to have its own rules of operation and, empirically, to have its own forms. However, as a more inclusive instance of language use its analysis is limited neither to the customary elements of linguistics (semantics, and grammar) nor to linguistic's basic units (the sentence, the preposition, or the speech act). Discourse, therefore, is susceptible to analysis in relation to other aspects of social life: politics, culture, economics, social institutions" (Lemert and Gillan, 1982, pp. 129-130).

19. Hirst's (1985) views, however, should be contrasted with Poster (1984).

20. Some authors have suggested that Foucault's theme of surveillance and Weber's theme of rationalisation are similar. See O'Neill (1985), Smart (1985), and Turner(1985).

CHAPTER FIVE

RESEARCH STRATEGY AND HISTORICAL METHOD

A. INTRODUCTION

The objective of this research is to present a historical study of accounting in the organisational and social contexts in which it operates. This approach takes the view that in order to understand accounting, it is necessary to examine the contexts in which it is produced and in which it receives and transmits its meaning. Implied by such an approach is the study of accounting as it was practiced historically. It is hoped that taking a broader perspective will ensure that the historical account is not a chronological description of technical change per se, but rather the processes of accounting change and the contextual meanings which bring accounting into existence and give it significance will be explored.

In carrying out the study no pre-given role or imperative is attributed to the accounting endeavor. Accounting is considered to have no pre-determined destiny (Littleton, 1933, p. 361), rather the historical emergence of accounting is considered to be a more contingent, lurching process in which accounting both reflects and shapes its context.

As can be seen from the previous chapters, prior research in accounting history has contained various strategies and historical methods. Some have examined just external company records, others both external and internal, others just textbooks or accounting institutions, and others have done biographical work. [1] Prior research has also taken, whether implicitly or explicitly, differing views of history. Some have been antiquarian in their intent; others have adopted an adaptation, progressive view of history; and others have sought to attribute no pre-determined path of development to accounting history at all.

Prior research has adopted differing attitudes to accounting itself. Some have accepted it as a given and analysed its historical development in a dualistic, functionalist fashion. Others have approached accounting in a more sceptical manner, questioning accounting itself, so that their historical accounts of accounting are more tentative about accounting's role in the organisation and wider society.

The aim of this chapter is to explore some of the tensions involved in doing historical work and to specifically examine some of the recent theoretical advances in historiography. The chapter will show that by taking different theoretical and methodological perspectives in doing accounting history, traditional history can be enriched and our understanding of accounting's historical development can be broadened. This chapter will first, examine the task of accounting history as discussed in the literature; secondly, issues involved with historical method and theoretical concern will be examined; and lastly, research methods used in the thesis will be explicated.

B. THE TASK OF ACCOUNTING HISTORY

Parker (1981) has summarised one of the first debates on the task of accounting history. [2] In 1970 the Committee on Accounting History of the American Accounting Association (AAA) described the task of accounting history in evolutionary, functionalist terms. They stated;

> "Accounting history is the study of the evolution in accounting thought, practices, and institutions in response to changes in the environment and societal needs. It also considers the effect that this evolution has worked on the environment.
>
> The ends of accounting history are both intellectual and utilitarian; Intellectual, for it illuminates the process by which accounting thought, practices, and institutions develop, identifying the factors in the environment that induce change and revealing how this change actually occurs. It also seeks to determine the effect on the environment of changes in accounting thought, practices, and institutions. Finally, it contributes to a better understanding of economic and business history.
>
> Utilitarian, for history throws light on the origins of concepts, practices, and institutions in use today, yielding insight for the solution of modern accounting problems. Given an understanding of the past interaction of the environment and changes in accounting practices and institutions, it may become somewhat easier to predict the consequences of currently proposed solutions (1970, p. 52).

This statement on accounting history has been responded to by Goldberg (1974) and Lister (1984). Lister suggests that both from an intellectual and utilitarian perspective that accounting history has not lived up to the task set for it by the AAA Committee. Lister correctly notes that the AAA report provides "little methodological guidance. Although the committee was charged to propose objectives for research in accounting history, its report effectively comprises a list of topics, with virtually no epistemical analysis of accounting history as a field" (Lister, 1984, p. 54). As mentioned in Chapter Two, Lister's critique of accounting history is based on the AAA committee's statement and invokes Whiggish views of history and posits a pre-given imperative for accounting's development - that accounting's role is to provide information for making rational decisions.

The AAA committee's statement on accounting's development does seem to imply that the development of accounting is a unidimensional one which provides a linear back up into time and a linear progression into the future. Goldberg (1974) is sceptical of such a view. He suggests that the AAA committee's view that the study of accounting history will help "predict the consequences of currently proposed solutions" implies a "basically mechanistic view of the universe and all that happens in it....A mechanistic view is appropriate to mechanical systems, of course, but not to everything in the universe, and, I suggest, certainly not to much that relates to human behaviour" (Goldberg, 1974, p. 406).

Goldberg states that for history to be "more than chronology" and "more than antiquarianism", "the task of historians is to seek out events that have taken place in the past, to try to understand how it was that they took place when they did and in the way in which they did" (1974, pp. 405 and 408). He further states that the study of accounting history will help us to understand the past (in whatever sense we use the word 'understand'); it will give us appreciation of how our current practices and problems came into being and will help to put them into some sort of perspective. It should act as a caution against attempting to predict the future but it should help us to appreciate the complexity of the circumstances from which the future will unfold" (Goldberg, 1974, p. 410).

Goldberg puts forward a more tentative approach to accounting history. He states that "....it must be recognised that no history is finally definitive. Hence, our understanding of the past, as it is of the present, is always tentative and subject to new knowledge and/or new insights" (Goldberg, 1974, p. 408).

Goldberg's analysis of the AAA committee's statement on accounting history, in some senses, has anticipated some of the recent dissatisfaction expressed about the task of accounting history. These criticisms have indicted prior accounting history for lacking in theoretical and methodological innovation (Burchell et al., 1980, p. 23; Hopwood, 1983, pp. 296-297, forthcoming; Jinnai, 1984, p. 54; Johnson, forthcoming). These criticisms have critiqued accounting history for being atheoretical and ahistorical. Thus, prior accounting history, as already mentioned, has tended to be either antiquarian or evolutionary and functionalist.

To overcome these criticisms and present a different perspective, the case studies presented in this thesis aim at studying accounting in the contexts (immediate and wider) in which it operates; and secondly, no pre-determined path for accounting change is presumed. Emphasis will be given to the processes of change rather than to just documenting the sequence of change. The chapter will now examine more closely the historical method and theoretical awareness with which the case studies will be approached.

C. HISTORICAL METHOD AND THEORETICAL AWARENESS

1. Historical Mythologies

Skinner (1969) characterised and warned against various mythologies that can unconsciously guide the historian's study of the past. Skinner delineated these mythologies in his attempt "to uncover the extent to which the current historical study of ethical, political, religious and other such ideas is contaminated by the unconscious application of paradigms whose familiarity to the historian disguises an essential inapplicability to the past" (1969, p. 7). A truly historical approach to the study of any discipline means, suggests Skinner, setting the discipline in its context. However, such an enterprise can be thwarted by the following mythologies: the "mythology of doctrines", where "the historian is set by the expectation that each classic writer (in the history, say, of ethical or political ideas) will be found to enunciate some doctrine on each of the topics regarded as constitutive of his subject" (1969, p. 7); the "mythology of coherence", which substitutes a spurious unity and homogeneity for the fragments of an agent's thought (1969, p. 17); the "mythology of prolepsis" by which the actions of a historical agent are invested with retrospective significance unacknowledged in the actual intentions of the agent at the time (1969, p. 23); and lastly, the "mythology of parochialism" where "the historian may conceptualize an argument in such a way that its alien elements are dissolved into an apparent but misleading familiarity" (1969, p. 27).

The traditional history of accounting can be characterised as a history of such mythologies - for example, a history of certain imperatives, such as the determination of the "true" income which have governed historical accounts of accounting theory (the mythology of doctrines); a history that present day accountants can understand in terms of their own agendas such as, information for decision making (the mythology of parochialism); or the Littleton school of thought on the emergence of cost accounting as having to do with the determination of income for financial reporting (the mythology of prolepsis); or lastly, the history of accounting, which can be summarily described as an adaptive technology meeting the needs of business (the mythology of coherence).

Accounting histories written from such perspectives, as already noted, are partial, teleological histories in which past accounting practices are used to justify those of the present, and those of the present are used as the criteria by which to judge those of the past.

The case studies of accounting, as it was practiced in specific organisations within a certain period of time, are presented in this thesis as an alternative to such historical accounts. Accounting is viewed in each study in a sceptical, questioning manner in which no pre-given imperatives are attributed to accounting. Accounting is examined as a historical and socially contingent phenomena which is both reflective and constitutive of its context. By examining accounting practices within two organisations over the period 1870 to 1920, within their broader context, it is hoped a more nuanced, contextual history of accounting will be given.

2. Contextual Awareness in History

The acknowledgement of a wider context for accounting can be responded to negatively in various ways. Gordon (1981) has described these, in the context of legal history, as denial, Cartesianism, and adaptation . First, the denial response to a more contextual approach to the study of accounting history, states that particular contexts of space and time are irrelevant for the study of accounting. Rather, the relationship of accounting practices to a system of supra-historical principles transcending time and space should be the concern of accounting history. Burchell et al., (1980) have described a similar response by suggesting that accounting has some pre-ordained essence and that accounting's mission is to realise that essence. Littleton has echoed similar sentiments by describing accounting as having a definite destiny and coming from definite causes (1933, p. 361).

A second response mode has been described as Cartesianism which is the construction of drastically simplified models of social reality for use in the historical analysis of accounting. For example, the normative model of agency theory denies to a large extent the social and historical context of accounting. Burchell et al., have stated:

> "....agency theorists present their model as a self-interest theory whereas we are concerned to discover how self-interests, or particular policy positions, are in fact established - including the role which specific economic calculations and accountings rather than the generality of an economic calculus play in this process. The agency theorists privilege a particular mode of calculating (self-) interests derived from economic theory and a particular role for financial statements. Their analysis presupposes the existence of a meta-accounting which somehow guides rational economic action and their studies seek to explore specific explications and elaborations of such an accounting. Our analysis aims to make no such presumption of a primaeval account. Rather than being viewed by us as revelatory of particular administrative and policy making practices, the role and mode of calculation are instead viewed as functioning discursive components within these practices" (1985, p. 409).

Cartesianism is a strategy midway between denial and the embrace of accounting's socio-historical context. It admits certain contextual variables but only within the limits of the normative model. Although agency theory will be examined in the case studies, it will be used in a questioning manner as a heuristic device, within the broader sceptical perspective taken on accounting.

The third mode of response is that of adaptation where the social and historical context are embraced in such a way that accounting merely reacts to its context but never shapes its context. It is a deterministic view of accounting and its relationship to its historical and social context.

The research reported in this thesis will not assume a benign continuity between accounting and changes in its environment, rather a more problematic view of accounting will be taken. The aim is to give an empirical and historical description of accounting change. The archival material will be examined in terms of the conceptual and theoretical themes generated from within the material, with only limited reference to their place in any wider developmental account. Such an approach is inevitably a more fragmented and modest enterprise than the narratives and syntheses of traditional historical accounts. But the boundaries dictated by the archival material itself will be seen to disclose a complex and interesting history.

3. The Processes of Accounting Change

The study aims to explore the processes of accounting change. Of course, the historical perspective provided by the case studies gives the awareness that accounting does in fact change. Accounting is shown not to be a static phenomenon, but one which is continually in motion. The case studies will explore the underlying forces at work in bringing about accounting change. Accounting change is created, not merely determined, and can become part of the factors that impinge upon itself (Hopwood, forthcoming). In exploring accounting in its organisational and social context the puzzle of human agency will be addressed. Abrams has stated that "....the problem of agency is the problem of finding a way of accounting for human experience which recognises simultaneously and in equal measure that history and society are made by constant and more or less purposeful action <u>and</u> that individual action, however purposeful, is made by history and society....People make their own history - but only under definite circumstances and conditions....The variations on the theme are innumerable; and the failure of human sciences to work the theme to a satisfactory conclusion is inscribed on page after page of the literature of each of those sciences....the estranged symbiosis of action and structure is both a commonplace of everyday life and the unbudgeable fulcrum of social analysis" (Abrams, 1982, pp. xiii-xiv).

The case studies will show that the historical study of accounting in its organisational and social context will prove interesting in enhancing the understanding of the problems of agency and structuring. [3] "Process is the link between action and structure" and that by teasing out the historical processes of accounting change in two case studies presented, accounting is viewed as in the process of becoming which, suggests Abrams, is the 'best' way to discovering the real relationship of structure and action, the structural conditioning of action and the effects of action on structure" (1982, pp. 6-7).

The nexus of action and structure can be elaborated on by viewing accounting as continually being in motion (Hopwood, forthcoming) in which the explanation of accounting change is more fruitful in terms of cleavages and tensions and the purposive action of individuals and groups in pursuit of their own ends. Furthermore, the study of accounting in action can be enhanced by recognising the power structures in which accounting action takes place. That is, by recognising the interested nature of accounting it is instructive to see how accounting emerges out of the political and conflictual nature of organisational and social life. Rather than seeing accounting development in simple, functionalist terms, the approach taken in the case studies is to view discontinuity, failure, conflict and tension in and around accounting when looking at accounting change.

The interactive nature of accounting with its context is also recognised in carrying out this research. In examining the processes of change accounting is assumed to have created as well as reflected its context.

4. Theory and Historical Research

Much of the conventional work in accounting history has been concerned with the accounting of technological developments per se. Such research is carried out with the prime task of historians being conceived as the ascertainment of the facts. Stedman Jones has described the premises of this method as follows:

> "Historical facts were analogous to the

> facts of natural science: discrete atomic and supremely indifferent to the position of the observer. What the natural scientist could reveal by the use of the test-tube, microscope and experimental method, the historian could uncover through the use of archaeology, philology and painstaking textual criticism....History was a science because it was composed of the 'facts'" (1972, pp. 97-98).

Yet, the accumulation of facts will not, of itself, provide adequate explanations of how and why accounting practices have developed in a particular manner. Fact-collection is, of course, not a neutral or unproblematic activity. This has been evidenced in the methodological debate in the historical literature between E.H. Carr and G.R. Elton. [4] Carr (1964, p. 29) has noted that a tension exists between the historian and the facts of history. The tension on the one hand to let the past speak for itself and on the other hand, the need to offer some explanation of the past. He states there exists a dichotomy of fact and interpretation and that it is impossible to assign primacy to one over the other. Carr (1964, p. 105) goes on to suggest that history is a process of selection in terms of historical significance and the standard of historical significance is the historian's ability to fit them into his pattern of rational explanation and interpretation.

Elton (1967) has sought to defend history in the Rankean tradition. Elton believes the essential task of the historian is to provide a narrative of "how it happened" in the past. Narrative history is story-telling governed by some normally quite rigorous notion of getting the story right in the light of the factual evidence (Abrams, 1982, p. 309). Elton, therefore, elevates the historical data to the place of paramount importance in the historical endeavor, and the historian should never predetermine the facts contained in an archive.

What Abrams has termed the "Elton dilemma" is the "matter of somehow coping with explanatory tasks apparently beyond the reach of narrative without making it too obvious that one has stopped narrating" (Abrams, 1982, p. 305). Elton's dilemma is seen when he states that he does not agree with history being explained in terms of trends, forces and factors (1967, pp. 129-131), yet he is quite happy with connections, conditions and causes. Elton, in doing his history, implicitly engages in analysis and interpretation. However, the impression created is that his preferred interpretation is simply seen as a happening. The fact is that what is being presented is not just the facts, however well researched, but an interpretative arrangement of the facts. So that the facts are presented through a frame of reference of some kind, even if this is based on the view that the "facts speak for themselves" (Bulmer, 1984, p. 3).

The historical case studies presented in this research have imbibed theoretical perspectives and hypotheses which in turn have decided what has been described and the way in which the material has been organised and explained. "Theory must work on the empirical without either dominating or being dominated. At the same time, at any given moment in the course of theoretical and empirical work, the empirical will be deeply contaminated by theory and theory will be deeply contaminated by the empirical" (Abrams, 1982, p. 333). The accounting reality that has been described and analysed in the case studies has not been made known by a mere direct representation of the empirical but it has been discovered by "analytical distance as well as empirical access" (Abrams, 1982, p. 317).

While carrying out this research in accounting history in a more theoretically informed and interdisciplinary manner, it has not meant a lack of a continually close involvement with historical detail. In fact, it is contended that one of the strengths of this research is the close involvement with primary sources which have been relevant in looking at the practice of accounting. However, the sources have been interrogated from the point of view that there is "always more at stake in historical knowledge than what is contained in the sources....Every source - more exactly, every remnant that we transform into a source through our questions - refers us to a history which is either more, less, or in any case something other than the remnant itself" (Koselleck, 1985, p. 153).

5. Theoretical Approach Taken in the Case Studies

Much of the description and explanation of accounting change has been organised around conceptual and theoretical themes generated from the data itself. This has been done in a manner similar to Glaser and Strauss's (1967) discovery of grounded theory. Themes of analysis have been generated in an inductive fashion from the archival material. However, it has not been a wholesale application of the grounded theory approach as "prior blankness of mind" in any research endeavor seems a very difficult requirement (Bulmer, 1984, p. 256). Also the discovery of grounded theory "exists in tension with the need for clarity and focus; research projects that pretend to come to the study with no assumptions usually encounter much difficulty" (Miles, 1979, p. 591).

The archive has been approached with certain pre-given views on the nature of accounting history research and on the practice of accounting itself. Accounting history is assumed to have no pre-determined path of development and no pre-given essence. Although accounting is recognised as having many imperatives, no one imperative is assumed to be wholly formative on its emergence. A sceptical, questioning attitude is taken on accounting iself. It is seen as a partial, malleable activity which is not neutral or value-free. Accounting is also studied in the organisational and social contexts in which it is practiced.

Various hypotheses and concepts have been used in a sensitising way such as, accounting's emergence has been broadly influenced by industrialisation; by the divorce of ownership and management; for accountability reasons; for agency reasons; to control the labour process; by the wielding of management power; by conflicts within the organisation; by the capital market; by legislation; by the accounting profession; for unethical reasons; for organisational surveillance; or for decision making reasons.

Such sensitising hypotheses and concepts and views of accounting have been developed from the prior research in accounting history as outlined in Chapters Two, Three and Four, although the critical perspectives reviewed in Chapter Four have provided the overall framework of analysis. However, in carrying out the research the importance of the archival material was always recognised. The archival material has, in some cases, remained silent to some of the concepts and hypotheses because, for example, there was no minimal evidence suited to accounting emerging for decision making reasons. The archival material has acted as a veto on interpretations and explanations that can be shown on the basis of the archival material to be false or unreliable (Koselleck, 1985, p. 155). In providing the historical accounts in the case studies a continual dialogue has taken place between theory and the historical data.

By way of summary, a broad definition of the view of history which will guide this study is the following: "History is the attempt to give veridical and adequate descriptions of change in human affairs" (Humphreys, 1980, p. 2). In using this definition the historical case studies aim to be descriptive of accounting change. The historical description will be firstly, veridical in the sense that it will conform to the evidence of the archival material. Secondly, the historical description will be adequate in that it will represent the accounting reality in a way which is generally satisfying, coherent and meaningful.

The broader tasks and perspectives espoused in this chapter for the historical study of accounting inevitably have consequences for the kind of data that will be the focus of this research. Obviously, as this is a historical study, historical sources will be analysed. However, as the processes of accounting change will be examined in a broader context, historical data impinging on such an approach will be more diverse than just formal accounting records and reports. Although such documentation is important, also of importance are other sources which enter into the discourse of accounting: these have been examined so that the concerns for a broader, contextual study of accounting can be met.

D. RESEARCH SOURCES

1. Archival Material

There is an interrelatedness between the nature of the problem to be investigated - the historical study of accounting in the contexts within which it was practiced - and the theories, methods and materials to be used in the investigation. Archival material is obviously the basis of any historical study. There are at least two major difficulties that arise when working with archival material. These are the problems of selective deposit and selective survival (Webb et al., 1968, p. 54; Cook and Campbell, 1979, pp. 230-232). Business archives are no exception and as such the research will be carried out under this caveat. These problems were obviated to some extent by using differing materials like directors' minutes, employee memoirs, correspondence between head office and branch offices, as well as the financial data such as books of account and accounting reports. However, no amount of triangulation in this sense can replace materials that are no longer extant, and so the temptation to editorialise needs to be guarded against.

Although archival data is inflexible and not appropriate to the experimental manipulation of natural science, the non-reactivity of the data is an advantage. The historical study does not have to deal with masking or sensitivity due to the presence of a researcher (Webb, et al., 1966, p. 53). The historical events and processes have been found in their full and unique complexity (Rapp, 1982, p. 334). Another strength of archival research is the possibility of investigating change over a reasonable length of time. Thus, the longitudinal nature of the research has meant that accounting change can be investigated over a time scale of fifty years (1870 to 1920). Longitudinal studies are also more likely to be interested in the processes of change (Pettigrew, 1979). [5]

The archival material inspected has been noted within each case studies. Any material that impinged on the practice of accounting has been examined. This has been carried out using informal techniques appropriate for archival research such as scanning, inspection, and observation.

2. Accounting as Practiced

There has been a dearth of published research based on primary documents in the accounting literature. Hopwood has stated that "few studies have been made of the emergence and development of particular modes of accounting practice" (1983, p. 290). However, there have been recent calls to study primary documents (Hopwood, 1983; forthcoming; Parker, 1977; Yamey, 1981).

Yamey has stated that a "discussion of the wider economic as well as the non-economic significance of accounting in a particular period will be more fruitful if it can proceed on the basis of well established facts about details of accounting practices in that period" (1981, p. 135). Hopwood suggests that "what is needed are more substantial investigations orientated towards providing bases for understanding or explaining the workings of accounting in action" (1983, p. 303). In particular little is known of accounting methods and practices in the second half of the nineteenth and early twentieth centuries (Edwards, 1980, p. 242; Hopwood, 1981, p. 298; Lee, 1975, p. 34; Parker, 1981, p. 283).

What work that has been done on accounting practices in this time period generally has only examined how external accounting practices have either preceded or have reacted to accounting regulation contained in the company legislation (e.g. see the

Edwards studies in Chapter Two). This research will examine external and internal accounting practices. The split between internal and external accounting practices is seemingly an unhelpful distinction when investigating the emergence of accounting practices in the late nineteenth and early twentieth centuries. It was such a distinction that coloured Littleton's investigation of the development of cost accounting (Johnson, forthcoming).

Chapter Six will now introduce the case studies, commenting among other things, on the selection of the particular companies, regions and time period used in the case studies.

FOOTNOTES

CHAPTER FIVE

1. Biographical work has not been reviewed. However, examples of such work include: Cooper and Ijiri, 1979; Forrester, 1977; Kitchen and Parker, 1980; Previts and Taylor, 1979; Stewart, 1980.

2. For some of the other writers in the accounting literature who have examined the nature and task of accounting history see Baladouni, 1977; Gaffikin, 1981; Glautier, 1983; Moseley and Usry, 1981; Schneider, 1984; Stevelinck, 1982; Yamey, 1981.

3. Structure can be defined as power at one end of the spectrum of meaning or a particular institution at the other end (see Abrams, 1982).

4. For another perspective on this debate in historiography, see Breisach (1983, Ch. 23).

5. In fact, Pettigrew identifies what he calls the longitudinal-processual approach which "is more likely to be interested in language systems of <u>becoming</u> than of <u>being</u>, of processes of structural elaboration rather than the precise description of structural form, of mechanisms that create, maintain and dissolve systems of power.... rather than just attempt to codify distribution of power at one point in time" (1979, p. 570).

CHAPTER SIX

INTRODUCTION TO THE CASE STUDIES

A. INTRODUCTION

The lack of inductive case study type field research in the accounting literature has recently been noted by several authors (Birnberg et al., 1983; Hagg and Hedlund, 1979; Hopwood, 1983; Kaplan, 1984, 1985). Kaplan has stated that "a major impediment to conducting field-based accounting research has been a concern that such research would be viewed as less elegant, less scientific, and more time-consuming than the analytic, empirical, laboratory, and survey research currently being done by accounting academics" (1985, p. 3). Kaplan (1985, p. 41) further stated that much of the traditional accounting research, especially in the financial accounting area can be performed in the researcher's office, at the computer terminal, and in the library. However, Kaplan contends that, "how" and "why" type questions, in both the financial and management accounting areas are best answered within the context of actual organisations. Furthermore, "case studies would seem to provide the ideal vehicle for communicating....deep, rich slices of organisational life" (Kaplan, 1985, p. 35).

The decision to use the case study research strategy in this research was made because of its appropriateness in studying accounting as a contextual phenomenon, especially as the boundaries between accounting and its context are not decisive - that is the interactive nature of accounting is recognised (Yin, 1981). Furthermore, it is particularly relevant for historical research in accounting which aims to describe and explain the processes of change in accounting over a particular period of time. However, in using this research strategy the problems of analysing the data and building adequate explanations are also recognised (Miles, 1979).

This chapter will firstly, give the reasons why the particular companies which are the subject of the case studies were chosen and why the particular regions and time period in the study were selected. Secondly, the advantages and problems of the case study approach will be discussed. And, lastly, the way the case studies have been organised around various themes and topics will be discussed.

B. THE SELECTION OF THE CASE STUDIES

1. Scotland

Scotland is one of four nations making up the United Kingdom. Its national ethos ultimately has rested on its economy, which developed by participating in firstly, the world's first wave of industrialisation; and secondly, in one of the greatest empires which by 1870 dominated the world. "Scotland passed, yoked with England, through the great arc of world ascendency in trade and power to the challenges at the turn of the century of industrial maturity and of trade and imperial rivalry" (Checkland and Checkland, 1984, p. 3).

The West of Scotland, which is the focus of the study, moved from rural poverty to industrial prosperity in the century after 1760. However, in the fifty years between, 1890 to 1940, the region experienced unprecedented industrial prosperity to 1910, the dislocation of the First World War and the aftermath of two decades of unparalleled economic and social distress (Slaven, 1975, p. 10). Rapid change first took place due to striking growth in trade, especially from the import and re-export of American tobacco between 1750 to 1770. Other industries such as textiles and later coal and iron became established. In the last quarter of the nineteenth century, textiles were overtaken by the combined strengths of steel, ships, engineering and coal. Yet, as Slaven points out, Glasgow and the West of Scotland's prosperity was vulnerable because it "rested heavily on the single group of metal and engineering industries, and the whole structure was geared to supply capital goods to developing nations" (1975, p. 11). The depressed world markets and increased price competition of the 1920's and 1930's did much to turn the West of Scotland's earlier industrial strengths into its major economic weaknesses.

It is considered that the West of Scotland provides a good backdrop in which to study the development of accounting in the latter half of the nineteenth and early twentieth centuries. This is because such industrialisation required capital accumulation which saw organisations grow in size, increasingly use new technology and develop differing approaches to the organisation of production and trading. Also, increasing use was made of the corporate form of organisation, especially after the Glasgow Bank Crash in 1878. These kinds of changes provided the stimulas for the increasingly pervasive use of accounting both internally and externally in organisations. It is also interesting that the accounting profession in Glasgow was one of the first to be recognised as a profession by Royal Charter in

1853.

2. The Time Period 1870 to 1920

This time period has been chosen because extant company records of sufficient quality exist for this time period. It is a time when pressures for change in accounting were being articulated through avenues such as, increasing State intervention in accounting, the institutionalisation of credit, the professionalisation of accounting, the development of international business, and the increasing encroachment of accounting within organisations both for control and accountability reasons. Many historical studies have looked only at the effects of accounting regulation on accounting. Of course, if a business had utilised the company form of organisation, a requirement to keep books of account and prepare annual accounts existed (1856 Companies Act). [1] Then the 1900 Companies Act required an auditor to be appointed. However, a largely unregulated environment for accounting existed during this time. This is interesting because accounting regulation per se cannot become a catch-all explanation for accounting change and opportunity is given to explore other descriptions and explanations for change. [2]

3. James Finlay and Company and The Champdany Jute Company Limited

The two organisations chosen for investigation are James Finlay and Company and The Champdany Jute Company Limited. James Finlay and Company's origin can be traced back to 1750. It started as a merchant business and then in the nineteenth century developed a manufacturing aspect to their business. From 1870 onwards James Finlay embarked on a programme of expansion and diversification, particularly in India. This was undertaken by Sir John Muir and his sons. It was organised under the partnership form of organisation which was conducive to the strong desire to retain family control of the business. After the death of the principal partner, Sir John Muir, the business converted to a private limited company in 1909 and in 1924 was floated as a public company. The investment group-managing agency strategy enabled James Finlay to expand and diversify and yet at the same time to economise on management skills and retain control of their expanded operations.

James Finlay is an interesting context in which to study the use of accounting. Of particular interest is the way accounting was used to overcome the distance between the Glasgow head office and the other branches, especially those in India. Accounting increasingly was used to adjudicate distributional issues among partners and employees, and became a pervasive device permeating all parts of the organisation for the purposes of control and surveillance.

The Champdany Jute Company was one of James Finlay's investment companies. It was founded as a public company registered in Scotland in 1873, to operate jute mills in India. James Finlay were the company's managing agents in India and controlled the company in Scotland. Again the distance between Glasgow and India provided a stimulus for accounting development. Also, the ownership structure, with James Finlay's difficult position as both owners and managers, provided an interesting context in which accounting became embroiled in certain distributional issues.

James Finlay was essentially a company providing managerial, financial and merchant trading services. Employees were the company's primary resources. Accounting information through employee contracting and partnership contracting was intimately intertwined with the motivation and control of employees. The Champdany Jute Company, on the other hand, was a manufacturing company operating in India. Accounting information was used in the production process and was embroiled in distributional issues between majority and minority shareholders as it was a public company.

As already noted, the archival material, although not complete, is of good quality and quantity in terms of financial and non-financial data. What has been particularly insightful for examining the processes of accounting change, is the existence of partnership minutes, directors' minutes, management minutes and various correspondence files which have provided interesting explanations and perspectives.

C. THE CASE STUDY APPROACH

Historical case studies, as already stated, are considered an appropriate research strategy for the contextual study of accounting as it was practiced. A case study approach provides the possibility of a rich, more nuanced understanding of the processes of accounting change. It is also best suited to examining the development of accounting in its immediate and wider contexts; for exploring the constitutive role of accounting; and for overcoming the dualistic accounting-environment model of change. Furthermore, it will give a holistic view of the development of accounting (Hagg and Hedlund, 1979).

Historical case studies, of the nature carried out in this study, are not that susceptible to the application of experimental design and control. Consequently, the results of case studies are generally limited in their internal and external validity. Also, the whole approach in case study research is less well-specified and generally "looser" (Hagg and Hedlund, 1979, p. 41). Although there are problems of this nature, if evaluated in terms of traditional quasi-experimental methods, the expected benefits of the case study method are particularly suited to historical research which aims at examining accounting development implicitly and contextually. Case study research also has potential to generate ideas for further research.

It is because of this generally less well-specified and looser approach that Miles has suggested that the central difficulty with case study research is that the methods of analysis are not well formulated (1979, p. 590). Case study research "does not have a set of clearly delineated dependent and independent variables. The absence of a limited number of well-defined variables distinguishes case-study descriptive research from other types of research" (Simon, 1978, as quoted in Kaplan, 1985, p. 12).

Although this is a difficulty with case study research it is also considered one of its strengths as it affords the possibility for rich descriptions of accounting change in its organisational and social context. Section D will now explain how the case studies have been organised and the way in which explanations and analysis have been carried out.

D. ORGANISATION OF THE CASE STUDIES

The case studies aim to be descriptive, explanatory and interpretative. Each case study has been arranged to give contextual information and specific descriptions and analysis of accounting. Each study has been organised chronologically within conceptual themes of analysis (Patton, 1980). The case data has been clustered around certain conceptual themes so that the visibility of certain issues is emphasised. The choice of the specific themes and topics of analysis was not determined at the beginning of the research by any general theoretical principles or model. Rather, the themes of analysis have been mostly generated from within the archival material itself. However, the decision to analyse the data in this way has been governed by a desire to ground the description and analyses of accounting change in its context; to view accounting as being an interested and constitutive (as well as reflective) phenomenon; and to impose no pre-determined path of development on accounting. The conceptual themes of analysis, therefore, have been grounded empirically and contextually in the archival material and because of the dynamic continuous interaction with the archival material, flexibility has existed for modifying the topics and themes of analysis as the research progressed (Yin, 1981, p. 60). The refinement of themes and topics of analysis and the balancing of explanatory scope and empirical detail were constant considerations in research (Abrams, 1982, p. 209).

These historical case studies of accounting change have sought to highlight the complex interplay of individuals, organisations, institutions, issues and processes in which accounting has been implicated. They have sought to be detailed, each highlighting the particular and varying features of each study of accounting change; and they have approached the study of accounting change emphasising discontinuity, unintended outcomes, conflict, power and tension in and around accounting - thus highlighting the interested nature of the accounting endeavor.

To recapitulate, the aim of the case studies is to present a meaningful historical interpretation of accounting. It is a meaningful interpretation in the sense that careful attention has been paid to the contexts in which accounting has been practiced and that it is of interest in the present because of the dearth of studies describing accounting in action. Although no general theoretical, historical model or explicit hypothesis testing approach has been used, various conceptual lenses have been used, in dynamic interaction with the historical data, in order to define topical concerns and to guide the selection and presentation of the archival material. The particular emphasis of single-case studies is that they "stress the portrayal of given times and places in much of their rich complexity, and they pay attention to the orientations of the actors as well as to the institutional and cultural contexts in which they operate" (Skocpol, 1984, p. 371).

James Finlay and Company is presented in Chapter Seven and The Champdany Jute Company Limited's case study follows in Chapter Eight.

FOOTNOTES

CHAPTER SIX

1. The 1856 Companies Act was the first Companies Act applicable in Scotland.

2. Agency theory explains the development of accounting in terms of unregulated and regulated economies. Burchell et al., (1985) however, make the important point that although "state intervention into the economy has been of enormous importance for the development of accounting....This, however, does not mean that it is impossible to construct a more nuanced picture than that which the dichotomy between a regulated and unregulated state allows and, at the same time, study in greater detail the processes of change" (1985, p. 409).

CHAPTER SEVEN

JAMES FINLAY AND COMPANY

A. INTRODUCTION

The aim of this historical case study is to examine how the accounting craft was involved in James Finlay and Company from around 1870 to 1920.

James Finlay and Company provides an interesting context in which to study accounting. Its areas of interest up to 1870 were cotton manufacturing and merchant trading activities. After 1870 the company expanded into India and Burma, and had agents all over the world. They expanded their operations, among other areas, into tea and jute, and provided various financial services. This expansion was led by the entrepreneurial and administerial talents of Sir John Muir.

At the turn of the twentieth century, James Finlay was one of Scotland's largest business concerns. Organisationally, the company maintained the partnership form right up to 1909, operating through joint stock subsidiaries. This time period was one of expansion and consolidation.

The case study will examine the role of accounting within the organisation to see how it was implicated at various organisational levels. The case study will first examine James Finlay's background and its organisational development and secondly, examine the role of accounting within the immediate organisational context and wider socio-cultural context. This will be done by developing themes grounded in the extant accounting and business information. Details will be given on the kinds of financial information produced, the contractual influences through partnership agreements and employment contracts, legislative and fiscal considerations, trustee and fiduciary influences, the influence of management styles, and the use of professional accountants internal and external to the organisation.

The case study will highlight how accounting was used to overcome the distance between the Glasgow head office and other branches in the organisation, both in Britain and in other overseas locations, chiefly in India. It will be shown, among other things, that accounting developed as a key mechanism of control and surveillance in the organisation and that its decision making role was virtually non-existent.

B. COMPANY BACKGROUND AND DEVELOPMENT

1. Background to 1870

James Finlay & Co. was started in Glasgow about the year 1750. James Finlay developed the business as a merchant primarily importing linen yarn and exporting linen.

James Finlay's son, Kirkman, carried on the business upon his father's death in 1790. In 1799 he expanded the business into the manufacture of cotton by purchasing the Ballindalloch Works. Archibald Buchanan, a friend and pupil of Sir Richard Arkwright, was made a junior partner and given the management of the works. More cotton works were purchased in 1801 at Catrine and in 1808 at Deanston. By 1805 they had commenced power loom weaving at Catrine and took advantage of all the technical innovations that transformed the cotton industry at this time.[1]

Archibald Buchanan resided near the Catrine mill and visited the other two mills at least twice a year (Crouzet, 1985, p. 189). He was the technical brains behind the success of James Finlay and Company. He trained others in the firm, most notably his nephew, James Smith (Lythe and Butt, 1975, p. 186). It was their early success in the cotton industry that caused them to build further their merchant connections and develop trade with Germany and other Continental European countries (Brogan, 1951, Ch. 3).

In 1806, James Finlay took over the business of Easton, Ashton & Co., who were extensive exporters of cotton and other goods to the Caribbean and South America. This led to the establishment of connections in North America, from where they serviced these new markets.

During the Napoleonic Wars, Kirkman Finlay exported cotton yarn, cottons and colonial produce, and after 1813 he entered the East India trade on a large scale. Kirkman Finlay was completely against any restrictions on trade. The East India Company's monopoly of both trade to India and China particularly irritated him and he spoke out vigorously for free trade while he was a member for Parliament and was instrumental in opening up the East India trade. The partnership was established as merchants and industrialists, rather than merchants turned industrialists (Brogan, 1951, pp. 3-4; 6-7ff.).

The cotton manufacturing side of the business was put up for sale on the death of Kirkman Finlay in 1843. Only the Ballindalloch Works were sold. The partners decided to keep the Catrine and Deanston mills in operation.

The senior partner from 1850 to 1857 was James Buchanan, who was the brother of Archibald. In 1853 they invested heavily in the cotton works, enabling them to keep competitive in an increasingly competitive environment. James Clark took over as senior partner in 1857, and in 1858 James Finlay merged with another firm of merchants, Wilson, Kay and Company. This gave further growth to the trading side of the company.

With cotton manufacturing becoming less profitable from the 1860's onwards and the increasing dominance of John Muir in the business, James Finlay entered an expanding and diversifying phase in its history. John Muir developed tea and jute interests in India, and although cotton manufacture continued at Catrine and Deanston, it became a less prominent aspect of the business.

2. Company Development 1870 - 1920

a. The Dominance of Sir John Muir

From 1861, when he joined James Finlay, to his death in 1903, Sir John Muir expanded the firm to be one of the largest in Scotland at the turn of the twentieth century. His entrepreneurial abilities led the firm into areas such as the floating of jute and tea companies, shipping, coal, indigo, trade in colonial produce, the providing of various financial services and insurance. John Muir was able to finance such expansion by the retiring partners maintaining their capital in the business and only withdrawing it slowly on an agreed basis. This enabled him to develop the business without the need to raise larger amounts of capital. Also, by 1882, he had total control of the partnership and he was the sole proprietary partner up to 1902.

After being admitted to the partnership in 1860 with a two fortieths share of the profits and losses, John Muir gradually gained dominance within the firm. In 1863, when J. Wilson retired from the partnership, John Muir came to a private arrangement between Wilson, his father (H. B. Muir who had at this stage a five forty-secondths share), and himself, where he borrowed £30,000 from Wilson. This boosted his share in the partnership to seven forty-secondths (Partnership Agreement, 29 March 1863, UGD 91/88).

Up until his retirement in 1867, James Clark was the senior partner in the firm. The partnership that started up in Bombay in 1862 was, in fact, named Finlay Clark. On his retirement in 1867, James Clark received one quarter of his capital on retirement and the remaining three quarters was paid out over three years. A new partnership agreement was reached, with the partners having the following shares: John Finlay (son of Kirkman), 5 shares; Archibald Buchanan (son of Archibald), 5 shares; Alexander Kay, 7 shares; John Muir, 7 shares; H. B. Muir, 5 shares; and, Robert Barclay, 2 shares (Partnership Agreement, 29 September 1867, UGD 91/8).

In 1870 the firm's Calcutta branch started operation under the name of Finlay Muir, reflecting the Muirs' dominance of the partnership. John Muir's capital in the partnership at this time was £119,746 out of £451,524. John Muir's controlling influence was increased by 1874 after the deaths of Robert Barclay in 1868, and John Finlay in 1872, the retirement of his father in 1873 and Alexander Kay becoming a limited partner from 1 January, 1874. In 1874 a new partnership agreement was entered into by A. Buchanan (5 shares) and John Muir (9 shares). W. L. Watson (London office) and A. M. Brown (Glasgow office) were made junior partners, each receiving two twenty-ninths shares. However, they were non-proprietary partners in the sense that the heritable property and the goodwill of the business belonged exclusively to Buchanan and Muir. The other eleven twenty-ninths shares were to be used in discharging their obligations to the retiring partners (Partnership Agreement, 2 September 1874, UGD 91/8).

Initially, A. Kay agreed to leave £100,000 of his capital in the business for three years. He was guaranteed against all losses and was to receive interest at five per cent. He was to continue to have use of an office in Glasgow and he agreed to keep his retirement quiet until the end of 1876 (Agreement, 1874, UGD 91/8). This agreement was renewed in 1874. The interest rate was increased to eight per cent and he was now not to make his retirement public until 1880 (Agreement, 7 July 1876, UGD 91/8). Kay's capital was subsequently paid out over 1881 to 1884.

Archibald Buchanan indicated his desire to retire from the business on 31 December 1882. However, he agreed to work for the firm until December 1887 and to leave his capital in the business, which was agreed as being £32,000. He was guaranteed against all losses of capital and indicated that he did not want to be involved in the new ventures into tea and shipping (Partnership Agreement, 18 October 1881, and 25 October 1882, UGD 91/8). This meant that John Muir was completely in control of James Finlay now. A. M. Brown and W. L. Watson continued to hold their two twenty-ninths shares in the partnership; however, they had no interest in the goodwill, the heritable property or the branch firms.

Not only did Muir negotiate the leaving of capital in the business, but he also negotiated, in the case of Kay, that his intending retirement from the business was to be kept quiet, thus ensuring no loss of reputation for the partnership.

The branch partnerships were set up in Bombay in 1862, in Liverpool in 1864, in Calcutta in 1870, in London in 1871 and in Colombo in 1893. The Bombay branch set up an office in Karachi in 1890; Glasgow set up an office in Burma in 1893 and Calcutta set up an office in Chittagong in 1901. These branches were intitially set up in the form of a partnership between the local partner(s) and James Finlay. However, once the original partners moved on, the partnerships became branches of James Finlay, wholly owned and controlled by James Finlay. The implications this had for contracting with employees will be examined later in this case study.

W. L. Watson retired from the partnership in 1890. For the next decade Sir John Muir remained the sole proprietary partner, along with A. M. Brown, who mainly supervised the cotton mill operations in Catrine and Deanston. The year before his death, an ailing Sir John formally brought two of his sons into the partnership. A. K. and J. F. Muir were brought back from Calcutta in 1902. When Sir John died in 1903, R. H. Sinclair, who was Sir John's chief advisor, was added to A. K. and J. F. Muir and A. M. Brown, to act as trustees of Sir John's considerable trust (Partners' Minutes, August 1903, UGD 91/265). The accounting implications of these partnerships contracts will be explored in Section C.

At the time of his death, Sir John Muir was not only the principal partner in James Finlay and Finlay Muir, but he was also the sole partner in Webster Steel, merchants in Glasgow and London, and Steel Murray & Co., merchants in Port Elizabeth and Durban, South Africa. He led the firm in an extremely autocratic way. He not only exercised entrepreneurial functions by taking strategic decisions to enter the jute and tea industries in India and develop the "management agency" expertise of the company, but he also exercised his managerial functions extremely diligently. He did this by making regular trips to India and having his son's present in the branches. The accounting practices were also important to Sir John as a means of control and allocating responsibility.

Along with his business involvements, he was also Lord Provost of Glasgow (1889 - 1892) and involved in the Glasgow International Exhibitions of 1888 and 1901. At both of the Exhibitions he was leader of the Indian and Ceylon (Sri Lanka) sections. It was the trading connections with India and the setting up of branches there in 1862 (Bombay) and 1870 (Calcutta) that educated John Muir as to the possibilities of investing further in India.

Profit margins in cotton spinning were already under pressure in the 1830's, and in the next two or three decades the relentless competition of Lancashire squeezed the remaining Scottish industry into a corner (Chapman, 1984, p. 141). Along with increased competition from Lancashire, the effects of the financial crises of 1857 [2] and more particularly, the American Civil War, all brought about a prolonged period of contraction in the 1860's. Between 1861 and 1871 the number of mills contracted by forty per cent and the number of spindles and the work force by a quarter (Slaven, 1975, p. 109).

Not surprisingly, John Muir and his partners looked for more profitable outlets for their company, and found it in expanding the Indian trade and engaging in investment in that country.

b. Indian Interests

John Muir, from 1872 onwards, set about the diversification and redeployment of James Finlay's capital. The firm essentially became a mercantile investment group. [3] A few of the wealthier cotton importers discerned that, as their traditional cotton trade activities were collapsing, they might remain in business by moving into pure finance. Chapman (1984, p. 139) suggests that the merchants had a long experience of acceptance business because the difficulty of obtaining commissions from the late 1840's onwards, had led merchants to import on their own account and to offer credit to their American suppliers. They also were accustomed to investing their surplus capital in loans and securities and dealing with seasonal liquidity problems. Chapman (1984, pp. 139-140) documents how a small group of cotton merchants from Liverpool, Manchester and Glasgow made the transition to London and developed merchant banking activities.

James Finlay was one of those merchants and they established a branch in London in 1871. However, their merchant banking activities were primarily for providing working capital finance to the jute and tea companies (which they promoted and managed), and for making advances in the indigo, coal, and paper trades. The London office was still used for merchant trading activities, particularly with the Calcutta branch in connection with the export of Manchester piece goods and the trade in jute and jute manufactures. However, the insurance side of the business grew considerably after 1890. As brokers for Lloyds, the London office became well known in the London insurance market (Brogan, 1951, p. 75).

Far reaching changes in mercantile organisation took place in the last quarter of the nineteenth century. Chapman (1985, p. 231) notes that the introduction of the telegraph revolutionised international communications and the general merchant and commission merchant were superseded by specialised commodity brokers acting as principals. He further suggests that although these specialised commodity brokers were in direct contact with world suppliers, they were not themselves suppliers from foreign and colonial sources. This role, Chapman suggests, was taken over by a number of general merchants and original suppliers, who with established reputations, moved into investment in overseas countries in order to meet the increasing demand for raw materials and food stuffs (Chapman, 1985, p. 231). This they could do because they had built up an intimate knowledge of countries like India and, therefore, had more opportunities of investing their capital in profitable areas such as jute and tea in James Finlay's case.

India was seen as a good place to invest their surplus capital by the partners of James Finlay and Company. With branches operating in Bombay (from 1862) and Calcutta (from 1870) and long trade associations with India, dating from 1816, [4] they had a certain familiarity with the investment prospects in the country. However, it was not just because of familiarity with India that James Finlay were willing to invest in India. India was considered a good investment as it was a British colony. Cain and Hopkins (1980, p. 486) make the point that it was not only that surplus capital existed and thus there was need of an investment outlet, but also in areas such as India, strongly permeated by British culture and ideology, foreign investment paid off in demands for British exports and increased income from invisibles.

India had become vitally important to Britain's position as a world power. Ray (1979, p. 7) suggests three areas of importance. Firstly, there was a vast market for British manufactures. In 1913 Britain supplied over sixty per cent of India's imports, India being the largest single market for British exports. Secondly, there was a guaranteed outlet for profitable investment. British overseas investment in India amounted to one-fifth of its total foreign investment by the 1890's (Brown, 1985, pp. 95-96). And, thirdly, there was a crucial link in the settlement of Britain's balance of payments.[5]

Cain and Hopkins (1980, p. 463) suggest that both liberal and Marxist theories of imperialism either underplay or misjudge the relationship between the British economy and the British presence abroad. They reject the assumption that the "triumph of industry" in the industrial revolution provided Britain with an automatic route to economic supremacy and world influence. Rather they state that "the motive, timing and extent of Britain's expansion into the non-European world were determined very largely by her varying ability either to penetrate the markets of other major powers or to command imports independently of them" (Cain and Hopkins, 1980, p. 466). Britain's expansion, therefore, to places like India, can be seen as an expression of her failure to dominate her chief competitors, and especially to prevent their industrialisation.

The emphasis on free trade increased London's position as the financial and commercial centre of world trade and hence the importance of sterling. A complex multilateral system based upon the use of sterling developed and depended upon free trade and

Britain's ability to lend abroad, since the main ways of obtaining sterling were by exporting to or borrowing from Britain. "Free trade, foreign investment, and invisible income were firmly interlocked" (Cain and Hopkins, 1980, p. 481).

James Finlay, until the early 1870's, had adopted a policy of not making local investments to secure clients or other opportunities. Such committments were seen as bad policy because they would "lock up" the firm's capital and expose the firm to greater risk.

In 1837 Kirkman Finlay wrote to his son in Bombay warning him against any interest in banking:

> "Banking business when carried on safely is a very unprofitable business, and when done wildly - that is, a mass of business with little capital - is a most hazardous one. I therefore always refused every proposal made to me to be a Banker....it is a business easily got into, but most exceedingly difficult to get out of....It is much to be feared that many of the Bills to come from the East will be quite valueless, and probably be returned, for I cannot suppose that Geo. Wildes & Co. or T. Wilson & Co. can ultimately weather the storm. I hope the others may, and I am led to believe that Barings will stand firm under every shock, but they are very wide and wild and must lose very largely" (Correspondence, 31 March 1837, quoted in Brogan, 1951, p. 181).

His caution was characteristic of the better-conducted merchant houses of the period. However, from the 1870's, under the direction of John Muir, this traditional policy was reversed and James Finlay & Co. decided to finance trade and invest in India. James Finlay developed into an investment group which Chapman defines as "an entrepreneurial or family concern whose name and reputation was used to float a variety of subsidiary trading, manufacturing, mining or financial enterprises, invariably overseas and often widely dispersed" (1985, p. 231).

James Finlay's first two greenfield investments in India were in the jute industry located in Calcutta. In 1872 they floated the Golabary Company Ltd., which was formed to operate jute presses, and in 1873 the Champdany Jute Company Ltd. was formed to manufacture jute. This was the start of a long association with the Calcutta jute industry. In 1902, James Finlay also took an interest in M. Sarkies, a jute buying organisation.

The other main interest of James Finlay was the tea business. From 1874 on, Finlay Muir were involved as managing agents in tea gardens. They secured these agencies earlier on due to the investment in tea gardens of Mr. W. L. Watson and other employees of Finlay Muir. In 1878 the company ventured into the tea buying business on their own account (Employee Memoirs, UGD 91/141). Around the same time advances started to be made to proprietors of tea gardens in order to secure not only interest income, but also in order to secure the agency appointments.

The capital investment soon transformed James Finlay and Company from being merely agents into being principals. The North and South Sylhet Tea Companies Ltd. were formed in 1882, each with a capital of £400,000. Brogan states:

> "By 1886 the areas under tea were 7,100 acres and 8,040 acres respectively. In the early years the profits were applied in consolidating the position of the Companies and in meeting the cost of clearing, planting and equipping the estates. From 1889 to 1896 the profits were sufficient to pay an average dividend of ten per cent. on the paid-up capital. Finlay, Muir & Co., Calcutta, managed the estates from their formation and John Muir was the Chairman of both Companies. When these Companies were consolidated in 1896

> on the formation of the Consolidated Tea & Lands Co., they held large areas in Assam, Sylhet, the Dooars, Darjeeling, North Travancore and Ceylon. As the years went on, tea occupied an ever more dominating place in the business of James Finlay & Co." (1951, p. 105).

As well as Consolidated Tea and Lands Company Ltd. being formed in 1896, Amalgamated Tea Estates Company Ltd. was formed to consolidate various other estates in Darjeeling, Assam, Sylhet and Ceylon. In 1897, Kenan Devan Hills Produce Company Ltd. was formed to develop large estates in North Travancore. The fourth company in the Finlay group was the Anglo Direct Trading Company Ltd., which was formed in 1898. It also had estates in Assam, Southern India and Ceylon. By 1898 the Finlay Group had £4.36 million invested in tea estates where they employed some 70,000 workers (Brogan, 1951, p. 47).

Other Indian investments involved shipping, indigo, coal, pearls and cotton mills (Swan Mills Ltd., 1902 and Finlay Mills Ltd., 1910). As well as these various investments, Finlay Muir secured the valuable Indian agencies for various London Insurance groups both at Calcutta and Bombay. Finlay Muir, Calcutta were also appointed agents for the Bengal Dooars Railway Company in 1892.

James Finlay went through remarkable diversification and redeployment of capital in the last three decades of the nineteenth century. Sir John Muir was able to secure such expansion by the growing size of the partners' capital left in the business and by the growing flow of funds provided by the managing agency activities of Finlay Muir and the banking, shipping and insurance business. Even in lean years, James Finlay still received funds from the management agency commissions even though they perhaps missed out on dividend income from their investment companies.

c. 1903 to 1920

This was a period of consolidation in the history of the firm. Expansion took place in cotton manufacturing in Bombay, especially with the setting up of the Finlay Mills around 1910. When Sir John Muir died in 1903 the trustees of his estate ran the business until 1909 when it was set up as a private company.

The first decade of the twentieth century was a difficult one for James Finlay and Company. These were years of depression for the tea industry in which they had invested heavily. "For twelve years the largest tea company in their agency, the Consolidated Tea and Lands Company Limited, paid no ordinary dividends while the dividends on Preference shares ran into arrears. The other tea companies in the Finlay Group were in little better shape" (Brogan, 1951, p. v).

The trustees, A. K. and J. F. Muir, R. H. Sinclair and A. M. Brown (who died in 1906) managed the company through this difficult time. The arrears in Preference dividends were paid off by the Tea Companies and the payment of ordinary dividends was resumed.

James Finlay was incorporated as a private limited company on 27 May, 1909. A. K. Muir was Chairman of the Board and his fellow directors were: J. F. Muir, J. B. Muir, M. W. Muir (died, 1922), W. Brown, R. H. Sinclair (died, 1923), J. Kay (died, 1911), and J. D. Tannahill (died, 1923) (Directors' Minutes, 28 May, 1909, UGD 91/265). Sir A. K. Muir was Chairman of the Company until 1926 (Finlay's became a public company in 1924) and

J. F. Muir took over the chairmanship until his retirement in 1936.

A. K. and J. F. Muir consolidated and established the investment and expansion that Sir John Muir had undertaken. They expanded into the tea industry further by developing tea estates in Kenya. They set up The African Highlands Produce Company Ltd. in 1926. A. K. and J. F. Muir had both been in India and had worked in the Calcutta branch. They knew the business well and, of course, wanted to maintain the close family connections with the business. J. F. Muir, in particular, seemed to have many of his father's entrepreneurial and managerial talents. Brogan states of him that "in the practical affairs of trading and manufacture and in matters of accounting, finance and the ever-increasing complications of taxation, he was an acknowledged expert" (1951, p. viii).

The First World War hit James Finlay's interests very hard, especially as the business of James Finlay depended on safe seas. Not all the business was hit severely, however, as the jute business made very good profits during the war and the dividend and commission income provided welcome funds for James Finlay's other interests.

The case will now examine the organisation and management of the company.

3. Organisation and Management of the Company

a. Partnership Form of Organisation

In 1870, the partnership form of organisation was used to organise the business. As each of the branch businesses was set up, they too were run like partnerships. When the Bombay partnership (Finlay Clark) was set up in 1863, the sole Bombay partner, J. L. Scott, was to share three-sixteenths and James Finlay, thirteen-sixteenths, in the profits and losses of the business. James Finlay agreed to provide working capital funds initially, but Scott was to pay Rs. 30,000 as soon as he was able (Partnership Agreement, 1 March 1864, UGD 91/8). Scott left the business in 1866 and J. A. Anderson and W. H. Nicholson were given a two-sixteenths share each and James Finlay received a twelve-sixteenths share. Both men had to pay Rs. 20,000 for goodwill and as a contribution to the capital (Partnership Agreement, 1 January 1866, UGD 91/8).

In 1864, the Liverpool branch was set up on the same basis. S. Smith, the resident partner, was given one-fifth share and James Finlay received four-fifths share. This profit sharing clause changed to one-fourth/three fourths in 1871 (Partnership Agreements, 1 March 1864, 1 January 1871, UGD 91/8). The Calcutta branch (Finlay Muir and Company) was set up in 1870. The resident partner was J. A. Anderson, who was to receive ten sixty-fourths and James Finlay, who was to receive fifty-four sixty-fourths. This was modified when J. Macalister was made a partner in 1871, thereby adjusting James Finlay's share to forty-eight sixty-fourths and the two Calcutta partners with eight sixty-fourths each (Partnership Agreements, 22 October 1870 and 1873, UGD 91/8).

The Calcutta and Bombay Branch experienced further changes in 1876 when Robert Ewing was made a partner in both the Bombay (Finlay Muir from 1870) and Calcutta branch partnerships. He shared in the Calcutta partnership by negotiating sixteen sixty-fourths and in the Bombay partnership four-sixteenths. The

Bombay share was given to Ewing as compensation for the Calcutta branch's now supervision of the Bombay Branch (Partnership Agreement, 1 July 1876, UGD 91/8). Due to the retirements of the previous partners at these branches, Ewing was now the sole partner at each one. Robert Ewing retired in 1879 because of disagreements with the head office. When Ewing left in 1879, the practice of admitting partners to any of the overseas branches ceased.

Within the United Kingdom, the Liverpool partnership changed its sharing rule with James Finlay again in 1876. This time Samuel Smith was to receive two-fifths and James Finlay, three-fifths (Partnership Agreement, 16 October 1876, UGD 91/8). This agreement remained intact until 1883 when Smith resigned because his political duties became too demanding (Brogan, 1951, p. 46). The practice of admitting partners stopped at Liverpool at this time.

The London office was set up in 1871 with the former Glasgow partner, H. B. Muir, in charge. He was succeeded by W. L. Watson, who was a non-proprietary partner in James Finlay from 1873. However, as well as receiving his two twenty-ninths share of the profits of James Finlay, he received one-sixteenth of Finlay Muir's profits and one-tenth of the London office's profits. This last apportionment changed to one-fifth in 1876 (Partnership Agreements, 2 February 1874 and 11 July 1876, UGD 91/8). Watson retired from the London office in 1890 when R. Williamson from the Calcutta branch took over. The practice of admitting partners stopped at this time in the London office.

Once the practice of admitting partners to each of the branches ceased, managers and assistants entered into employment contracts with James Finlay. Depending on seniority, location, the presence of family members, and the particular area of the business, the employees were paid either a fixed amount, a mix of a fixed amount and a commission amount based on results, or wholly commission with a guaranteed minimum. These differing contracting arrangements and their accounting implications will be explored in Section C.

The switch to employment contracting, rather than partnership arrangements, increased Glasgow's control over the branches and by-passed the problem of having to arrive at valuations for goodwill and other property belonging to a branch every time there was a change of partner.

ORGANISATIONAL DEVELOPMENT OF JAMES FINLAY & CO.

1750 - 1924

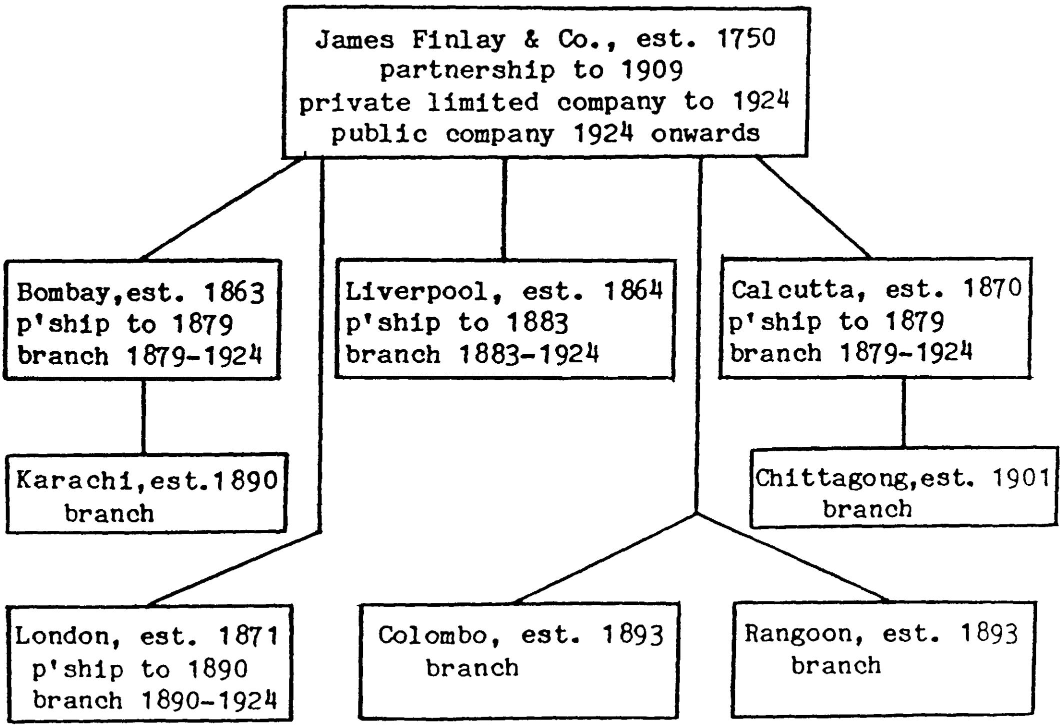

Figure 1

Source: UGD 91/8 and 91/265

Further branches were established at Karachi in 1890, Colombo in 1893, Rangoon and Java in 1893 and Chittagong in 1901. The Karachi branch was run as a subsidiary branch of Finlay Muir in Bombay. The Chittagong branch was run in like fashion from Calcutta and the Rangoon and Java branches were managed from Glasgow. Colombo was set up as an independent branch.

Figure 1 shows the development of James Finlay and its various branches.

b. Joint-Stock Subsidiaries

Part of the investment group strategy was to set up joint-stock subsidiaries. The legal framework for the creation of joint-stock companies in the United Kingdom was made reasonably easy after 1856. This meant that it was possible for private trading partnerships, such as James Finlay, to sponsor limited liability companies. Such companies were dependent on the partnership, but in law were financially autonomous, so containing the risks involved of the various investments in tea, jute and cotton.

The family name, therefore, attracted the necessary capital, while the joint-stock subsidiary contained any possible losses. Chapman (1984, p. 142) suggests that Muir was probably the earliest to realise the potential of the joint-stock subsidiary as a way of expanding and diversifying. [6]

The first two joint-stock subsidiary investments were in the jute industry. Tea investments were then undertaken and in the early twentieth century cotton mill companies were set up (see Part Two). The investments were carried out and managed in the same way as The Champdany Jute Company Ltd. (see Chapter Eight).

James Finlay would have majority share ownership, with the minority shareholders attracted to the investment because of James Finlay's name and their willingness to make a substantial investment themselves. Sir John Muir, up to 1902, was chairman of the directors of all of James Finlay's investment companies. James Finlay controlled each of the companies by virtue of their having the majority shareholding.

James Finlay in Glasgow were appointed company secretaries in all cases. They would arrange for directors' meetings and have the annual accounts printed and generally looked after company administration of the companies from Glasgow. This was done for a fixed secretarial fee. Finlay Muir (after 1909, James Finlay) would manage the companies out in India and carry out the director's instructions from Glasgow. For their managerial services, they would receive a managing agency fee. This would be in the nature of a commission based on sales. James Finlay would also benefit through providing various financial services, such as working capital finance and by being a guarantor for various loans; they also would benefit through providing insurance, shipping and warehouse services.

Nothing really changed, until in 1909, when James Finlay became a private limited liability company under the 1907 Companies Act. The private company took over all the joint-stock subsidiary investments. The trustees of Sir John Muir, who had been running the business, had dispensed with family property such as Deanston House by 1909. The setting up of a private company was due to "family reasons" (DM, UGD 91/178/5). The private company system would have enabled the shareholdings to be dispersed among the family and some senior managers, thereby maintaining family control, and also would have decreased fiscal exposure to taxation and death duties.

c. The Managing Agency System

The managing agency system of management was ideally suited to the investment group concept. The outside investors in the joint-stock subsidiaries knew that the management had first-hand knowledge of the conditions in India. Also, as the Indians were not to be trusted with the responsibilities of business management, managing agents could provide a continuous flow of managerial talent with local business experience (Kling, 1966, p. 40). James Finlay were not only managing agents for their own companies, but they were also appointed managing agents for other concerns in which they had little or no proprietary interest. In sponsoring a new investment, usually the managing agents took full charge of the construction of buildings, purchase of machinery, securing of staff, conduct of operations and marketing. They also usually took the leading part in the finance of the enterprise (Buchanan, 1966, p. 166). The directors generally had a passive role in the enterprise and were relieved of any real responsibility. The responsibility and power of the shareholders were almost non-existent as well (Anstey, 1942, p. 114).

The directors in the James Finlay companies, however, took an active management in the Companies. Some of the directors visited the companies to make reports back to their fellow directors and also Sir John Muir regularly visited India to examine progress and check out expansion opportunities. This was especially so in the tea area, when in 1894 he acquired and pioneered the development of a large tract of land in South India for the Kenan Devan Co., Ltd. (Brogan, 1951, p. viii).

Griffiths (1977, p. 130ff) has suggested that the managing agency system overcame the short supply of managerial expertise in India and enabled a limited number of experienced managers to apply their professional skill to more than one field. He further states that "there can be little doubt that such a system was almost essential to the economic growth of nineteenth century India" (1977, p. 136). Brown (1985, Ch. 3) and Kidron (1965, Part 1) take a different view on the managing agency system. They suggest that the system was a contrivance in that it was essentially an instrument of British imperialism. It was used as a way of controlling large sectors of the jute, tea and mining industries, especially in East India, by British managing agents.

The investment group-managing agency combination, however, did present problems if the investments were not profitable at any time. As Chapman states "the art of those who controlled the investment group was of knowing how to use other people's money profitably" (1985, p. 245). As will be mentioned in the case study on the Champdany Jute Company, within the ownership structure, there existed the potential for conflict between the outside, minority shareholders and the majority James Finlay shareholders. In the jute and tea companies, the minority shareholders became disgruntled with James Finlay over the lack of a regular dividend reflecting the risks associated with investing in India. James Finlay was primarily concerned with the long-term survival of their companies. Also, they received managing agency commissions and other commissions for financial services regardless of whether a dividend was declared. This led the minority shareholders to accuse James Finlay of unduly subordinating their interest in a regular dividend payment so as to directly benefit James Finlay. In the Champdany Jute Company Ltd., certain minority shareholders became so disgruntled that they initiated a court action against James Finlay. Brogan comments on the ill-feeling by the minority shareholders of the tea companies, by stating "Shareholders came to the Annual Meetings in no mood to greet the Directors with grateful applause. There were stormy scenes, very trying for the Chairman and other Directors who had full sympathy with the feelings of the shareholders, for many of whom they knew the loss of dividends was a grievous blow. During Sir John Muir's last days, saddened by the ill-feeling felt towards him by many shareholders of his Companies, his eldest son, Alexander Kay, took over the reins of office and became Chairman of the Sterling Companies within the ambit of the James Finlay and Company group" (1951, p. v). There was, therefore, in times of low profitability, an uneasiness expressed by the minority shareholders that was exacerbated by the managing agency system.

Yet, the investment group approach provided an organisational structure where James Finlay not only economised on management skills through the managing agency system, but also achieved vertical and horizontal integrations that allowed them to indulge in combined investment. [7] They linked trade and finance with the jute, tea and cotton industries. This was aided by James Finlay's access to capital. The additional capital that was needed for their investments in industry was raised through the joint-stock subsidiary.

d. Family Control of the Business

John Muir, who was the father-in-law of Alexander Kay, retired from the partnership in 1873, but left his capital in the business until 1881. On the death of Sir John Muir in 1903, as already mentioned, his two sons, A. K. and J. F. Muir, controlled the business until 1936.

One of the advantages of the investment group approach to structuring James Finlay and Company, was that it maintained effective economic power within the tightly-knit confines of the family. It was much more than a family business in the accepted sense, however, because of its size and diversity. Chapman points out that the investment group type of organisation "was able to avoid the clumsy leadership of such manufacturing giants as Imperial Tobacco and the Calico Printers Association that were federations of jealous family interests" (1985, p. 231).

Usually family businesses came under pressure when diversification occurred and a failure to diversify has often been associated with the desire to maintain family control (Hannah, 1974; Channon, 1973). However, James Finlay and Company were able to exercise tight family control and were still able to diversify and redeploy capital. The use of the joint-stock subsidiary relied on their ability to attract the additional capital they needed. This depended more on the firm's reputation and the Muir name and not, in any significant way, on the formal capital market (Kennedy, 1976).

The use of employment contracts rather than partnership agreements was another way of maintaining family control of the business. Any proprietary share in the business was denied employees once partnership contracting was stopped.

Another aspect of the tight family control of the business was the active Glasgow management of the branches and the joint-stock subsidiaries. Sir John Muir was Chairman of the directors in all the joint-stock subsidiaries. These directorships were carried on by his son, A. K. Muir. Sir John regularly made visits to the Indian branches especially the Calcutta branch.

Bagchi (1972, p. 162) and Ray (1979, p. 263) both comment on the fact that the James Finlay Indian operations seemed to be directed from Glasgow rather than from India. Ray suggests that this might have been because James Finlay were operating more than one branch in India and, therefore, there was the need for overall strategic decisions to be taken in Glasgow.

Chandler (1980, p. 402) has suggested that the continuation of the family business in the United Kingdom was simply that the family wanted to retain and manage its birthright. This was no doubt true in James Family's case; however, James Finlay was able to achieve a certain amount of administrative co-ordination and control through the investment group-managing agency system of organisation. While the case of James Finlay, and for that matter other investment groups, does not significantly change the overall conclusions of Chandler and others about the managerial consequences of British nepotism, it does however, show how family control can still be maintained in a time of rapid growth in the scale of international trade and investment, by diversification and redeployment of capital (Chapman, 1985, p. 244).

It will be shown in the next section that accounting practices were used as part of the control mechanisms used by the family.

4. The Growth of James Finlay and Company

Table 1 shows details of the profit received by James Finlay in Glasgow from the various branches.

PROFITS RECEIVED BY JAMES FINLAY

FROM THEIR BRANCHES 1870 - 1920

Date	Bombay £	Calcutta £	Colombo £	Liverpool £	London £
1870	(4,256)	-		-	-
1871	8,168	-		-	-
1872	(255)	1,077		-	(11,597)
1873	(2,590)	(8,090)		(9,600)	(6,239)
1874	4,467	(17,521)		2,250	(11,061)
1875	(1,320)	(14,668)		(3,544)	(293)
1876	617	3,816		9,000	3,179
1877	1,805	3,201		3,600	6,025
1878	(1,404)	22,107		1,200	878
1879	4,580	9,834		9,000	2,884
1880	12,844	15,804		1,800	4,004
1881	0	21,776		3,255	6,358
1882	11,680	28,507		(2,725)	4,952
1883	4,739	20,928		(1,130)	(8,101)
1884	(5,842)	(9,399)		671	0
1885	6,534	(2,456)		0	0
1886	5,048	(4,062)		0	0
1887	4,177	31,450		(255)	(1,950)
1888	6,370	23,676		(1,229)	3,892
1889	6,262	642		595	4,564
1890	4,821	19,162		(2,501)	0
1891	4,374	9,697		0	0
1892	6,697	9,199		(6,476)	0
1893	(714)	5,114		0	0
1894	10,898	0	1,080	0	0
1895	(438)	0	3,000	0	0
1896	(1,818)	0	3,400	0	0
1897	(4,294)	21,887	5,115	(2,038)	0
1898	(119)	0	4,216	385	0
1899	8,517	0	5,733	242	9,354
1900	4,387	17,310	3,634	(3,875)	6,291
1901	8,330	4,938	0	(5,173)	12,950
1902	5,725	0	0	(5,016)	8,722
1903	2,188	4,507	2,643	(157)	2,320
1904	7,223	7,438	1,307	(455)	5,638
1905	14,849	12,076	0	0	7,436
1906	11,671	42,918	3,724	419	5,876
1907	5,742	3,233	2,861	610	2,035
1908	1,788	(3,585)	3,615	46	0
1909	11,099	(4,870)	2,995	109	11,262
1910	4,390	15,171	3,276	242	5,415
1911	9,068	14,055	2,136	340	6,795

1912	8,049	25,870	2,819	(774)	10,054
1913	0	23,629	2,139	987	0
1914	0	19,473	(738)	0	0
1915	0	44,368	4,097	(788)	0
1916	0	53,147	11,063	1,521	11,621
1917	40,571	49,114	10,660	2,699	15,218
1918	31,336	107,775	20,615	3,030	15,334
1919	35,914	165,154	38,769	1,799	11,090
1920	2,083	29,679	12,402	151	7,298
1921	0	9,342	(151)	130	(76)
1922	1,984	36,411	6,211	606	1,092
1923	36,911	37,624	11,379	(622)	(4,267)
1924	0	59,065	13,313	(944)	(3,177)
1925	(5,286)	51,565	10,905	(613)	(1,812)

TABLE 1

Source: UGD 91/1/2 to 91/1/5, 91/179
Note: - Data unavailable

In the Calcutta branch, tea provided the greatest source of income through managing agency fees and trading on their own account. Table 2 shows a break down of main operating departments and the sales income received from the main interests.

CALCUTTA BRANCH DEPARTMENTAL SALES

1885 - 1917

Date	Tea	Jute	Produce	Ships	Ins.	Piece Gds
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1885	91,490	68,289	30,599	48,805	14,516	-
1886	100,343	81,032	25,765	55,235	15,411	-
1887	246,261	80,401	60,948	57,477	17,612	-
1888	189,711	118,804	46,301	80,514	30,738	-
1889	257,580	154,857	102,917	57,930	30,059	-
1890	399,106	104,084	11,908	51,017	35,966	-
1891	263,965	123,195	81,757	50,897	27,037	-
1892	356,412	114,067	55,201	42,444	30,716	-
1893	337,088	184,797	48,666	59,816	28,458	-
1894 to						
1900 data is missing						
1901	228,852	209,144	3,113	65,337	63,035	-
1902	151,972	218,686	3,833	65,930	72,080	-
1903	-	-	-	-	-	-
1904	143,403	162,220	9,592	40,830	63,017	61,810
1905	146,444	147,860	-	44,472	60,883	55,602

1906	153,029	158,713	38,610	44,277	108,885	61,029
1907	167,352	183,208	113,855	26,010	61,126	8,494
1908	188,497	165,108	(55,202)	20,061	62,376	-
1909	162,271	110,016	7,078	16,000	30,876	2,272
1910	211,118	130,734	26,702	31,478	44,638	92,989
1911	205,423	137,382	47,948	25,182	46,397	83,656
1912	251,897	180,817	63,039	26,059	52,719	73,336
1913	248,223	200,192	106,777	31,681	60,294	65,060
1914	265,716	161,547	44,927	8,510	42,080	81,738
1915	317,911	226,673	388,878	9,019	64,299	60,880
1916	441,453	303,896	320,398	40,671	87,505	73,245
1917	349,361	334,927	235,809	107,309	100,979	95,307

TABLE 2

Source: UGD 91/193
Note: - Data not available

Although data is patchy, from Table 2 it can be seen how vulnerable James Finlay's income was to changes in commodity prices and how insurance and shipping income was tied into the commodity sales.

A key area in operating the business was in the manipulation of credit. For example, the Calcutta branch received the following instruction from the head office concerning marginal credits arranged at the Royal Bank of Scotland:

> "....the following general instructions, which are to apply to all Royal Bank Marginals, whether supplied to the Tea Companies, the Champdany Co. or yourselves. The marginals are never to be sent home unused, unless under special instructions from us. You will use them in the first place to supply the funds you require locally for the business of the companies, as heretofore, and to supply funds for telegraphic remittance to us when specially instructed by us to do so. If the bills are not required for either of these purposes, you will watch the Exchange Market carefully as the date of their expiry draws near, and chose a suitable opportunity to sell them, and remit the proceeds to us by telegram for the credit of the company concerned. By judicious sales of the Bills and purchases of Telegraphic Transfer, you should frequently be able to lay the money down with us for the use of the Companies, at a very cheap rate, and we

> hope you will succeed in doing so. We repeat that in no case are the Bills to be returned without special instructions from here, and in no case are they to be allowed to expire before you deliver them. We would prefer, as a rule, that they should be delivered at least one or two weeks before date of their expiry" (Glasgow Finance Letter, 24 April 1890, UGD 91/109/3).

The managing agency income was an important source of the Calcutta income. There is no extant archival material reflecting the importance of the tea agencies; however, figures concerning The Champdany Jute Company show its importance. From the figures available, the commission earned from the Champdany agency between 1885 to 1893 represented between ten per cent to fifteen per cent of total commission earned by the Calcutta Branch. Between 1901 and 1917 the commissions earned from Champdany represented, on average, a higher proportion of the total commission income, when compared to the 1885 to 1893 period. The average commission earned from Champdany for the 1901 to 1917 period is around twenty-five per cent of total income at the branch (see Section B of the Champdany Case Study).

Another advantage of the investment group strategy was that it concealed the magnitude of the business behind the financial data of the partnership or private, parent company. Scott and Hughes (1980) list Scotland's Top Companies in 1904-5, ranked in terms of capital. In the list of the non-financial companies, the four James Finlay tea companies are listed as eighth, nineteenth, twenty-fourth and twenty-sixth. However, if James Finlay is viewed as an investment group, their size in terms of capital employed, would rank them second only to J. and P. Coats in the non-financial companies, if railway companies are excluded (Scott and Hughes, 1980, pp. 56-60).

The Glasgow head office received the profits each year, from 1870 to 1920, as indicated in Table 3.

JAMES FINLAY'S PROFIT (LOSS) 1870 - 1920

Date	Profit for yr. £	J. Muir £	Others[1] £	P & L Bal. £	Suspense A/C £
1870	-	-	-	494	7,732
1871	110,513	17,786	92,727	1,377	2,512
1872	46,362	5,654	40,708	42	3,812
1873	-	-	-	(620)	0
1874	-	-	-	2,250	26,443
1875	10,201	8,841	1,360	11,530	14,867
1876	40,097	26,411	13,686	326	20,067
1877	0	0	0	965	23,080
1878	68,439	56,471	11,968	1,420	6,000
1879	27,268	18,200	9,067	166	14,499
1880	30,254	20,288	8,967	427	23,260
1881	32,710	24,092	9,616	188	31,071
1882	95,615	102,191	(6,576)	229	60,248
1883	(9,604)	(7,788)	(1,817)	1,574	79,736
1884	5,000	0	0	974	20,000
1885	5,000	0	0	922	29,000
1886	5,000	4,655	344	277	21,000
1887	5,000	0	0	102	63,000
1888	25,000	23,275	1,724	131	48,000
1889	35,000	32,586	2,413	268	16,500
1890	35,000	32,586	2,413	32	23,000
1891	27,000	25,138	1,862	202	28,000
1892	30,000	27,931	2,064	129	28,000
1893	30,000	27,931	2,068	420	44,500
1894	30,000	27,931	2,068	356	11,000
1895	31,000	28,862	2,138	827	13,000
1896	(72,129)	(67,154)	(4,974)	1,191	110,000
1897	62,000	57,724	4,275	1,029	10,000
1898	35,000	32,586	2,413	504	33,000
1899	-	-	-	890	87,000
1900	50,000	46,552	3,448	1,158	0
1901	10,000	9,310	689	637	4,000
1902	(102,500)	(95,431)	(7,069)	355	0
1903	(212,099)	(197,472)	(14,628)	-	0
1904	49,000	45,261	3,379	407	0
1905	35,000	32,586	2,414	876	0
1906	(73,575)	68,997	4,578	-	-
1907	77,636	77,636	-	-	-
1908	51,922	51,922	-	-	-
1909	84,200	84,200	-	-	-

Date	Profit for Yr.	Bal. b/f	Total	Pref. Divi.	Ord. Div.	Bal. c/f
	£	£	£	£	£	£
1910[2]	143,292	30,097	173,389	30,000	75,000	68,389
1911	138,739	68,389	207,128	30,000	-	-
1912	-	-	-	30,000	-	60,972
1913	220,186	60,972	281,158	30,000	125,000	126,158
1914	171,702	126,158	297,860	30,000	100,000	167,860
1915	249,226	167,860	417,087	30,000	125,000	262,087
1916	320,387	262,087	582,474	30,000	175,000	377,474
1917	332,807	377,474	710,281	30,000	200,000	480,281
1918	383,212	480,281	863,493	30,000	750,000	83,493
1919	514,273	83,493	597,766	30,000	250,000	317,766
1920	173,789	317,766	491,556	30,000	150,000	311,556

TABLE 3

Source: UGD 91/28/1 - 28/4, 58, 239, 282

Notes:
- \- Data not available
- 1 These are the amounts the various partners of Sir John Muir received.
- 2 James Finlay was now a private limited liability company.

The data shows how variable the commodities were that James Finlay were dealing in. The data also shows how well James Finlay did in the war years, especially the enormous profits it received from jute sales (see Table 2 also).

Although the data on the use of the suspense account is incomplete, it can be seen how regular the account was used and how, in some cases, the amounts were relatively large. For example, in 1882 and 1883, heavy losses on shipping were dealt with through the suspense account. Likewise, in 1899, indigo losses were accounted for through the suspense account.

A lack of available data on the joint-stock subsidiaries precludes any detailed examination of the tea or other companies, apart from the Champdany data. Section C will now examine how accounting was implicated in many of the organisational areas outlined above.

C. THE ROLE OF ACCOUNTING IN THE ORGANISATION

1. Introduction

The organisational focus of the discussion on accounting will be primarily on James Finlay and Company and not on accounting in their joint-stock subsidiaries. The Champdany Jute Company Limited case study is an example of how accounting was involved in one of James Finlay's investment companies.

An interesting thrust of this case study is to see how accounting became contractually situated. This first occurred through partnership contracts and then through employment contracts. Managers and assistants were the company's primary resources in carrying out the tasks of providing management and financial services, and in carrying out trading activities. It will be seen how accounting was used as an important control device over the employees in the organisation.

Accounting will be portrayed as a controlling mechanism rather than as providing information useful for decision making. Most of the companies decision-making information was market information consisting of interest rates, exchange rates and commodity prices. The company did manage cotton works in Scotland. However, unfortunately, extant information from around 1870 to 1920 is not that extensive, so accounting in this manufacturing context will not be examined in detail.

The organisational context of the accounting craft shows how accounting emerged and was used within the organisation. Section B has set the context for such an organisationally grounded approach in which to study accounting. The case study will now give an overview of the accounting information prepared in the organisation and describe to what extent archival material has been consulted in the University of Glasgow's archive.

2. An Overview of the Extant Accounting Information

a. Accounting Information Prepared

At the branch level a detailed double entry system of book-keeping was used. The books, which included books of prime entry (day books and journals), and general and private ledgers, were prepared by clerks under the supervision of the senior in charge of the book-keeping department. Each branch, as it grew, was organised by departments with their separate accounting books. Also, departments with large numbers of clients had subsidiary ledgers and control accounts in operation (e.g. Calcutta Produce Department, UGD 91/109/3).

Six-monthly or yearly, depending on the branch, the books were balanced and details were sent to the head office in Glasgow. Details would include a balance sheet, a profit and loss statement, departmental statements, closing and adjusting journal entries, employee accounts particularly those with commission accounts, details on the suspense account and details on doubtful debts (e.g. Bombay Accounts UGD 91/9).

At the head office in Glasgow, the books were split between general and private. Moss (1984, p. 361) suggests that early in the nineteenth century Scottish businesses changed their book-keeping methods by the widespread introduction of private account books, which provided final records of transactions recorded in detail elsewhere. He further suggests that some of the reasons private account books seem to have been adopted were "partly to relieve pressure on the general ledger, but also, perhaps more importantly, for reasons of security and control. They are nearly all fitted with locks and are stored separately from other books of account. This probably reflected the employment of cashiers who held no share in the business" (Moss, 1984, p. 361). This was certainly true in James Finlay's case. All the partners had a strong desire to maintain the secrecy of the books and accounts.

The general journals and ledgers were divided up reflecting differing aspects of the business. For example, there were Works, Foreign, Bills Receivable, Bills Payable journals and ledgers. Another important account was the current accounts with all the branches. Summary statements were produced in the balance books on a yearly basis. These consisted of profit and loss statements, balance sheets and partners' accounts. Such statements were signed by all the partners each year.

On the death of Sir John Muir, the trustees of his estate brought in professional accountants to prepare an Accountant's Report each year, which included a balance sheet, profit and loss and relevant notes. Also, the head office and branches were audited from 1903 onwards. In 1909 the private company was formed whose articles of association set down some guidelines on accounting practices.

Even this information was given only to the private shareholders who were family members and senior managers. No information was available to the general public except what could be gleaned from the joint-stock subsidiaries. The only information prepared for other than partners/shareholders was information for the taxation authorities.

At the cotton works in Deanston and Catrine detailed statements were produced showing cost analysis, calculation of overheads and costs of running the villages themselves.

b. Archival Material

The extant material is strong in parts and uneven in others. There is good time series data on the books of account, such as journal, ledger (general and private) and balance books. However, cash books and records relating to the cotton factories are virtually non-existant for around the 1870 to 1920 period. Books of account for the branches are non-existent as they were kept at the branches.

For various branches, however, there are uneven time series of profit and loss and balance sheet information. In the case of Colombo, however, there is no such information. Some partnership agreements have survived along with some management minutes at Calcutta. The archive also includes some employee memoirs for Bombay and Calcutta. For the head office, balance sheets exist from 1848 to 1922, profit and loss information from 1883 to 1922, and there is detail on share valuations, taxation and organisational details, such as the articles and memorandum of association for the private company.

For the cotton manufacturing area, there are some interesting production statements but they are limited to the period from 1859 to 1871. Apart from these production statements and some other miscellaneous information, the material on the cotton manufacturing does not exist. There are also employment contracts with employees which provide interesting details on how accounting is implicated in the contracts.

Despite deficiencies in the material deposited in the archive, there are still areas which can usefully be explored and insights gleaned on the way accounting reflected and shaped the organisation.

3. Accounting and Partnership Contracting

a. The Glasgow Partnership

Accounting in the organisational framework of the partnership form depends on the negotiated agreement reached by the partners. The accounting practices were negotiated in an unregulated environment. There was no legislation governing partnerships until the Partnership Act in 1890 and even in that Act there was no mention of accounting practices. An analysis of the partnership agreements has already been made with respect to how profits and losses were to be shared and as to when the branches were formed (Section B). Now the case study will examine the accounting practices established by these agreements.

The first partnership agreement that established the accounting approach in the partnership, that has survived and has been deposited in the archive, is the partnership contract of 1845. This stated that the books were to be balanced on 31 December each year and that the profit was to be apportioned pro rata. Such apportionment was to be made after setting aside such sums, as may appear to the majority of partners in number and amount of capital, to be necessary to reduce the estimated value of Property of any kind held by the company, whether heritable or moveable, to what may be considered safe, as to provide for losses of any kind and defray winding up expenses if necessary (Partnership Agreement, 1845, UGD 91/8). This accounting clause established the idea of a "safe," conservative approach in the firm's accounting practices, by providing for losses and in the value of assets and losses of any other kind. The partnership agreement of 1847 added that before profits were apportioned, interest on the partner's capital and the partner's salary should also be provided for (Partnership Agreement, 29 March 1847, UGD 91/8).

Pollard (1963) states that profits were often understood to be the surplus after interest had been provided on the partner's capital. Pollard suggests that partnership accounting, before and in the nineteenth century, encouraged this difference between interest on capital and profits. Interest was the payment for capital, and profits was the reward of capital - a payment for entrepreneurship. When John Muir became sole proprietary partner in 1883 the practice of charging interest on capital ceased.

When A. S. Finlay retired in 1848 the accounting practices of the 1847 agreement were carried out. In order to value his ten partnership shares, adjustments were made to write down the value in the books of the works at Catrine and Deanston, which had been working at a loss. Also, provision was made for a deficiency anticipated on the realisation of certain stocks abroad (Brogan, 1951, p. 34).

The principles in the 1847 Agreement laid down the general approach to accounting in the partnership right up to the setting up of the private company in 1909. However, there are some interesting additions and modifications to the accounting practices along the way. The partners were obviously very aware of the effects of expenditure on productive assets such as machinery, which meant income foregone in the short-term. This can be seen in the approach of the younger partners towards the eldest partner in 1853:

> "Considering that the outlay of money at Catrine and Deanston for the replacement of old with new machinery has been, for several years past, upon a large scale, and considering that the whole of that outlay has been directly charged to the Profit & Loss Accounts at the Works, thereby materially diminishing the annual Dividends upon the Company's Stock, and considering, further, that according to the calculations of the probabilities of Life, the younger Partners of the Concern have, ceteris paribus, a more valuable interest in the amelioration of the Company's plant produced by the expenditure in question, they have resolved, and do hereby ratify the same by their respective signatures to this Minute, that the sum of one thousand pounds sterling be written, as of date 1st January, 1853, from Profit & Loss to the credit of their most respected and beloved Senior, Mr. James Buchanan, to whom they respectfully tender it as an act of approximative financial justice and a tribute of profound personal regard" (Partnership Minutes, 26 February 1853, UGD 91/8).

In 1858, two further additions were made to the accounting principles of the 1847 agreement. Firstly, the agreement explicitly stated that the valuation principle to be used in providing for any loss in value of the property of the firm was the principle of "realisable worth." Secondly, earned income which had yet to be received was to be brought into the books (Partnership Agreement, 1 July 1958, UGD 91/8). It is interesting to note that the effects of the annual balance were recognised in a positive way for the first time, in that income earned but not received could be brought into the books. The agreement also introduced the idea of "due care" in obtaining realisable values for the firm's property.

As mentioned in Section B, the partnership by 1883 was under the sole direction of John Muir. Archibald Buchanan was the last proprietary partner to leave the partnership in 1882. However, Muir arranged for Buchanan to leave his capital in the business until 1887. In the agreement between Buchanan and Muir, mention was made of reducing the value of the Works at Catrine and Deanston until they stood in the books at their approxiate sale price. The agreement further reiterated the valuation principle of realisable value as the agreement stated "...at the moment they (the Works) are valued at much more than they will realise" (Partnership Agreement, 18 October 1881, UGD 91/8). The agreement also mentions setting up a Liquidation Fund through Reserve accounts so that if the business was liquidated the capital of the partners would be paid out in full.

John Muir, in 1882, invested in tea and shipping, which A. Buchanan was unhappy about. Therefore, another agreement was entered into which guaranteed Buchanan's capital and also sold his share in the profit and loss of the business until 1887 for £32,000, which was to be paid out in equal instalments. This was done to avoid the difficulties and complications connected with trying to keep separate accounts, for the new investments made by Muir, in the books of the Calcutta, Bombay and Glasgow firms (Agreement, 25 October 1882, UGD 91/8).

The Glasgow firm was managed by the trustees of Sir John Muir's estate upon his death in 1903. This brought a number of changes concerning the accounting practices. A professional accounting firm, Alexander Sloan and Company, were introduced to prepare and audit the accounts in Glasgow. The Glasgow firm became a private company in 1909.

b. The Branch Partnerships

The first branch was started in Bombay in 1863. The partnership agreement stated that a proper set of books was to be kept in which all transactions were to be fully and truly recorded. The books were to be balanced twice a year at 30 June and 31 December (Partnership Agreement, 1 January 1863, UGD 91/8). The second branch to be started in the 1860's was the Liverpool branch. There was a similar accounting requirement as to the Bombay agreement except the books were required to be balanced only once a year (Partnership Agreement, 1 March 1863, UGD 91/8). This Liverpool accounting clause was the same, right up to 1883 when S. Smith resigned from the partnership.

The Calcutta branch started business in 1870. This partnership agreement gave detailed accounting requirements compared to the branches of the 1860's. The books were to be balanced twice a year and all proper measures were to be taken for such balancing. When balanced, a balance sheet and the private accounts of the partners, with full explanations, was to be sent to Glasgow. The agreement listed the following rules for striking a balance: (1) Day to day expenses were to be charged to the profit and loss account (debit). Also, five per cent interest allowed on capital was to be debited to the profit and loss and the credit to the partner's private account; (2) No profit was to be credited to the profit and loss unless actually realised; (3) Every ascertained and completed loss was to be carried to the debit of the profit and loss account; (4) All probable, threatened or impending losses on any transaction not closed at balance date, was to be estimated and credited to a Suspense account and debited to the profit and loss acount; (5) Bad and doubtful debts on bills were to be estimated at the largest probable amount. The entries in the books were credit bad debts and debit the profit and loss; (6) Profit was to be remitted as soon as possible to James Finlay and Company

(Partnership Agreement, 1 January 1871, UGD 91/8, see Appendix One).

The Bombay partnership's accounting practices were, although not written into the agreement, developed in a similarly conservative fashion as the Calcutta branch had been established on. In correspondence with J. L. Scott, the retiring Bombay partner in 1866, the Glasgow head office stated the "principle upon which Messrs. James Finlay & Co. intended that the books of Finlay Clark & Co. should be balanced at the end of each half year. . . .is that upon ventures unsold no profit should be divided even when a profitable result is anticipated and that in like manner, commission upon purchases of Produce and sales of Imports shall not be written off until the accounts have actually been rendered. On the other hand where a loss is anticipated a balance to the credit of Profit and Loss account should be reserved to meet the same" (Correspondence, 26 July 1866, UGD 91/9).

The Bombay branch partnership agreement in 1870 was negotiated on the same basis as the Calcutta agreement. The only difference was that the half yearly balances were to be sent within two calendar months of the balance date (Partnership Agreement, 1 January 1870, UGD 91/8).

The accounting requirements remained the same at both Calcutta and Bombay until the branch ceased to be organised as a partnership in 1879. It is important to see these accounting requirements, in the branches case, as part of a "package" of controls negotiated between the Glasgow head office and the branch. For example, in the 1870 Partnership contract with Calcutta, the accounting requirements have to be seen in the context of the other clauses in the contract. In that agreement other monitoring devices are used by James Finlay to control the behaviour of the Calcutta partners. For instance, proper mercantile speculation was only allowed to the extent of Rs. 100,000 per transaction and then only with the head office approval; any goodwill belonged to James Finlay and also an arbitrator, the Chief Manager of the Royal Bank of Scotland was appointed to arbitrate on any disputes that developed between the parties. An elaborate scheme regarding the division of finance commissions between Glasgow and Bombay was also agreed upon (Commission Agreement, 5 September 1872, UGD 91/9).

The accounting clauses emerged from these contracts as a constraint on the Calcutta partners' behaviour, and also as a device to determine the amount of profit or loss to be shared.

The incorporation of the accounting practices into the partnership agreement took place as the overseas branches were set up. This appears to be the case with Calcutta and the renewed Bombay agreement. This would appear to be due to the sheer distance involved between Glasgow and India. Thus, the conservative, safe accounting that was emerging in the Glasgow partnership was now formalised with the setting up of the branches.

It is interesting to note that the home branches, London and Liverpool, were only required to balance their books once a year, whereas the overseas branches were required to balance their books twice yearly. Again, the distance was the catalyst for the increased control of the overseas branches. Accounting principles on the definition of income, such as the realisation principle, anticipation of losses, and the writing down of loss of value in property to the realisable value, seemed to emerge within James Finlay through the negotiated partnership agreements, both within the Glasgow head office and between the Glasgow head office and the branches.

The partnership accounting practices emerged as a distributional device between the partners. Conservative, safe accounting practices ensured that wealth distributions between partners were fair and made in accordance with the partnership contract. Sterling (1967) has stated that in the history of accounting there has been a natural tendency towards conservatism because accounting is seen as having an allocative, mediatory role between interested parties. The partners in James Finlay signed the Balance sheet each year as being "just and true" (UGD 91/3/3), thus indicating each of the partner's agreement with the accounting practices used.

4. Legislative Considerations

a. Companies Act

The trustees of Sir John Muir's estate sold James Finlay and Company as a going concern in 1909 to a private joint-stock company with limited liability. This enabled shares in the new company to be dispersed among the Muir family. The company was incorporated as a private company under the Companies (Consolidation) Act, 1908. However, the company specifically excluded the standard set of Articles of Association (Table A contained in the First Schedule) and instead framed its own set of articles.

The accounting provisions were contained in articles 104 to 107. These stated that books of accounts were to be kept for the assets, liabilities, receipts and expenditure of the Company, but that no member was entitled to inspect any such books or papers of the company (Articles 104 and 105, AA, 26 May 1909, UGD 91/33). Article 106 provided for an annual meeting every year in which a profit and loss and balance sheet, containing a summary of the property and liabilities of the company, was to be laid before the meeting. A copy of the accounts was to be available for inspection by any member up to seven days before the meeting, but the accounts were not to be circulated (Article 108, 26 May 1909, UGD 91/33).

Each set of annual accounts was to show the amount recommended for dividend by the directors and the amount carried to the reserve fund (Article 107, AA, 26 May 1909, UGD 91/33). Article 111 stated that a reserve fund could be set up for any purpose the directors thought fit (AA, 26 May 1909, UGD 91/33).

Auditing provisions were contained in Articles 109 and 110. They provided for auditors to be appointed every year and to carry out an examination of the accounts of the company as to their correctness (AA, 26 May 1909, UGD 91/33). These accounting and auditing provisions sketched out the broad framework of accounting practices for the company without specifying any detailed accounting requirements. This would be in keeping with the non-public nature of a private company. No formal accounts were deemed necessary as the shares were held by family members and senior and retired managers, who trusted the directors explicitly; and in any case, they could examine summary accounts at the Annual General Meeting.

The books and accounts were in fact kept in the same way as the trustees had set them up on Sir John Muir's death. The auditing requirement came to be used as a monitoring device over the branches and the auditor provided expertise in the preparation of the accounts at the head office. The use of the auditors will be examined in Part Seven.

In 1924 the Articles of Association were modified as the company was set up as a public company. Although it is beyond the time period being examined by the case study, it is interesting to see how the accounting and audit requirements changed now that the company was seeking to raise capital through the formal capital market of the Stock Exchange. The accounts of each year were now required to be printed and sent to the members seven days before the AGM and sent to the London and Glasgow Stock Exchanges (Article 102, 7 January 1924, UGD 91/237).

Independence requirements were introduced to the auditing articles by stipulating that no director or officer could become an auditor. Also, articles were included that stipulated the auditor's right to have unrestricted access to information and explanations that he may require and that he must report on the balance sheet, whether in his opinion, it exhibited a true and correct view of the state of the company's affairs (Article 110; 7 January 1924, UGD 91/237). It is interesting to note that the auditor was only required to report on the balance sheet, whereas up to 1909 he reported on the profit and loss account as well.

These accounting and auditing articles still remain broad and non-specific as to accounting practices, but they do reflect the fact that the company was now putting itself in the public arena, where its accounts were one of the means used to attract investment in the company. The profit figure arrived at in the accounts was now being used for very different purposes than it had been used for up to this point in time. Formerly, the accounts were calculated for control purposes and as a distribution mechanism for wealth transfers to family members and employees; however, now the accounts took on a new role of attracting investment.

b. Fiscal Legislation

There was a need for detailed accounting records in order to meet fiscal requirements. These particularly related to taxation and death duty requirements (Sabine, 1966). Although income tax was introduced in 1799 to help finance munitions spending with respect to the Napoleonic War, it was abolished at the end of that war and not reintroduced until 1842 as a component in the shift to free trade (Moss, 1984, p. 369). The 1842 tax was divided into the familiar five schedules with provision for allowances and deductions. The allowances in Schedule D, under which most business profits were assessed, were open to different interpretation. For example, depreciation of machinery was allowed in London but not in Scotland (Sabine, 1966, pp. 120-122). In any case, wear and tear allowances were sanctioned in 1878 (Matheson, 1893, p. 11).

The wear and tear allowances were important in the Catrine and Deanston Works' Accounts (Excess Profits Duty Returns, UGD 91/206. However, at least from 1883 (there is no relevant extant material prior to this date regarding income tax) the income tax calculations were prepared separately from the accounts and there is no evidence to suggest that the accounting practices in James Finlay were directly influenced by income tax considerations, other than perhaps the detailed setting up of books of accounts so the income tax calculation would stand up to scrutiny.

Watts and Zimmerman (1979, p. 295) suggest that in tax law, depreciation came to be an allocation of historical cost as a rationalisation for the more costly approach of periodic valuation. James Finlay, however, in their investment companies, seemed to be making arbitrary allocations of depreciation before the 1878 income tax regulations. Although that is not to say that they were not influenced in their depreciation accounting in some general way by income tax practices.

The income tax calculation took the profit and loss accounts as prepared and distinguished between assessable and non-assessable income, allowable and non-allowable deductions. For example, non-assessable income was separated out, such as income already taxed, and appreciation on certain investments. Examples of deductions in the profit and loss account, but not allowable for taxation purposes, were items such as a depreciation in the value of investments and charges to suspense and reserve accounts (Income Tax Returns, 1883, 1901, 1912, UGD 91/58, 91/206, 91/282). The income tax, while the company was a partnership, was charged to the partners. The rate varied from 5d. to 11d. on the pound.

The excess profits duty imposed during the First World War imposed a heavy tax on companies. Again, the calculations reconciled the income tax return with the accounts. The company enlisted the help of the auditor, Alexander Sloan & Co. to help them in preparing the return (Excess Profits Duty Returns, UGD 91/206).

The assessment of Sir John Muir's death duties again meant detailed record keeping to support the calculations made by the company. The company was specifically requested by the tax collector to see the accounts upon which the calculations were made (Minute Book, Sir John Muir's Trust, UGD 91/62/1). The change in the company's organisation in 1909 to a private company, seems to have been prompted by a desire to reduce the tax liability incurred by the company. The organisation and the keeping of financial records were influenced to some extent by fiscal requirements.

5. Accounting and Employment Contracting

a. Organisational and Company Growth Considerations

In the archive, an extremely rich collection of employment contracts with employees in the head office and in the home and overseas branches, has survived. These contracts first appeared in the organisation in the 1870's as the company grew and pursued its investment group-managing agency growth strategy. This also coincided with the cessation of the practice of admitting partners to each of the branches, as noted in Section B, Part 3. The partnership form of organising had become an unwieldly way of organising the company, given the company's rapid growth in the 1870's. This switch to employment contracting from partnership contracting also enabled the Muir family to maintain close control over the business and deny any proprietary shares in the business to its employees.

The employees were the company's primary resources as the company was essentially a service company providing managerial, financial and merchant trading services. The employment contract with each employee varied, depending on seniority, location, the presense of family members and the particular area of business the employee was engaged in. The payment scheme in the contracts was either a fixed amount, a mix of a fixed amount and a commission amount based on results, or wholly a commission amount with a guaranteed minimum. Those contracts which were outcome related (i.e. remuneration linked into profits) were, in various ways, also based on a definition of profits which appeared to get more tightly defined over time. The Glasgow head office also kept detailed records on the recruitment and progress of all its staff and were consulted on the renewal of contracts with each branch employee. This was probably a feature of record keeping and employee contracting in investment groups generally (Chapman, 1985, p. 244).

b. Description of the Contracts

Six hundred and twenty employment contracts with managers and assistants located at the home and at the overseas branches were examined. [8] The contracts have been classified by place of work and occupation. Normally an employee would expect to spend the full contract period (normally five years) in a single location; however, in some cases employees were moved temporarily from one location to another. Occupations were classified according to the amount of operating responsibility an employee might have. The classes used were:

(i) General Branch Manager (GM)
(ii) Assistant General Manager (AGM)
(iii) Department Manager (DM)
(iv) Assistants (A)
(v) Agent (AG)

These classifications bear no relationship to status or salary. For example, an executive that was a General Manager in a small branch may be equivalent in labour market terms to a Department Manager in a larger branch.

The classification of the contracts is presented in Table 4. Of the six hundred and twenty contracts examined, three related to pension arrangements and five other contracts were incomplete. This left a total of six hundred and twelve contracts which were usable.

CONTRACTS CLASSIFIED BY PLACE AND OCCUPATION

JOB	AG	GM	AGM	DM	A	TOTAL
PLACE						
Glasgow	8	1	6	14	226	255
London	-	2	-	3	5	10
Liverpool	-	7	-	4	2	13
Calcutta	-	11	11	59	112	193
Colombo	-	8	-	-	49	57
Bombay	-	18	17	8	20	63
Karachi	-	5	-	6	2	13
Rangoon	-	8	-	-	-	8
TOTAL	8	60	34	94	416	612

TABLE 4

Source: UGD 91/8, 56, 269, 270 271, 277. Adapted from E.J. Walsh and R.E. Stewart, "Agency Theory and Management Accounting: A Case Study of an International Company," presented at the Ninth Annual Congress of the European Accounting Association, Stockholm, March, 1986.

Not all the contracts from 1870 to 1920 can claim to have been examined due to availablility. However, the contracts for the overseas branches are relatively complete and were crosschecked against accounting records, inter-branch memorandums and the memoirs of executives for accuracy. The home (United Kingdom) contracts are somewhat incomplete. As far as can be established, contracts for employees at home were less formal and probably based upon a standard set of terms and conditions. This was certainly the case for the assistants in Glasgow who were usually employed on a year to year basis for up to four years, upon when they were sent to an overseas location, retained at home, or left the employment of the firm.

The majority of the remaining Glasgow contracts were DM and assistant contracts relating to the cotton factories at Deanston and Catrine, and to various secreterial positions.

The London office constituted the company's presence in the city. The London office was closely controlled by Glasgow through regular contact with the head office. The number of employees in the London office was relatively small and probably never rose above twenty.

The Liverpool operation was always a small and marginal one, that was maintained because of its importance as a trading port and its close proximity to the Midlands and Northern markets. The number of employees was always small and closely controlled from Glasgow.

There was a marked tendency for much of the home contracting to be on a year to year basis; whereas overseas contracting was nearly always for fixed time periods. Forty-three per cent of home contracts were on a year to year basis; whereas only five per cent of contracts for overseas employees were year to year. Generally, all of the short term overseas contracts were for long serving managers about to retire.

The overseas contracts, as already mentioned, are relatively complete for the period under study. The greatest concentration of employees occurred at the Calcutta branch. This was primarily due to Calcutta's involvement with tea and jute. At Bombay, when R. Ewing left the partnership in 1879, J. Symon took over as the General Manager in charge of the branch. As well as a fixed amount, Symon's received seventeen per cent of the profits and losses of the branch. He remained as General Manager of Bombay until 1908 when D. M. Inglis took over.

The partnership form of organising the Calcutta branch also ceased in 1879. R. Williamson took over as General Manager in charge until 1890. He, like Symons, also had an outcome related contract. He was given a fixed salary of Rs. 5,000 per annum and a commission of twenty per cent of the profits remitted to Glasgow. In 1882 he received twenty-two and a half per cent and in 1883 he received twenty-five per cent (Calcutta Accounts, 1881-1883, UGD 91/188). Although Williamson's contracts are not deposited in the archive, it appears that he received an outcome related contract until he left Calcutta in 1890. J. Hedderwick and C. Hoare, two Assistant General Managers, also received outcome related contracts in 1883. In 1890, when Mr. Arthur became General Manager, he received a purely fixed fee contract and such contracting for assistant managers also ceased. Although Arthur still received a share of the Bombay profits, (where he was Assistant General Manager prior to 1890) it appears that as the business was growing significantly, James Finlay refrained from entering into outcome related contracts for a decade at the Calcutta branch.

In 1895, Sir John Muir visited the Calcutta branch and was very concerned with Mr. Arthur's performance and the running of the Calcutta business generally. James Finlay had been receiving a lot of criticism from minority shareholders in Champdany Jute Company, one of the investment companies, over the way they were managing that business which may have focused Sir John's close attention on the branch (see Champdany case study). Mr. Arthur, much to Sir John's annoyance, had neglected a head office instruction on the management of the branch's foreign exchange risks by failing to buy forward exchange contracts. The trouble started when the Indian mints were closed to the coinage of silver in 1893. After this happened, the exchange rate of the rupee to the pound rose slightly, then fell steadily. The Calcutta branch did not fix exchange for their piece goods remittance, always hoping for a rise. This did not take place and Mr. Arthur had to report it to the head office. Mr. Williamson, the former Calcutta General Manager, now the London General Manager, wrote the following letter to Mr. Arthur which indicated how strongly Sir John Muir felt about the problem:

> "I have read with the greatest pain the copies of your letter to Glasgow and Mr. Arthur's to Sir John Muir....when I say that I have never before seen him in such a tempest you may be able to appreciate the position. I am afraid the letter which he has addressed to you today is but an installment of what you will get, and I was unable to persuade him to let the matter stand over until he had returned to a more reasonable frame of mind" (Correspondence, 18 May 1894, UGD 91/141).

On top of this, Sir John was also concerned by Mr. Arthur's dedication to the Presidency of the local Chamber of Commerce. Failing to be impressed by Mr. Arthur's account of his performance, Sir John asked him whether:

> "he had not taken such a strong interest

> in the business owing to his being paid by a salary instead of by a salary and a commission," and added that "the (General Manager's) fixed salary was equal to what he would have been willing that he should receive on the average had his remuneration been fixed on the basis of a salary and commission" (Calcutta Management Minutes, 5 March 1895, UGD 91/110).

Mr. Arthur soon resigned after this reprimand from Sir John Muir. Sir John decided that he would visit the Calcutta branch regularly and personally take charge of the branch's business. When he was back in Glasgow he gave special responsibilities to his sons, A. K. and J. F. Muir, to oversee the business. Sir John instructed them to:

> "specially watch over and protect the business by every means in their power....that in the future one of their special duties would be to make certain that everything was conducted in the manner they believe he would wish if personally present, and that everything of importance whether good or bad requiring prompt attention should be constantly telegraphed to the Glasgow firm" (Calcutta Management Minutes, 5 March 1895, UGD 91/110).

This arrangement lasted until Sir John took ill in 1902, and both A. K. and J. F. Muir returned to Glasgow to take over the management of the company. W. Brown then took over as the General Manager of the Calcutta branch, for a fixed salary from 1902 to 1908. A third son, M. W. Muir, shifted from the Colombo branch to maintain the family presense at the branch and did, in fact, become the General Manager in charge at Calcutta from 1908 to 1911. When M. W. Muir left the Calcutta branch in 1911 the next General Manager, Mr. R. Mansell, was given an outcome related contract of fifteen per cent based on the net profits of the Calcutta branch with a guaranteed minimum. The presence of the family at Calcutta and the relationship this seems to have to the type of employment contract negotiated, will be explored later in this part.

The Karachi branch was established in 1890 and was immediately accountable to the Bombay branch. An outcome related contract was used for the first General Manager, Mr. Brown. In fact, of the contracts examined relating to the Karachi branch, only one of them was not outcome related. Outcome related contracts were used immediately at Colombo, and within two years of starting operations at Rangoon.

OUTCOME RELATED CONTRACTS AS A PERCENTAGE OF TOTAL CONTRACTS IN TABLE 4

JOB	AG %	GM %	AGM %	DM %	A %	TOTAL %
PLACE						
Glasgow	100	0	50	14	0	5
London	-	100	-	0	0	20
Liverpool	-	86	-	75	0	69
Calcutta	-	45	18	53	2	21
Colombo	-	75	-	-	0	11
Bombay	-	89	94	100	0	63
Karachi	-	60	-	33	0	38
Rangoon	-	88	-	-	-	88
TOTAL	100	75	62	48	0.5	20

TABLE 5

Source: UGD 91/8, 56, 269, 270, 271, 277. Adapted from E.J. Walsh and R.E. Stewart, "Agency Theory and Management Accounting: A Case Study of an International Company," presented at the Ninth Annual Congress of the European Accounting Association, Stockholm, March, 1986.

In contracting overseas, it appears that outcome related contracts were important, especially as the level of autonomy and responsibility increased. Table 5 shows the percentage of contracts in each cell of Table 4 which were related in some way to the outcome of the particular branch or department of the organisation.

It can be seen from Table 5 that, in fact, the percentage of outcome related contracts for each occupational grouping, increases as the level of autonomy and responsibility increases. At the extremes, all AG contracts are outcome related, while very few of the assistant contracts are outcome related. Also, the overseas contracts were set up on a legally enforceable basis. This greater formalisation was probably due to the sheer distance between the head office and the branches.

The contracts are interesting from an accounting point of view in that the outcome related contracts were linked to various accounting practices which can be analysed over time. Also, the style of contracting can be insightfully analysed from an agency theory perspective.

c. The Emergent Accounting Practices in Outcome Related Contracts

All of the outcome related contracts were tied into an outcome concept either at the department (primarily at Calcutta) or branch, or head office level. Much of the accounting practices up to the 1870's had emerged from the partnership contracting. Conservative, safe accounting had emerged in order to ensure equitable wealth transfers between the partners on a year by year basis.

From the 1870's onwards, there was an increasing number of employees who shared in the profits and losses by way of a commission, and as a result, the accounting practices became a key aspect in the contract negotiation process. The accounting practices now became distributional devices between employees and owners, rather than between partner and partner.

Outcome related contracts at the head office were used very sparingly. The first two in 1870, were with A. M. Brown and W. L. Watson, who became non-proprietary partners in 1873. Brown's contract was a fixed salary of £200 per annum and five per cent of the profits came from the Catrine and Deanston cotton factories. Watson's commission was five per cent on the entire business, after deducting the Catrine and Deanston factories' profit. In both contracts, mention was made of the broad catagory of profits without any specification other than the present understanding contained in the partnership accounting practice at that time. The partners also maintained a secrecy over the accounting records by stipulating that neither employee had the right to examine the books and balance sheets and that they had to accept the statement of results from the book-keeper as given (UGD 91/8). How the profit was arrived at was, in these contracts, beyond negotiation and left entirely to the partner-prepared accounting statements. Once Brown and Watson became partners in 1873, there were no more head office outcome related contracts until the 1910's, apart from agency contracts with selling agents in locations where no James Finlay branch existed.

In 1914, an outcome related contract was negotiated with J.

Carmichael, who was the manager in charge of the cotton factories at Deanston and Catrine. Detailed accounting clauses were negotiated, relating to the commission base. These included: no charge was to be made for interest on the fixed assets; depreciation rate of two and half per cent was specified; on the buildings, all alterations, repairs and upkeep of the buildings were to be charged to the profit and loss account, but in the event of a large alteration being undertaken, James Finlay undertook to consider treating part of the cost as capital expenditure; again with machinery, the upkeep was to be charged to the profit and loss account and when new machinery was purchased, the cost of freight and erection was also to be charged to the profit and loss account; the stock was to be valued at the average of the average price existing at the end of the year and the prices ruling at the end of the previous two years. If the stock increased higher than £60,000, the excess would be automatically written down by five per cent for the first £10,000 and ten per cent for any valuation which was higher than £70,000. Two per cent of any such write downs were to be offset against the commission earned by Carmichael; lastly, the commission basis specified that Carmichael's commission statement, once certified by the auditor, was to be accepted as final (EC, 1914, UGD 91/279, see Appendix Two).

In London, the only extant contract in the nineteenth century was with J. Tannahill in 1887. His ten per cent commission was based on "London profits." In the twentieth century, the only other extant contract was with the General Manager in 1924, R. Langford-James, who took over from Mr. Tannahill. His commission was based on the London profits, as shown in the accounts.

At Liverpool, the first outcome related contract occurred while the branch was still operated in a partnership form. In 1871, Mr. Jackson's commission was based on "annual net profits." In 1886, his commission was increased from fifteen per cent to thirty per cent, as he was General Manager now, having taken over as the partner, S. Smith, retired in 1883. This commission was based on the "net profits or losses." Jackson's Assistant Manager, R. Falconer, in 1888 had a five per cent bonus on "the Liverpool profits." However, in 1893 his ten per cent bonus was now based on the "net half yearly profits of the Liverpool produce department less his own salary and a proportion of office expenses arrived at by negotiation with Mr. Jackson." The next outcome related contracts at Liverpool were in the 1900's and 1910's. These were with P. Walker, whose commission was based on the "half yearly profits of the Liverpool branch."

The Bombay outcome related contracting started while it was still operated under the partnership form of organisation by R. Ewing. (See Appendix Two). J. Symons was the General Manager of the partnership from 1879 until 1908, and then D. M. Inglis took over as General Manager. The basis for the calculation of commission was on the "average net profits remitted to Glasgow" after practicing the conservative partnership accounting practices, as previously mentioned. This remained the basis of all outcome related contracts at Bombay until 1916. It is interesting to note that from 1895 to 1902 the Bombay branch allocated five per cent of the net profits remitted to Glasgow to a suspense account as a matter of course, to guard against unforeseen losses or unknown amounts of losses. The branch made some heavy losses on cotton and pearl trading at this time.

After 1916, other clauses were added to the "profits remitted to Glasgow" clause of the previous contracts. In 1916, J. Herbertson's commission was based on "the net profits of Bombay including Karachi remaining to head office after deducting the salaries and commissions payable to the whole European staff including himself." In 1917, A. Geddis's commission basis was similar to Herbertson's, but with an important addition being that the net profits did not include uncontrollable pre-war items relating to cotton and pearl purchases. Further contracts in the next five years negotiated the amount of commission and salary of all the European staff to be charged against profits before arriving at the profits for commission purposes for each particular employee concerned. (See Appendix Two, B. Brown).

After 1922, a contract with H. Gilks mentions in the profits-sharing clause, that the company was to relieve members of staff of the Bombay and Karachi branches of their share of losses in the business prior to 1922.

At Calcutta, outcome related contracting was introduced in 1879 when R. Williamson took over as General Manager when R. Ewing left the partnership. In correspondence to James Finlay in 1884, on the 31st December 1883 accounts, Mr. Williamson stated that the commissions of his two assistants were calculated on the profits due for remittance to James Finlay alone so that they did not become a charge upon the business (Correspondence, 19 February 1884, UGD 91/188). Future outcome related contracts did become a charge on business in the sense that the General Manager bore the cost of the commission incentives given to the branch staff as well as the head office. From 1890, when R. Williamson left Calcutta until 1911, there were no outcome related contracts for General Managers at Calcutta.

At Calcutta, outcome related contracting was not introduced for General Managers until 1911. An explanation for this gap in outcome related contracting, as compared to the other overseas branches, from an agency theory perspective, will be given in the next part of the case study. Outcome related contracts at other occupational levels, apart from two early assistant general managers in the 1880's, were introduced from 1903. These were generally for departmental managers, such as A. Thaddeus, whose commission basis was "on the net profits from the working of the Nowaghur properties after providing for depreciation, interest on the property, working advances of six per cent per annum and agency commission of Finlay Muir and Company at five per cent on the net price realised for coal at the colliery" (EC, 1903, UGD 91/56).

The other departments at Calcutta then started to phase in outcome related contracts. The first commission base was generally just on the profits shown in the particular department as shown in the accounts, without any deduction of salary of the European staff or a proportion of office rent or such like. However, the next contracts usually allocated some other costs to the departmental profits. For example, in the produce department, R. Langford-James' 1913 contract specified that his commission basis was now to be based on the net profits of the produce department after deducting the expenses of the European staff in the department and ten per cent of the cash and bookkeeping department's staff, the general staff and the general expenses. This was deemed to be Rs. 175,000 (i.e. ten per cent of Rs. 175,000). This also occurred in the piece goods and steamer departments. The piece goods department's contracts in

1918 and 1923 also included cut-off details relating to when to account for a sale in what period.

The jute department's contracts are interesting in that the first commission base was on the profits of the Champdany Jute Company Ltd. based on that company's printed accounts. The next contracts in the jute department refined the commission base to Champdany profits based on the printed accounts after deducting £17,000 per annum for depreciation and after deducting tax. No credit was to be given for any rebate of agency commission provided by James Finlay. Also included in the commission base from 1908, was a proportion of Sarkies business and a proportion of the department's own jute commission account.

The commission basis for the General Manager at Calcutta from 1911 was based on the profits of the whole branch, but excluded was uncontrollable items prior to 1910 relating to Indigo losses and the write down in the loss of value of the properties at Narangange (apart from ordinary depreciation).

At Karachi, the first outcome related contract was based on profits remitted annually to Glasgow. Then in 1916, L. Brachi's contract (General Manager) modified the basis to the profits of the Karachi branch after deducting salaries and commissions payable to the whole European staff, including his own salary and commission.

At Colombo, the first outcome related contracts were in the 1890's for the General Manager. They were related to the net amount of sales influenced directly by the Manager. After a fifteen year gap in outcome related contracting the General Manager, J. T. Broom, in 1914 negotiated a commission, based on the net profits of the Colombo branch which was based on the accounts with the proper depreciation on the office premises and the buildings and machinery at the Ambawatte cotton mills to be written off. G. Turnball took over as General Manager in 1917 and he negotiated an extremely interesting commission basis. The basis was the same as Broom's but with additional accounting clauses relating to investments in shares made by the Colombo branch, which stated that any fluctuation in the investments would not affect the profit on which the commission was to be based. Also, another clause related to any goodwill payments for new business. Such payments were to be written off over a reasonable number of years, so as not to adversely affect one year more than another for commission purposes (EC, 1917, UGD 91/269).

Turnball's 1920 and 1924 contracts are also interesting as further accounting clauses were negotiated into the commission base. These were to do with the exchange treatment of depreciation on certain investments made by the head office. The rate of exchange to be used was the rate ruling at the time the investments were made.

A relatively detailed commission base was used at Rangoon, when the first outcome related contract was negotiated in 1903 by W. Dick. This may have been due to the head office directly controlling the Rangoon operations. The commission was based on the net profits of the Rangoon and Java Commission accounts after deducting one fifth share of the loss on sugar (£775) and a share of the office expenses (£500). This basis remained much the same for the following contracts with the general managers. The 1904, 1909, 1912 contracts with R. Patterson were to include in the profits of the commission account, the benefits of discounting with Webster Steel (a South Africa merchant firm). The contracts in 1921 and 1922, with H. R. Gourlie, included clauses relating to the valuation of unsold stocks and stocks sold but on which the income was yet to be received.

There is a broad trend over time, within each of the branches, for the commission basis to get more tightly defined. In the 1880's, 1890's and 1900's, there was a tendency for the commission basis to be defined as a sales figure or on the basis of cash remitted to the head office. However, in the 1900's and 1910's an accrual accounting concept of profit emerged with the contract setting out, in a greater degree of detail, what the employee's commission basis was. This suggests that there was a greater degree of awareness of the possible ways of interpreting broad commission bases, like sales, and an increased desire by the head office to control and motivate employees.

It appears that in some cases the accounting practices did become more standardised - for example, charging repairs to the profit and loss account. However, areas that were still within the discretion of the head office remained, such as the estimation of possible losses and recognition of revenues. This occurred at the level of each of the branches accounts through the use of provisions and suspense accounts and at the level of the commission payment to the employee through the use of commission accounts. These two accounting devices ensured that the head office retained its conservative and safe accounting,and therefore, the ultimate control over the division of wealth among the employees and the owners. The contracting with the employees perpetuated the conservative accounting practices that emerged in the partnership from the early 1800's.

As already mentioned, the Bombay branch, as a matter of course, put five per cent of the profits each year into a suspense account between 1895 and 1902. In Calcutta, the branch accounts contained provisions against losses. In 1885, there was a debate over the use of suspense accounts at the Calcutta branch. The head office gave to Finlay Muir a memorandum, outlining their share in further losses in the Clan Steamers' results for 1882 and 1883. This was done after receiving advice from James Finlay in April 1884, that the loss was finalised. In response to this latest memorandum indicating further loss to be borne by the Calcutta branch, the branch replied to the head office stating:

> "The amount is by no means a trifle and so far as we are concerned the voucher you send us is insufficient....We have to point out that Mr. Williamson's interest in this business was not the same in '81 and '82 as in '83, that Mr. Hedderwick participated with profits of the year '83, as also in those of 81/82, and that Mr. Hoare did not join until '82....Accordingly to charge the year 1883, in our balance sheet for 1884, with losses made in '81 and '82, less it may be profits earned in one or other of those years, is altogether absurd and unfair; and moreover our balances up to and inclusive of that to December '83 have already been closed and confirmed by you and in our opinion it is not competent to re-open them now" (Correspondence, 6 April 1885, UGD 91/188).

In the accounts for the 31 December 1884 the manager, as per usual practice, signed the accounts and stated that he certified them as correct statements of the profit and loss and private ledger balances at that date. However, C. Hoare, who was acting General Manager while Mr. Williamson was on leave, further stated the following in the accounts:

> "Finlay Muir have in the letter of 6 April 1885 to Messrs. James Finlay & Co., Glasgow, protested against the entries in the profit and loss account setting aside to the credit

> of suspense account at this time £5589.19.10 for losses by Clan Line Steamers in 1881/83 made applicable to 1883, and £8000 for probable losses by Clan Line Steamers in and applicable to 1884" (Accounts, 1884, UGD 91/188).

This debate provides an insight into an occasion when the suspense account was miscalculated and the effect this had on employees' earning of commissions in the future period when the prior period losses were charged. The debate also illustrates the power the head office had in manipulating the accounting practices to their own advantage. Also there were heavy losses incurred around the turn of the century in indigo. Conservative provisions were set up until the amount of the losses flowed through into the accounting records in later periods.

The conservative attitude was illustrated in correspondence from the London branch to the head office on the 1890 London branch accounts:

> "We regret very much not only that there is no profit to pass on to you in respect of the year 1890, but that there is no prospect of your having any surplus profit from this branch of the firm for some years. We may take too doleful a view of the situation here, but we have been anxious to avoid misleading you as to the true position and have been perhaps too careful not to imitate the sanguine tone of former communications. It seems to us better just to carry on all the accounts as they are in the books, and liquidate them gradually by realising the securities and by writing off the credit balancesin Profit and Loss a/c to the credit of one or other of the Bad Accounts than to open a suspense account. This course is one which will tell against Mr. Tannahill whose remuneration depends somewhat upon commission on profits, and he may not unjustly contend that losses having been made in the business, the proper course is to recognise the fact at once and write off the same by a debit entry to your account. Then the profits if any, appertaining to future years he will participate in with you. That is probably the

> proper course to follow and if it is you will probably instruct us" (Correspondence, 18 August 1891, UGD 91/191).

The commission accounts became a feature of the outcome related contracting in the 1910's. Very few contracts mention the operation of a commission account prior to 1910. The commission account also operated as a device for the head office to keep profit from the employee so that any unaccounted for losses would be recognised over the course of the contract, thus mitigating against any unduly inflated profits in a prior contract period.

This was not only used as an accounting device, but also acted as a control and motivating mechanism on the employee for the whole contract period. An example of the clause relating to the commission account for a head office contract, was with J. Carmichael. The clause relating to his commission account stated:

> "....year by year when the accounts are made up 2% on the profit or loss will be placed to credit or debit of this account bearing interest as from the end of the year at the rate of 5 per cent per annum. Whenever at the end of any year the balance at your credit, including interest at the said rate of 5 per cent per annum exceeds £500 the excess will be paid to you.
>
> It is understood that you will not be liable for your 2% of any losses that may be incurred in excess of the sum which may be at your credit from time to time in your Commission Suspense a/c and the balance at the credit of that Suspense a/c, if any, will be paid to you when this arrangement is determined" (EC, 4 January 1915, UGD 91/269).

Carmichael also had charged to his commission account, a proportion of any written down stock when the stock value went over £50,000 at the cotton factories. The interest payment was probably made as some compensation to the employee for the "golden handcuffs."

Similar commission account clauses existed in the overseas outcome related contracts in the 1910's. R. Mansell, the General Manager at Calcutta from 1911 to 1918, had a commission account clause which stated:

> "You will be entitled to draw Rs. 35,000 per annum but your commission on the net profits or losses when ascertained after the close of each year shall be carried to your credit or debit in a Suspense Account in the books of our Calcutta Branch. As soon as the Calcutta Branch's accounts for the year ending 31st December 1916, or for the year during or at the end of which this Agreement determines have been made up and approved by us, your Commission a/c will be brought to a point and you will be entitled to receive any balance there may be at credit of same. Your Commission Suspense a/c will be interested at the rate of 5% per annum and Rs. 35,000 will fall to be debited to the account and credited to your Drawing a/. at 30th June in each year" (EC, 5 May 1911, UGD 91/56).

It is interesting to note that this contract was a five year contract, and that it was not until the Calcutta Branches accounts "have been made up and approved" by the head office that Mansell was to receive any commission above his guaranteed minimum of Rs. 35,000. R. Langford-James, the next General Manager at Calcutta, had exactly the same commission account clause in 1919 (EC, 31 October 1919, UGD 91/269). This kind of clause became a feature of the outcome related contracts at all the branches during the 1910's.

The head office held the upper hand, in that it gave the final approval to the accounts on which the commission basis had been agreed. Outcome related contracts with general managers in the 1910's, usually included a clause stating that in the event of a dispute over the remuneration or interpretation of contract clauses, that the employee and James Finlay would refer the dispute to the decision of a mutually agreed upon arbiter. All outcome related contracts from around 1919 onwards included the provision of an arbiter as a standard contract feature. Three arbiters were generally used. These were the Secretary and Treasurer of the Imperial Bank of India, the President of the Glasgow Chamber of Commerce, and the Faculty of Procurators in Glasgow. There is, however, no evidence in the archive of any contract going to any such arbitration.

It appears that the arbitration clauses fulfilled a "safety net" role because of the uncertain environment in which the contracts were made. The arbitration clause would also reduce the expected costs of contract impasses (Crawford, 1985, p. 377). Also, Crawford (1985) suggests that arbitration can be used as a substitute for a complete contract and that it may be easier for the principal and agent to agree on an arbitrator rather than agreeing on complete contract settlement.

The allocation of office expenses or amounts of depreciation became allocation devices against the employees' commission income. They did not necessarily make an impact on the branches or head office's financial accounts. For example, the portion of office expenses allocated to the departmental manager's commission in Calcutta, was a budgeted amount as was the depreciation allocation in the jute department's commission basis in Calcutta. This meant that there was a set of accounting numbers that emerged from the employee contracting that were different from the branch or head office annual accounts.

d. Agency Theory and Accounting

Agency theory states that in an unregulated environment, the function of financial statements is to reduce agency costs (Watts, 1977, p. 58; Watts and Zimmerman, 1979, p. 277). This theory predicts that accounting practices would vary across corporations in an unregulated economy depending on the nature and magnitude of the agency costs. Agency costs arise because the manager's (the agent's) interests do not necessarily coincide with the interests of the owners (the principal) because they are both considered to be utility maximisers. An agency contract, therefore, is entered into by the principal with the agent in order to mimimise the agency costs. In agency theory the firm is viewed as a nexus of contracts, [9] and so the firm is seen as composed of individuals that have contracted for certain property rights and have the objective to maximise their utility (Watts and Zimmerman, 1986, pp. 194-195).

In the simplified agency relationship, the principal has a problem because acting in the principal's interest will not normally maximise the utility of the agent. Without safeguards, therefore, it will be expected that the agent will act in ways that the principal would not wish him to.

The principal solves the problem in two ways (Jensen and Meckling, 1976). First, by creating incentives for the agent to act in the principal's interest. An example is the outcome related contracting in James Finlay. Secondly, by developing monitoring devices. Also, the agent may wish to invest in some guarantee that he will act in the principal's interest. This is known as a bonding cost.

Jensen and Meckling (1976, p. 308) have defined the three aspects of agency costs. Firstly, monitoring expenditures made by the principal. These are expenditures by the principal to control the agent's behaviour. For example, such expenditures could include the costs of measuring and observing the agent's behaviour or the costs of establishing compensation policies. Secondly, are the bonding expenditures by the agent. Thirdly, included in agency costs, is the residual loss. This is defined as the reduction in welfare due to the agency relationship, because despite the monitoring and bonding expenditures, the actions taken by the agent will differ from the actions the principal would take himself.

Watts and Zimmerman (1986, p. 196) suggest that in the "nexus of contracts'" view of the firm, there is a demand for monitoring contracts and that accounting plays an important part in the formulation of contract terms and in the monitoring of those terms. Therefore, they suggest that accounting and auditing play an important role in contract monitoring. This is because if agency costs vary with different contracts, accounting procedures have the potential to affect the firm value and/or the agent's compensation. Watts and Zimmerman (1986, pp. 197-207), therefore, suggest that accounting and auditing emerged historically as a monitoring device for the firm's contracts. They suggest, in fact, that accounting historians have long been aware of the importance of the agency relationship as a explanation for the existence of accounting. [10] Watts (1977, pp. 62-63) states that the stewardship concept in the accounting literature is the idea that the purpose of accounting is to check the honesty and reliability of agents. Watts (1977, p. 63) suggests that by recognising the relationship between agency costs and accounting practices that a set of consistent and coherent explanations can be given for the emergence of accounting practices.

Watts and Zimmerman (1986) specifically note the widespread existence of management incentive compensation contracts in the United Kingdom in the late nineteenth and early twentieth centuries. They further suggest that by the end of the nineteenth century, audited accounting reports had come to serve as a basis for management compensation. This occurred to reduce moral hazard. This will be examined in relation to the James Finlay employment contracts in the next section.

It is not clear from an examination of the James Finlay employment contracts and accounting practices, whether outcome related contracting had such a direct effect on the accounting practices of James Finlay as suggested by Watts and Zimmerman. Certainly, as already stated, there was a trend from a cash concept of profits to an accrual concept of profits and the charging of repairs on fixed assets to profits; however, there emerged a separate set of contracting accounting techniques, such as arbitrary allocations of depreciation and offices expenses, which were made ex ante and independently of the annual accounts of either the branches or the head office. The existence of auditing from an agency theory perspective is also problematic, because initially auditing was introduced in James Finlay in 1903, by the trustees of Sir John Muir's estate out of fiduciary considerations. Whether as an unintended consequence, auditing came to be seen as a monitoring device due to the existence of outcome related contracting, is unclear. Auditing in the organisation will be explored in a latter section.

Watts and Zimmerman (1986, pp. 205-206), however, make the general comment that use of conservative accounting practices, such as recognising revenues later rather than sooner and expenses sooner than later, emerged to offset the agent's optimism which was presumably encouraged by outcome related contracting (see Hendriksen, 1982, p. 82). This can be seen in the way the suspense provision and commission accounts operated in the branch and head accounts.

The Watts and Zimmerman version of agency theory tends to be more macro and empirical in its orientation. For example, it has been used to comment on the regulation of financial reporting and empirical researchers have used the framework to explain management's choice among accepted accounting methods. For example, the hypothesis that "ceteris paribus, managers of firms with bonus plans are more likely to choose accounting procedures that shift reported earnings from future periods to the current period" (Watts and Zimmerman, 1986, p. 208). [11]

Another version of agency theory has tended to develop around the work of Demski and Baiman. Generally, it has been analytical and micro in its orientation, with its modeling focusing on one principal and one agent in a single time period. This literature is reviewed in Baiman (1982) and its employment contracting implications have been reviewed in Namazi (1985). The next section examines the employment contracting behaviour in James Finlay from an agency theory perspective.

e. Agency Theory and Employee Contracting

Agency theory, in this micro sense, has been suggested as a theoretical framework for many extant management accounting practices.

The basic agency problem is that there is a principal who supplies capital and an agent who is averse to risk and effort, who supplies labour to the organisation. The principal's problem, as already mentioned, is to induce the agent to take the action (expend the effort) that the principal would take. The implications of the model are that if the principal can observe the amount of effort the agent expends, then the optimal contract is to pay the agent a fixed wage if the agent takes the right action and impose a penalty if the agent shirks. In this situation, the principal bears all the risk. The problem, however, arises when the principal cannot observe the agent's action. In that case, the optimal contract is to have the agent share in the outcome of his actions, and thus to provide him with an incentive to expend the optimal amount of effort.

To date, attempts at tests incorporating agency theory have been largely experimental (i.e. Waller and Chow, 1985). Walsh and Stewart (1986) have used the employment contracts from James Finlay. There are, of course, difficulties with archival research. For example, the incompleteness and the inflexibility of the data. However, the longitudinal nature of the data meant that some of agency theory's propositions could be examined in multiple settings and at multiple times (Webb et al., 1966, p. 53).

To carry out their tests, Walsh and Stewart (1986) took an instrumentalist approach.[12] Some of agency theory's restrictive assumptions are difficult to falsify, for example single period, exogenous labour markets and single agent assumptions. Therefore, in their study, Walsh and Stewart did not examine the qualitative implications of relaxing these assumptions. Rather they looked at how well agency theory explained the nature of the employment contracting behaviour in James Finlay. The findings of the study were:

(i) <u>The use of contracts</u>: Table 5 showed that the percentage of outcome related contracts for each occupational grouping increases as the level of autonomy increases. This result suggests that outcome related contracts were most likely to be employed where the costs of observing the realisation of the state variable and the agent's effort were highest. With the impact of distance, it would be expected that all General Managers overseas would have outcome related contracts. However, Table 5 shows that only seventy-one per cent of General Managers had outcome related contracts. This anomaly can be largely explained by the presence of the Muir family at Calcutta (see Pollak, 1985) and Colombo; the occasional use of fixed fee contracting either as in the Calcutta situation with Mr. Arthur or where perhaps in a newly opened branch the state variable was completely unknown; or lastly as in Karachi's case, where there was a run of losses and the manager probaby insisted on a fixed fee contract.

Sir John Muir's sons had expectations of a continuing relationship with the firm and a claim on its profits and, therefore, were subject to different and perhaps more effective rewards and sanctions than the rest of the employees. The family presented unique monitoring advantages which flowed from the entwining of economic and personal relationships. Also, altruism and family loyalty were further aspects of the family management. Pollak (1985, p. 592) states that because family managers expect a continuing relationship with the firm, they are less likely to sacrifice long-run advantages for short-run gains. Sir John's sons did not need outcome related contracts to bind them to the firm and to take a long-term view in the way non-family managers needed.

Apart from these anomalies, the data supported the conclusion that as the cost of monitoring the managers' effort and the realised state variable increase, outcome related contracting is more likely to occur.

(ii) Contracting and Employee Ability: In the study, the authors considered the case where the agent's ability is imperfectly known by both the principal and the agent. Narayanan (1985) has examined this issue within an agency framework and demonstrates that if there is a principal agent information asymmetry, the manager may have an incentive to take decisions which increase short run profits rather than long run profits. The manager will concentrate on short run profits in order to improve the principal's perception of his ability and hence obtain salary increases. In order to overcome this problem, Narayanan concludes that the principal should employ more experienced managers (since there is less ignorance of their ability) and use long term contracts in order to give them a long run orientation.

Both of these propositions are supported by the data. It would be expected that the information asymmetry is greatest for overseas managers and that contracts would be more likely to be longer for overseas managers. The average contract length for overseas managers was 4.07 years compared to 1.29 years for managers based in the UK. If assistants are included in the home data the average contract length rises to 2.07 years. In addition, only 16 overseas contracts were on a year to year basis compared to 127 home contracts on a year to year basis. These contracts were also binding, and in the cases where employees terminated their contracts for reasons other than ill health or premature death, employees were required to pay a fine equivalent to their annual salary.

Experience was also found to be an important feature of the management contracts examined. The average years of service of overseas managers was 10.46 years. The average years of service, and hence experience, was even higher for general managers. The average years of the general managers in Calcutta was 19.2 years. In the case of managers with no previous experience in the company, the firm normally retained the option to fire the employee should he prove to be unsatisfactory.

Experience and contract length would seem to be related. The contracts for overseas employees which were of less than five years duration were only granted to employees of long standing.

(iii) The use of budget-based contracts: The study then reported a test on the superiority of budget-based contracts to linear contracts or fixed fee contracts. A budget-based contract is an incentive scheme which may be interpreted from an accounting point of view as a break which is defined by the budgeted outcome. The reward the agent receives depends on whether the actual outcome is above or below the budgeted figure. [13] The contracts were classified in Table 6 by the nature of the incentives scheme for one hundred and sixty-seven managers in India, Ceylon and Burma. They consisted of all the managers other than the majority of the assistants. Thirteen assistants were included because they were responsible for some operations when their superiors were on furlough.

NATURE OF INCENTIVE SCHEME: OVERSEAS MANAGERS

Number of contracts	Total	Prior to 1910	After 1910
Fixed Fee	70	50	20
Linear	48	27	21
Budget Based	49	8	41
Total	167	85	82

TABLE 6

Source: UGD 91/8, 56, 269, 270, 271, 277. Taken from E. J. Walsh and R.E. Stewart, "Agency Theory and Management Accounting: A Case Study of an International Company," presented at the Ninth Annual Congress of the European Accounting Association, Stockholm, March, 1986.

Table 6 demonstrates clearly the introduction of budget based contracts after 1910. Prior to this date the use of budget based contracts was extremely haphazard. The test of the use of budget based contracts used an interrupted time series research design to demonstrate that the distribution of the outcome received by the principal changed, following the introduction of budget based contracts.

The test used information on the principal's (James Finlay's) profits for the branches at Calcutta, Colombo and Bombay to calculate the change in the distribution of its profits before and after 1910. The test was also performed using data deflated by commodity price indices relevant to James Finlay's trading activities in its differing locations.

The conclusion of both the tests was that the introduction of budget based contracting led to an increase in the principal's welfare at the Colombo and Calcutta branches. However, at Bombay the earnings failed to improve. One explanation for this, that was explored in the study, was the attainability of the budgeted figure. It was found that the probability of attaining the budget was lower at Bombay than at Calcutta or Colombo. This suggested that managers at Bombay felt they were unlikely to exceed the budgeted level.

In summary, the study, among other things, concluded that outcome related contracts were more likely to occur in situations where it was costly to observe the realised state variable and the effort of the agent. In addition, it was found that outcome related contracts were unlikely to be used where it was less costly to monitor the state variable and the agent's effort. Also, it was found that contracts would seem to be a device for decreasing the costs of imperfect information about the manager's ability. The study also suggested that budget based contracts were superior to linear contracts when allowance for budgetary tightness was made.

6. Management Control

The employment contracts emerged as a method for long distance control. The agency theory perspective outlined, highlights the problem of shirking and the issues of control and motivation. The agency model focuses on how principals and agents respond to incentives. The model presumes that a great deal of behaviour can be induced and attributed to overriding reponses in the negotiated inventive schemes (Young, 1985).

Yet, Finlay's did not rely only on the type of employment contracts as the sole method of long distance control. An important aspect about the contracting and the information devices, was that they provided a structure within which to send employees overseas - a structure which created an envelope within which surveillance could be exercised over the employees.

The company selected their employees very carefully and appointed each employee to a four year contract in Glasgow and then the employee generally received two five year standard term contracts overseas. The ethos of the organisation was very similar to the organisation of the military. Employees first hired in the organisation became "drilled" in the company procedures and ethos at the head office (see Mooney, 1954). The employees were extensively questioned on family background and their family's position in society.

An employee at the head office, J. T. Jenkins, recounted in 1952 the dissimilar nature of two interviews he had, when he sought employment in 1899. The first interview with the Royal Mail Steam Packet Company, was "somewhat perfunctory and offhand, and I am not now suprised, looking to the fact that the emoluments for the first three years were £10, £15, £20" (Jenkins, quoted in Brogan, 1952, p. 255). On the other hand, James Finlay, who were offering the same money, interviewed him in a far more rigorous and searching manner. Jenkins stated:

> "My first contact was with Mr. R. H. Sinclair, who, even then, I sensed, made up for his lack of stature by what appeared to me, as an excessive degree of Victorian dignity. I had over an hour to wait before he was free to see me, then the ordeal began. His questions covered father, mother, family, church connection, and school, - embracing prizes, certificates, bursaries, scholarships, etc. Then he tried me out in mental arithmetic, at which I imagined myself rather proficient. 448 yards at 2 3/4d. per yard, or

something like that. While I was struggling with this problem Mr. Sinclair stared at me in a piercing gimlet way through his thick-lensed spectacles. I found this rather disconcerting, and I had great difficulty in concentrating. Much to my relief a boy tapped at the door and announced that Sir John Muir wished to see my inquisitor. As soon as he had gone, with the assistance of paper and pencil I soon had the correct answer. I awaited Mr. Sinclair's return with confidence and a certain degree of composure, but when he came back, after some twenty minutes, he had completely forgotten the problem he had set me, and propounded a fresh one, so that my subterfuge proved of no avail.

I did not realise that the examination conducted by Mr. Sinclair, whom, incidentally, I came eventually to respect very highly, was merely my 'preliminary' and that I had still to sit my 'final' conducted by Sir John Muir. Had the emoluments already mentioned been twenty times greater Sir John's examination could not have been more meticulous and searching. As to my family he went over the ground already covered by Mr. Sinclair and, as I was the youngest of twelve, this naturally took some time. When he came to my schooling, his questions seemed interminable. How many books of Euclid had I mastered? Could I do quadratic equations? Had I read inter alia, Virgil, Cicero and Ovid? At long last I heaved a sigh of relief when I was handed back to Mr. Sinclair, who told me I could take up my duties on the following Monday. It was the middle of August 1899 and Mr. Sinclair was careful to point out to me that my salary would remain at the rate of £10 per annum for 16 1/2 months i.e. until the 1st January, 1901" (J. Jenkins, quoted in Brogan, 1952, pp. 255-256).

Often in the employee records it would be noted whether the employee's father was in the army, church ministry or one of the professions. Also listed would be the occupations of all prospective employee's brothers and sisters (see UGD 91/56/269).

Jenkins further noted the comment of a Joint Managing Director of a large shipping concern who stated "....on more than one occasion that he owes his success as a business man principally to the early and strenuous training and discipline which he underwent in Finlays" (1952, p. 256). On another occasion, Sir John stressed the importance in business of "being able to form a correct estimate of a man's character" (Calcutta Management Minutes, 21 February 1985, UGD 91/110)

Organisation indoctrination of the employees, along with the structure of the contracts and information flows, became the methods of long distance control in James Finlay (see Law 1986). Such techniques also helped the Muir family maintain and exercise tight family control over the business. The methods provided a setting in which the fidelity of the employee was encouraged and the temptation to shirk or become a double agent was lessened.

Sir John Muir made regular visits to India from the 1870's onwards and thereby sought to dissolve the impact of the distance. At all times, he affirmed his autocratic style of management in the firm.

Brogan stated that:

> "Sir John could be formidable when roused, and nothing was calculated to disturb him more than careless work of any kind. At any time he might investigate the work of a branch and examine with meticulous care some matter, possibly not supremely important in itself, and deliver his verdict with unsparing justice. Even men of high standing and long and tried service in the firm did not court his criticism nor relish it when it came" (1951, p. 48).

One such occasion was when Sir John censured Mr. Arthur in 1895 about his tardy management of foreign exchange risks at the Calcutta branch. He then took the time to spell out what exactly he expected from his employees. He stated to the Calcutta management meeting:

> "....that whether he was in India or elsewhere, he was always to be regarded as the

> Senior managing partner of James Finlay and Co., and of Finlay Muir and Co., and that every thing in connection with the business of the Calcutta and Colombo firms was to be conducted exactly as the managers believe, he would wish to have it done, if personally present with all the facts clearly before him. He reminded the Managers that they were Trustees for James Finlay and Co. and must be careful that the funds entrusted to them were only applied to such purposes as their Principals would approve of....The Chairman requested that each manager should be careful in regard to spending the funds of J. F. & Co. as if each rupee came out of his own pocket and were more careful, because he was intromitting with the funds of absent principals for whom he was acting as trustee (Calcutta Management Minutes, 20 April 1895, UGD 91/110).

This, Sir John said, he told managers frequently, both individually and collectively. Managers were drilled with the idea that they were trustees. On another occasion, he referred to Mr. W. Steel, the founder of Webster Steel, another merchant company, and attributed his success to:

> "....his close personal attention and searching supervision of every detail, and stated that after Mr. Steel had established his own business on a satisfactory footing in Rangoon, and had managed it very ably for several years, he came home to spend a term in London where he received a weekly diary from each Manager and assistants in Rangoon, and so was able to keep in close touch with all that went on. He (Sir John) repeated that it was this close attention to detail and thoroughness in every respect coupled with perseverance and self-denial that had made Mr. Steel such a successful businessman, and he was most desirous that every manager and assistant of Finlay Muir and Co. should act similarly" (Calcutta Management Minutes, 21 February 1895, UGD 91/110).

This attention to detail and the desire "to keep in close touch with what was going on" was behind the setting up of the accounting practices at the branches. At Calcutta, the employees there in 1875, complained about the detailed accounting returns they had to send to the head office. A letter from Calcutta to Glasgow in 1875 had the following paragraph:

> "In conclusion permit us to state that, whilst we shall of course, carry out any instructions which you send, we consider that it is to your own interests to have a totally different system of accounting in dealing with Calcutta. At present you really cannot say what is the value of this Branch and we do not anticipate that you will ever be able to do so until the complicated system of returns which subsists is swept away" (Calcutta Correspondence, 21 June 1895, UGD 91/141).

It appears that the employees at the branch failed to understand that the accounting practices that emerged were not necessarily put in place to obtain the "value" of the branch. Rather, the accounting practices had the prime motive of rendering the branch visible to the head office. If each employee was viewed as a trustee, then an accountability mechanism had to be put in place to enable their trusteeship to be evaluated. Given the difficulties and potential danger of trust over a distance, the head office hoped that such detailed accounting requirements would severely constrain the possibility of deceit (Roberts and Scapens, 1985, p. 453).

During the 1880's at the Calcutta branch, the accounts were divided up into the different aspects of the business. The emergence of departmental accounts helped to facilitate control. Departmental accounts, where appropriate, became a feature of all the branches. At Calcutta the accounts, for every six month period from 1885 to 1895, fell behind to the stage where in 1894, the 1891 accounts had just been completed (Calcutta Management Minutes, 5 March 1895, UGD 91/110). The problem appeared to start in 1885 with the London branch disputing the allocation of losses on jute shipments in 1884. Then there was a delay in receiving from Glasgow, entries required from them for each six monthly accounts preparation. It was not until 1887 that the 1885 accounts were sent to Glasgow. The Calcutta branch repudiated all responsibility for the state of the accounts. In March, 1889 Calcutta cabled Glasgow stating "....ruinous reports have been circulated. Finlay Muir and Co.'s books are in hopeless arrears involving serious complications. We repudiate all responsibility. Immediate action must be taken." Glasgow responded by sending certain entries, which meant the 1887 accounts could be completed (Employee Memoirs, UGD 91/110).

When Mr. Williamson retired as General Manager from Calcutta in 1890, he stated to the incoming Manager, Mr. Arthur:

> "In connection with our Books which you tell me you can take no responsibility for in their present unadjusted state I can only say that I do not blame you, and as you are aware I am in no sense responsible for their condition. The folly of allowing them to go so far behind is quite beyond my comprehension. The anxiety regarding them has been a heavy burden on me, but having failed in my endeavour to get our Friends in Glasgow to recognise the position and have it put right, my aim has been to let the unclosed accounts drop from my memory" (Calcutta Management Instructions, 20 March 1890, UGD 91/109/3).

The process of getting the Calcutta accounts fully up to date was a lengthy one and did not occur until 1895 after a visit from Sir John Muir. He was anxious that the books should be fully up to date. He gave Mr. Scott, the head of the finance department, "the authority to engage five or six additional capable book-keepers with the view to having the books promptly brought up to date" (Calcutta Management Minutes, 20 April 1895, UGD 91/110). Sir John tabled a specific timetable for the completion of the books which stated that by the 20 June 1895, the 1894 accounts had to be completed.

This lack of timeliness in the completion of the accounts would indicate that the accounts were not really needed for decision making within the business. It also meant, however, that the control aspect suffered from the lack of timeliness. Although concerned, this did not deter Sir John Muir when visiting the Calcutta branch in 1895, to use the 1891 completed accounts for accountability purposes. In examining the 1891 accounts he stated that he took an unfortunate view of Mr. Blair's management of the produce department, because under his care it had made a loss of Rs. 14,000. When Mr. Blair's salary was added to this, the loss was significant and, therefore, Sir John had questioned Mr. Blair closely and severely, requesting full explanations for the loss. Mr. Blair had told Sir John that he was certain the department had made about Rs. 50,000 during 1891. Sir John had asked Mr. Blair to look into this matter and to provide an explanation as to where Rs. 64,000 (Rs. 50,000 estimate plus Rs. 14,000 loss as reported) had disappeared to. Sir John suggested that it might be due to some unfortunate foreign exchange transaction that had been charged to Mr. Blair's department. He then stated that it was important that "each department stand on its own legs, so that J. F. & Co. may clearly see who are doing well for them and who are not" (Calcutta Management Minutes, 5 March 1895, UGD 91/110).

To fulfill this aim further, Sir John requested that the:

> "....system of book-keeping be readjusted so as to show exactly the profit or loss made in each department and that an Exchange Book be kept which would show all the fixtures made

> and to what purpose they were intended to be applied, and if they were used for any thing else that they would have to be noted, and that any profit or loss thus made must not be changed to the transaction to which the exchange was transferred" (Calcutta Management Minutes, 5 March 1895, UGD 91/110).

Sir John was very concerned when the accounting practices failed to facilitate the close control and supervision he desired. At one stage he discovered that in 1894 the firm had been paying the income tax for the European and Native assistants since its introduction in 1886. Sir John stated that this was done without head office consent and that the income tax charge had been concealed each year in the "office establishment account." From this time on the Calcutta branch had weekly meetings of the branch management and statements for each department of the business were presented and discussed (Calcutta Management Minutes, 21 February 1895, UGD 91/110).

One one occasion, the structure of the accounting documents, the employment contract devices and indoctrination procedures, were not enough to ensure the fidelity of a tea buying employee, Mr. Schultz. In December 1893, it was discovered that he had been trading with Finlay Muir's Australian agent, Dalgety and Company, on his own account. In January 1894, Mr. Schultz left Calcutta and boarded a steamer at Bombay for Australia. Mr. Paris, the other tea buyer for the Calcutta branch, was dispatched immediately for Colombo where he was able to catch the same steamer. When in Australia, Mr. Paris was able to keep the business in Finlay Muir's hands. This incident naturally terminated the connection with Mr. Schultz.

This resulted in further explicit instructions for the tea buying department. Specifically, no buying operations were to be entered into without the sanction of Finlay Muir (Employee Memoirs, UGD 91/141).

The other aspect of controlling the business at a distance was, as already mentioned, the presence of the family and trusted senior managers at the overseas branches. The Muir family's presence abroad provided James Finlay with a network of trusted and loyal managers especially Sir John's three sons, A. K., J. F. and M. W. Muir. His sons, in an almost vicarious way, represented the presence of their father abroad and, thus, his autocratic style of leadership within the firm. This loyalty of kinship also extended to loyal managers, such as A. M. Brown and R. H. Sinclair.

The accounting practices emerged as an important part of the control process over the employees of the Finlay branches, especially those operating at a distance. Roberts and Scapens suggest that the salient feature of accountability across distance is the relative absense of the mutually known circumstances that have given rise to the accounting information. "Consequently, with distance the relative importance of accounting information increases since it becomes the principal, if not exclusive, bearer of knowledge" (1985, p. 451). The accounting documents, along with the employment contract device, provided an envelope within which to send employees to their branches. The success of these techniques were enhanced by the employees being "vetted and drilled."

Departmental accounting at Calcutta facilitated the allocation of controllable items to enable a correct assessment of each department, especially departmental managers. The decision making role of accounting does not seem to have been important at all. Rather, accounting provided an assessment of the trusteeship of the firm's employees and, along with the employment contract and the training and discipline provided in the organisation, accounting emerged as a technique of long distance control, to ensure employee fidelity.

7. Accountants and the Organisation

a. Accountants Employed by the Company

The first qualified accountants to be employed by James Finlay were for their overseas branches at Calcutta and Colombo. J. Gatheral was the first Scottish chartered accountant to be employeed at Calcutta in 1909. He had trained with T. A. Craig and John Mann and Son. He had replaced Mr. H. Dickinson of whom Calcutta wrote: "While we think Mr. Dickinson a good accountant and reliable in the matter of figures, we do not find him just the man we want to take charge of our Books" (Employment Records, 1906, UGD 91/56). Gatheral seemed to be just the man they wanted. He not only was in charge of the books but also was used as a quasi-internal auditor, as he visited certain "up country stations" and made assessments on whether a certain company's books were being kept on "proper lines." In 1920, Gatheral got involved in the produce department's business as a senior member of the Calcutta staff. Then in 1924, he was made a director of the new public company and returned to Glasgow (EC, UGD 91/56).

J. Blair, also a chartered accountant, took over from Gatheral in 1924. It was noted that he had had good experience in accountancy and auditing, and particularly in handling Eastern rubber accounts (EC, 1924, UGD 91/269).

The other branch who employed a chartered accountant was in

Colombo. In 1914, the branch employed R. D. Morrison. The Glasgow head office requested that he should carry out the following:

> "(1) That a thorough check of every Estate Account will be made immediately after submission, that Vouchers shall be called for when considered desirable, and possibly certain Estate Books.
>
> (2) That having satisfied himself on every point in connection with the Accounts looking at the whole position from a Chartered Accountant's point of view, Mr. Morrison shall initial the Accounts in that capacity.
>
> (3) That in any case where doubts exist, or where the specified system of Accounting is not intelligently followed by any superintendent, Mr. Morrison will proceed to the Estate and make matters plain.
>
> (4) That he will prepare regular statements each month showing the relative position of Expenditure, at such Estate, to the authorised estimates.
>
> (5) That later on, inspection of Accounts shall be made on the Estates. It is desirable before making a beginning in this direction that:
>
> (a) Mr. Morrison should have a further experience of Estate Accounts generally.
>
> (b) That those should, in the first place, be worked up to a state of perfection" (Job Instructions, 1914, UGD 91/269).

The Colombo branch reported back to Glasgow in 1914 stating, "...(he) is shaping up well, and when he recognises more fully the need for blending the professional and business methods in dealing with his work, we think he should be quite able to take complete charge of our Accounts Department next year, maintaining the high standard of work which he presently obtains" (EC, 1914, UGD 91/269).

Morrison was also used as a quasi-internal auditor at Colombo, being required to visit tea estates and comment on their accounting procedures. Accounting for the tea estates seems to have become standardised by this time and there was a comparison of actual expenditure with an estimated amount.

The Colombo branch also commented on Morrison's need to blend more satisfactorily "professional and business methods" in carrying out his work. There possibly was some conflict between his professional training gained by obtaining the chartered accountant qualification and working that professional knowledge out in a commercial setting in which accounting practices have to be perhaps more functional. [14]

The use of chartered accountants in James Finlay, as early as the 1910's, was not the norm across British industry at this time (Jones, 1981). But, with accounting being used increasingly as a control device within the organisation, Finlay's saw the possibilities of using qualified accountants and the application of auditing techniques to the problem of internal control.

In the 1900's, James Finlay started to use external auditors to examine their branches' operations. Alerted to the potential of auditing as a control device, they now internalised the audit function within their branches at Calcutta and Colombo (see Armstrong, 1985). [15] This was no doubt assisted by the use of qualified accountants as legitimising this new aspect to control.

b. The Use of External Auditors

When Sir John Muir died on the 6th of August 1903, the trustees [16] for his estate introduced auditors to James Finlay. Alexander Sloan and Company, Chartered Accountants in Glasgow, were appointed the head office auditors. At Liverpool, Lloyd Walker and Company became the auditors and at London, W. B.

Peat and Company were appointed auditors.

At the overseas branches, nothing is known of the Rangoon situation and at Colombo, J. D. Forbes was the auditor. Nothing more is known from the available archival material regarding the audit at these two branches. However, at Calcutta, Lovelock and Lewis were appointed and at Bombay, A. F. Ferguson and Company were appointed. All the auditors were professionally qualified either with the Scottish or English Institute.

It appears that the trustees initially introduced auditors for probate and fiduciary reasons (Correspondence, 27 September 1905, UGD 91/266). The trustees, however, soon realised that the auditor could provide an extra "eye" on the organisation. James Finlay knew the potential of auditors from their experience with them in their investment companies (e.g. see the Champdany Jute Company Ltd. study). Also family control was lessened by Sir John's sickness and death, as both A. K. and J. F. Muir were recalled to Glasgow. This left M. W. Muir out in the Calcutta branch. The Muirs may have seen the audit, balancing somewhat, the lessening of family control and presence abroad.

At the Bombay branch, the head office, after receiving the audit at 31st December 1903 and 30th June 1904, requested a more detailed audit to be carried out. Mr. Fergusson was of the opinion that the present audits were sufficient; however, he was quite prepared to increase the audit scope for a greater remuneration. In response to the head office request, Ferguson, in his audit report on the half yearly accounts for 30th June 1905, noted the detailed work done in implementing the audit. He stated that he had examined the day book, cash book, journal, and general and private ledgers. The same work was done at Karachi. In the audit for the next half year period ending 31st December

1905, Ferguson stated that the audit work had been conducted on the same lines as set out in the audit report on the 30 June 1905 accounts and that he did not think it was advisable or necessary to specially report on the details of the work done. He did not prepare his own set of accounts or comment in any detail on specific items in the accounts, except occasionally he would make a comment on the adequacy of loss provisions.

At Calcutta, Lovelock and Lewis performed a detailed audit right from the start. The branch noted in their comments on the 31st December 1903 accounts, that the auditors in their report produced a list of missing vouchers. Mr. Grieg, the head of the Cash and Bookkeeping, went into a detailed explanation about where these vouchers had gone. Grieg also responded to several other points made about internal control matters at the branch, including a possible defalcation by a native clerk (Correspondence, 18 August 1904, UGD 91/193).

Lovelock and Lewis's audit report was very detailed and was presented along with a set of accounts prepared by themselves, with detailed schedules to back up particular items in the accounts. Their report drew attention to particular items in the accounts such as stock, advance accounts, suspense accounts, deposits and provisions. Lovelock and Lewis also reported on general internal control procedures. For example, in their report on the 31st December 1904 accounts, they stated that "....journal vouchers both on sheets and in subsidiary books sent to the Book Department for entering up from the various departments are to a great extent written up in pencil only and it is very exceptional to find any of them initialled or authorised by European heads of the respective departments; this should be remedied" (Audit Report, 3 August 1905, UGD 91/193).

Calcutta were concerned with the wording of the auditor's report and suggested that the wording may be calculated to lead James Finlay to the conclusion that the passing of vouchers was not receiving adequate supervision from the European staff. Calcutta were at pains to point out that they were purely "book" entries and had nothing to do with vouchers against which cash payments were made (Correspondence, 8 August 1905, UGD 91/193). Lovelock and Lewis also instigated new accounting records at their first audit; these included invoice registers and account sales registers. In their 1905 Report, they reported that "by reason of many improvements which have been made during the last two years we are better able to conduct a continuous effective audit than heretofore" (Audit Report, 17 July 1906, UGD 91/193).

Lovelock and Lewis noted in their 1909 Audit Report, that they had attended the Calcutta office every business day throughout the year and had examined all cash transactions. This reflected an increase in the concern with cash and the potential for defalcations. They also noted that despite this year (1909) being the first year as a limited company, no change in audit approach or the way the accounts had been drawn up, had been made. Lovelock and Lewis obviously had a bigger audit than A. F. Ferguson at Bombay. Yet, Lovelock and Lewis took the audit extremely seriously and judging by their reports to the head office, they were more thorough than A. F. Ferguson.

In Britain, London's auditors took a similar approach to Lovelock and Lewis. W. B. Peat and Co., in their report, presented their own account concerning the branch. They did not go into detail on the work done with respect to internal control and procedures, but went through the balance sheet and profit and loss, commenting on particular items (Audit Report, UGD 91/202). In their audit report on the accounts for the half year ended 31st December 1905, they suggested that half the audit fee should be paid by the head office, as a chief part of the financial transactions audited had arisen on behalf of the Glasgow firm (Audit Report, 19 June 1906, UGD 91/202).

The Liverpool branch auditors were Lloyd, Walker and Company. They did not send a separate audit report to the head office, noting the audit work they had done or making any comments on items in the accounts. Rather they just noted on the accounts prepared by the Liverpool branch, that they had been "audited and found correct" (Liverpool Accounts, UGD 91/190).

At the head office, Alexander Sloan and Company were appointed auditors. They presented a very detailed report to James Finlay. The cash book was audited daily and day books weekly. All journals and ledgers were checked for correctness of the postings and additions. They presented their own printed accounts showing comparative figures and commented in detail on balance sheet and profit and loss items. They presented detailed schedules backing up certain items. For example, an assets fluctuation accounts showed all the appreciation and depreciation in the company's investments at each year end in meticulous detail. Alexander Sloan also referred to the fact that the branch accounts had been audited locally. After the company became a limited liability company in 1909, Alexander Sloan did not present as detailed a report as they had done between 1903 and 1908. Between those dates the audit was more than just an examination of internal control procedures and accounting practices; it was also the auditor giving advice to the trustees on issues such as the problems of transfering James Finlay to a limited liability company. After 1909, the auditor's report was a short statement attached to the summarised balance sheet presented at the company's annual general meeting. The report was only on the balance sheet and it stated that the balance sheet was drawn up so as to "exhibit a true and correct view of the state of the company's affairs" (Annual Accounts, UGD 91/23).

It appears that the various auditors for the branches had differing perceptions on just what an audit was and what James Finlay were expecting from an audit. The overseas branches had a greater concern for internal control as well as matters in the accounts, whereas the branches in Britain focused more on just the accounts themselves. The head office, however, focused on both the internal control aspects and the accounting practices, and the auditor became a key advisor to the trustees up to 1909, when James Finlay became a limited liability company.

The Bombay branches did not see the benefit in having an audit at all. They stated:

> "These (audit) charges seem to us quite out of proportion to the benefit obtained as in our opinion an audit such as is made, by comparing slips initialled by one of the Europeans in our office, would not result in the detection of anything wrong in the accounts. The Karachi charge is, of course, particularly heavy and quite out of proportion to the net profits of the Branch there....The audit is a new departure required by Head Office and we feel that it is of so little advantage to us here that we trust that you will approve our debiting the cost to you" (Correspondence, 16 December 1904, UGD 91/266).

In reply to Bombay, Glasgow suggested that if the effectiveness of the "detection of anything irregular in your accounts" could be improved, that they should make such a suggestion to the auditors. Glasgow further stated, with respect to the cost of the audit, that:

> "it is a proper working charge against your business and should be borne by you and we hope that on reconsideration you will agree with our view. We admit that the audit is a new departure but it is none the less, we contend, a sound arrangement and if properly carried out it should tend to lessen the anxieties of seniors reponsible for carrying on a business such as yours" (Correspondence, 5 January 1905, UGD 91/266).

The head office viewed the purpose of the branch audit as the "detection of anything irregular in the accounts" so that it would "lessen the anxieties" of management in running the business at each branch. It was no doubt a device used to lessen head offices' anxieties in managing the overseas branches as well. Each of the branch auditors reported to the head office, not to Alexander Sloan and Co., the head office auditor. Each branch audit was implemented by the head office and was seen by them as adding further dimension of control over the branches, both in terms of accounting practices, such as provisions for losses, and in terms of internal control mechanisms within each of the branches. The auditors came to be seen as quasi-internal auditors working for the head office.

When James Finlay became a limited liability company in 1909 and tabled articles outlining the appointment of an auditor, the audits at the branches did not change in any way at all. The emphasis was on the use of the audit as a monitoring device over the branches and not necesarily to provide an assurance as to the account's correctness as required by the company's articles (Articles 109 and 110, AA, 26 May 1909, UGD 91/33). Although this was one of the objectives of the audit, with the advent of the company gaining limited liability in 1909, the idea of the audit seemed to become institutionalised to a greater extent at the head office. The objective of the audit, as giving assurance as to the correctness of the accounts, gradually received greater prominence. This was formally stated in the company's articles in 1924, which were redrafted when James Finlay became a public company. The auditor was now required to report on the company's balance sheet and state "whether in his opinion it exhibited a true and correct view of the state of the company's affairs" (Article 110, AA, 7 January 1924, UGD 91/237). When the company entered the formal capital market, the audit came to be seen more as a regularising mechanism required by legislation and less as fulfilling an internal control function within the company.

Watts and Zimmerman (1986), as already mentioned, suggest that auditing emerged historically as a monitoring device for the firm's contracts. Specifically they state, that by the end of the nineteenth century, audited accounting reports had come to serve as a basis for management compensation. Certainly, it can be seen that accounting reports, at branch and head office level in James Finlay, were implicated in the employment contracts. Also, the audit, when introduced, quickly came to be seen as providing further monitoring of each of the branches in general. However, whether as an intended consequence, auditing within James Finlay came to be seen as a monitoring mechanism because of the existence of outcome related employment contracts is unclear. The auditor might have been used by management as giving legitimacy to conservative accounting practices which denied commission to employees on outcome related contracts. However, the archival material does not lend itself to such an interpretation of the auditor's role. Further, from an agency theory perspective, the management at least at Bombay, did not view the audit as worth their while at all, even as a guarantee that they would act in the head office's interest (i.e. bonding cost). Furthermore, the agency theory explanation for the emergence of auditing is complicated once regulation, requiring auditing, is introduced.

In India, there was an emphasis on the detection of fraud and error, but there was also a broader internal control and accounting perspective. During the 1910's the audit at the head office, however, became more formal, and by 1924, it was seen almost purely in terms of a legislative requirement which was necessary in order to enter the formal capital market. Prior to James Finlay turning public in 1924, the audited accounts had been sent off to bank managers for the purpose of raising funds. For example, Mr. T. Lillie, manager of the Royal Bank of Scotland, wrote to Mr. Sinclair stating:

> "I have pleasure in returning to you, as arranged, the copy Balance Sheet which you so very kindly handed me on 7th inst. It served its purpose admirably at our Board Meeting....and I cannot refrain from congratulating all concerned, with the best wishes for the future, on the excellent figures revealed" (Correspondence, 9 February 1921, UGD 91/239).

The audit now came to be seen as an essential part of raising capital. The auditors, of course, fulfilled this role in their statements made in the share prospectus (Share Prospectus, 1924, UGD 91/237).

8. The Cotton Works

Cotton manufacture and trading was James Finlay's primary concern in the first hundred years of the company's existence. Profit margins in cotton manufacture were increasingly under steady pressure from the 1830's onwards. The partnership attempted to sell their works in 1843; however, only the Ballindalloch works were sold. In an increasingly competitive environment, James Finlay kept the Catrine and Deanston works in operation. In 1853, extensive capital development occurred, re-equipping the factories in the latest cotton manufacturing machinery.

Unfortunately, there is no significant extant archival material available for the period of this study relating to the cotton works, except for detailed accounts on the Deanston Works for 1870 and 1871 (UGD 91/12). This series of accounting statements at Deanston start in 1859. They are interesting because of the all pervasive nature of the statements. They highlighted the production flows in financial and non-financial terms; they gave details on how overhead expense had been allocated; they gave details on the costs of running the village school and expenditure on the village infrastructure; they gave details of hours worked at the factory; and lastly, information was given on births, deaths and marriages in the village, along with attendance at the village school.

These accounting statements exposed every aspect of the factory and village to the close scrutiny of the company management. Textile factories have provided some of the early examples of internally managed economic activity. The factory accounting practices had emerged in Finlay's from the start of the nineteenth century. By the 1850's, spurred on by profit margins being continually squeezed, the accounting practices were pervasive and used in the segmentation and control of the production process. The Deanston accounting statements (see Appendix Three) show how the production process was split into throstle, mill spinning and weaving. These three production areas bore the overhead expenses of running the factory, the school, and the village generally, including a minister's stipend. The village and the machine making, which were treated separately, were brought indirectly into the costing of the production process. The profit and loss on these various areas were then collected into a simple profit and loss account. The accounting practices reflected the concern of management to know the costs of production. The accounting practices enabled the calculations of waste, unaccounted stock, and working hours lost for each area of work to be made known. The accounting statements appear to have been used for control purposes, rather than for any assessment of income for distribution purposes among the partners.

Another interesting aspect of this set of accounting practices, is the evidence of the social awareness of the company in providing education, housing and village infrastructure expenditures. In the 1840's, the Deanston Works were praised for possessing:

> "every facility and recommendation; they have changed the aspect of the country - beautiful and romantic as it is - by introducing into it habits of industry, order and the highest mechanical genius and dexterity; they cause a circulation of money to the extent of about £20,000 per annum; they furnish employment for the people of all ages; they called forth the spirit and activity of

> the agriculturalists to meet the ever-recurring demands of the place; and in all respects they are a splendid monument of Scottish enterprise, skill and perseverance" (New Statistical Account of Scotland, Vol. X, Perth, 1845, quoted in Brogan, 1951, p. 74).

It is interesting to compare the Champdany jute mills and the treatment of employees at that Indian location, with these practices at Deanston. Essentially, the Champdany jute mills were factory situations similar to Deanston. Also, the accounting statements exist for both Deanston and Champdany for the similar time period of the 1870's. Expenditures on the infrastructure of the location of the Champdany mills, good housing for the workers, the provision of education and other socially responsible expenditures similar to that which were included in the Deanston accounts, did not occur at Champdany.

There are many reasons why such expenditures were made at Deanston and not at Champdany. One reason was the differing organisational structures of the two concerns. The Deanston Works was an established factory by 1870 and directly linked to the head office partnership. In providing homes, a school, and a chapel for the workers at Deanston, the company was being paternalistic. Such expenditures were designed to prevent the labour force from leaving its "patron." Also, by employing families, parental control was extended to the factory. Accounting, therefore, was part of a disciplinary/control structure used by James Finlay at Deanston, which included the factory, the village and the worker's family. (Lis and Soly, 1984, pp. 193-194).

Champdany, on the other hand, was one of James Finlay's investment companies set up as a public limited liability company operating in India at such a great distance from the head office.

Attitudes to workers in India were nurtured by colonialism and imperialism. This resulted in an intense suspicion and distrust of native workers and generally a lack of long term committment to the workers. This was not helped by the use of itinerant workers.

James Finlay did not see humanitarian expenditures at the Champdany factories in the same way. Any humanitarian expenditures were not seen as part of a structure of control as at Deanston, but rather were only made when seen as an absolute necessity which had been legislated for or were fundamental to existence. What was accounted for by James Finlay in the differing locations was to a certain extent linked into cultural and social attitudes which differed significantly in Scotland and India.

D. CONCLUDING COMMENTS

James Finlay has provided an interesting context in which to study accounting change. Aspects, such as the differing organisational forms of the partnership, the trustee-managed partnership, the private and the public company limited company, coupled with a desire to maintain family control and to operate at geographical distances, have contributed to accounting change within the organisation.

The partnership contracts, both at home and overseas, were the initial stimulas for the idea of conservative, safe accounting practices. These practices were designed to ensure that each partner's share in the business was not overstated; to the contrary in fact, it was better to understate. As the business expanded overseas, the partnership form of organisation became unwieldly and, thus, employment contracts with individual employees within the various branches became the organisational format of the business.

The investment group-managing agency strategy had brought large expansion in the business, especially at the Calcutta branch. The employees were the company's main resources as the service orientation of the company developed into the provision of managerial, financial, and merchant trading services. From the 1880's onwards, an increasingly greater number of employees shared in the profits of a department or branch of the business. These outcome related contracts increased as the level of employee autonomy increased; also, the overseas employees, due to the distance, were more likely to have outcome related contracts than the United Kingdom based employees.

The accounting practices became directly implicated in the employment contract negotiation process. The accounting practices now became allocative devices between the owners (the Muir family) and the employees. The safe accounting practices were continued on in the accounts at the branch and head office levels. There was an interesting trend in the accounting practices contained in the outcome related employment contracts from a cash concept of profits to more of a accrual concept of profits. However, there also emerged a separate set of contracting accounting techniques, such as arbitrary allocations of depreciation and office expenses, which were made ex ante and independently of the particular branch or head office accounts.

The agency theory explanation for the use of conservative accounting practices is that they were used as a way of dampening the agent's optimism encouraged by the outcome related contracting. This was the way the branch suspense accounts and the employee commission accounts operated. Also, the choice of employment contracts can be explained from an agency theory perspective. The choice of outcome related contracts were likely to be used where it was more costly to monitor the state variable and the agent's effort. Also, contracts were used as a device for decreasing the costs of imperfect information about the employee's ability. Furthermore, budget-based contracts were found to be superior to linear contracts.

The agency explanation does highlight the problem of moral hazard and issues of control and motivation. Yet, other controlling and surveillance devices were used by James Finlay, such as organisational indoctrination and drilling, which when combined with the employment contracts and information flows, became the methods of control in the company - especially control at long distance.

The accounting practices were an important aspect to the structure of control in the company. The use of the suspense and commission accounts illustrated not just a desire to dampen the employee's optimism, but also provided a way for the head office to manipulate the accounting practices to their own advantage. The head office debate with the Calcutta branch in 1885, illustrated that the accounting practices were implicated in the broad structure of relations in the company. The conflict and exercise of power by the head office highlighted the interested nature of accounting and the paramount importance of the head office's interests.

Sir John Muir maintained control over the organisation through family control and autocratic leadership. The employees were trustees of his wealth. The accounting practices were designed to highlight this trusteeship of the employees. For example, in the departmental accounting at Calcutta, it was important that costs were correctly allocated to each department, so that the responsibility of the department head could be adequately assessed. Also, the appointment of auditors and the use of accountants internally in the organisation, were for reasons of internal control. Although branch auditors were initially appointed to assist in preparing accounts for probate and fiduciary reasons, they quickly were seen as fulfilling an important control function within the organisation.

The accounting practices emerged in James Finlay primarily for control and surveillance purposes. Accounting provided John Muir and his sons with the ability to financially examine their organisation. Information for decision making was found in market information on interest rates, exchange rates and commodity prices. The accounting practices enabled an assessment of the trusteeship of the employees, and on a broader basis, they made different aspects of the organisation visible. This can especially be seen in the detailed accounts for the Deanston factory.

The accounting practices, in another sense, became a ritual. A certain rationality was attributed to the accounting practices in both the partnership and the subsequent company form of organisation, which enabled allocation and adjudication to take place among the interested parties in the firm. The ritualistic nature of the accounting practices were seen as giving a sufficient basis for adjudicating rights established by the partnership and employment contracts and the articles of association (see Boulding, 1962, pp. 53-55).

A more critical view would see accounting as having a more constitutive role in the organisation. Accounting was not just a ritual agreed on between employees, partners and shareholders, but was used by the owners of the organisation as a manipulative device in their exercise of power.

In 1924, when James Finlay became a public company, the accounting practices which had emerged in the private atmosphere of the partnership and private company, were now used to attract investors through the formal capital outlet of the stock exchange. The auditors, Alexander Sloan and Company, issued a certificate of profits from 1911 to 1922, which was published in the prospectus (Share Prospectus, 1 February 1924, UGD 91/237). These profit figures which had been determined in the relatively private atmosphere of family shareholders, senior managers and employees, were now used in the public setting of the share market. The change in the organisational setting of the accounting practices meant that the rationales for such accounting had now changed and were used to attract and promote investment in James Finlay. The head office auditor now primarily had a regularising role in the capital market, rather than an agent of internal control within the company.

This case study has attempted to ground accounting in its organisational and social environments. It has shown that accounting, from approximately 1870 to 1920, was called upon to serve a wide variety of different and changing purposes. The financial quantification of accounting has been shown, not as a neutral language providing "facts" about James Finlay, but rather what emerged was an accounting craft which was embedded in its organisational and social contexts. Accounting was influenced by such things as employee control to colonialism and through different forms of use, it also helped shape the organisational reality.

FOOTNOTES

CHAPTER SEVEN

1. Archibald Buchanan was a man of high mechanical ability. He obtained patents for two of his inventions. "The first, No. 4854, 16th October 1823, having for its object - to produce a variable speed in the vibration of the lay or batten, so that the lay might be as nearly stationary as possible while the shuttle is passing through the shed, and may move with a rapid smart stroke when beating up the weft, thereby permitting the loom to be driven at greater speed. His second patent, No. 4875, 4th December 1823, was for an improvement in Carding Engines, whereby the top cards were regularly stripped and kept clean without the aid of hand labour. The speed of his looms generally was greatly increased long before those belonging to the rest of the trade" (Biographical Notice, Journal of the Society of Arts, Vol. 4, No. 168, 1856, p. 204.

2. Related to the collapse of the Western Bank.

3. Investment groups are distinct from portfolio investments. James Finlay were redeploying and diversifying their capital, not just seeking optimum returns from a diversified share holding (Chapman, 1985, p. 232).

4. This was the time when the first trading links with Calcutta were established by Kirkman Finlay (Brogan, 1951, pp. 10 and 11).

5. Ray states: "India had been vitally important to Britain in the pre-war years in three respects - as a vast market for British manufactures, as a guaranteed outlet for profitable investment and as a crucial link in the settlement of Britain's balance of payments. The 1st aspect of the Indo-British economic relationship was perhaps the most important. It ensured the transfer of resources from India to Britain through a complex series of multilateral trade balances. India's political subordination had resulted in an artificially heavy trade deficit with Britain, which had arisen from the imposition of the home charges (civil and military charges, guaranteed interest on railway debt, etc.) and the enforced import of invisible services (shipping, insurance, etc.). To meet this deficit India had under pressure developed a large trade in exports to countries with which Britain had a normally adverse commodity balance. India's export surplus with regard to other countries balanced Britain's trade deficits with the rest of the world" (Ray, 1979, pp. 7-8).

6. One reason given by Chapman (1984, p. 142) is that Muir's

Scottish background, where the legal structure had traditionally been more favourable to this kind of development, may have alerted him to the change in the Companies' Acts.

7. This is defined as the simultaneous development of complementary industries (Tomlinson, 1981, p. 461).

8. The author is grateful to E.J. Walsh for computer services provided which enabled the classification and manipulation of this data. Also, some of the material discussed in this part of the case study is taken from a paper by E.J. Walsh and R.E. Stewart, "Agency Theory and Management Accounting: A Case Study of an International Company," presented at the Ninth Annual Congress of the European Accounting Association, Stockholm, March, 1986.

9. This is the view of the nature of the firm in the property rights literature where "the firm is viewed as a team of self-interested individuals who recognize that their own welfare depends on the firm's success in competition with other firms. Each of the individuals comprising the firm contributes some input to the firm's production process (labor, managerial skills, capital, raw materials, technology, etc.). Individuals supply inputs in expectation of earning a return on their investment. Further, each individual recognizes that the other individuals will take actions to maximize their utility not his or her utility. Individuals recognize that conflicts of interest will arise and, to reduce these conflicts, write contracts that specify each individual's specific rights in the outputs under various contingencies (i.e., each individual's property rights). Debtholders, preferred stockholders, common shareholders, lessors, managers, labor, and trade creditors - all have contracts that specify how the cash flows arising from the firm (even in the event of bankruptcy) will be distributed. These contracts include corporate charters and bylaws. In addition, many laws, such as bankruptcy laws, define the property rights in the various assets of the firm" (Watts and Zimmerman, 1986, p. 195).

10. Watts and Zimmerman (1986, p. 197) quote Yamey (1962, p. 15) who stated "The origins of accounting and indeed of written records are probably to be found in the need of an 'accounting' officer to render a statement of money and other assets received in his charge on behalf of his employer or disbursed on his behalf. There was a need for a check on the honesty and reliability of subordinates."

11. See Healy (1985); Holthausen (1981); and Dhaliwal et al. (1982). Chow (1983) has reviewed much of this literature.

12. Baiman discusses this approach (1982, p. 177).

13. This is a different understanding of the term budget. It is usually interpreted in the accounting literature as a plan, forecast, target, etc.

14. See Newman (1984) for an interesting discussion of this

issue.

15. Armstrong (1985) comments generally on the proponderence of accountants and financial controls within British capitalism. He also comments on the foothold accountants gained through auditing, which enabled them to become allocative agents of capital within British industry because financial considerations became the basis of allocation.

16. The trustees were the Muir brothers, and Sir John's partner, A. M. Brown, and personal assistant, R. H. Sinclair.

CHAPTER EIGHT

CHAMPDANY JUTE COMPANY LIMITED

A. INTRODUCTION

The aim of this historical case study is to examine the accounting practices of the Champdany Jute Company Ltd. from 1873 to 1921. This was the time period from when the company was founded in 1873 as a public company with limited liability, to when, in 1921, it ceased to be registered in the United Kingdom and was subsequently registered in India. This time period coincides with the aim of the thesis in looking at the period from 1870 to 1920.

Champdany provides some added interest in that it was a manufacturing company operating in the Calcutta region of India. To overcome the distance between the owners in Scotland and the management in India, the managing agency system of management was employed.

The case study will explore the role of accounting within the organisation and how it was implicated at various organisational levels. The case study is structured firstly, to examine Champdany's background and its organisational development; and secondly, to examine the role of accounting within the immediate organisational context and the wider sociocultural context.

This will be done by developing themes from the archival data. Details will be given on the type of accounting information produced, legislative and contractual influences, ownership and control issues, conflicts over the dividend decision, professional influences such as the auditor and lawyer, and lastly, the need for finance.

It will be shown that accounting reflects and creates the organisational context within which it is practiced. Accounting is portrayed as being in a continuous process of construction. The accounting "facts" of the organisation are not neutral, static and un-problematic technical statements, but rather interested, dynamic and malleable constructions, reflecting and shaping the organisation.

B. COMPANY BACKGROUND AND DEVELOPMENT

1. Background

Champdany Jute Company Ltd. was set up in Scotland in 1873 to manufacture jute in the Calcutta region of India. This was one of the early Scottish companies incorporated in the great boom of the early seventies when the first significant relaxation of the grip of the partnership form of organisation occurred (Payne, 1980, p. 56). Profitable investment opportunities seem to have been limited in Scotland at this time, with the result that investors looked overseas for such opportunities. Payne mentions Champdany as being one of those concerns to which "greater long-term success attended those who promoted and invested in a number of companies whose principal objective was the manufacture of jute and the establishment of coffee plantations in India" (Payne, 1980, p. 62). Payne mentions long-term success, as many of the early Scottish limited companies within five years of incorporation became defunct (Payne, 1980).

Champdany was formed in 1873 by James Finlay & Co. in conjunction with James Luke and George Burnett of Dundee. The arrangement was that James Finlay would provide the necessary capital and oversee the legal and secretarial work involved with the starting of the company, both in Glasgow and in Calcutta, and Luke and Burnett would provide their advice and assistance - both having a good knowledge about the jute business in Dundee (AGM Minutes, UGD 91/177/1). The idea of erecting the jute mill came from George Burnett, who not only invested in the company (£5000) but also proceeded to India and supervised the purchasing of land and the building of the mill. The investment was made on the basis that jute mills in India promised to be very profitable.

James Finlay & Co. was founded in 1750 and was originally strong in the cotton trade and industry. Under the leadership of Sir John Muir in the 1870's , the partnership realised that cotton gave insufficient employment to the partners' capital and they turned to areas like jute and tea, as trade with more growth potential. The Calcutta firm of James Finlay & Co. was started in 1870 under the name of Finlay Muir & Co. The first two greenfield type investments took place in 1872 and 1873. In 1872 Golabarry was formed to operate jute presses and in 1873 Champdany was formed to manufacture jute.

India was seen as a good place to invest their surplus capital by the partners of James Finlay & Co. Their illustrious predecessor, Kirkman Finlay, started the Indian business and a branch was opened in Bombay in 1816. However, it was not just because of familiarity with India that they were willing to promote this investment. India at this time was considered a secure investment as it was a British colony. Cain and Hopkins make the point that it was not only that surplus capital existed and therefore there was the need of an investment outlet, but also in areas such as India, strongly permeated by British culture and ideology, foreign investment paid off in demands for British exports and increased income from invisibles (1980, p. 486).

India was vital to Britain's position as a world power, hence the development of British imperialism in India. India exported a variety of raw materials and foodstuffs to Britain, Europe, North America and South East Asia. Part of this trade was the export of raw jute to Dundee. Britain, however, dominated India's import trade. In 1913 she supplied over sixty per cent of India's imports, India being the largest single market for British exports. British overseas investment in India amounted to one-fifth of its total foreign investment by the 1890's (Brown, 1985, pp. 95-96).

The case study will now examine the organisation and development of the company and the jute industry in India.

2. Organisation and Management of the Company

a. Ownership Structure

The company was organised under the management agency system. This essentially meant the resting of the management of Champdany in the hands of a firm of professional managers. In practice, the managing agent is usually responsible for the intitial promotion, financing, underwriting and organisation of the joint-stock company (Kling, 1966, p. 37). The company's articles of association provided for Finlay Muir & Co. to be the managing agents of the company in Calcutta and elsewhere in India (AA, UGD 91/175). James Finlay & Co. were appointed company secretaries and became the registered office of the company. The first directors of the company were John Muir and Andrew Murray from James Finlay & Co.; James Luke and George Burnett, jute manufacturer and merchant respectively from Dundee; and three other merchants from Glasgow, Thomas Frame, Anthony Hannay and Thomas Watson.

Finlay Muir & Co. were to transact all the business of the company in India, subject to the supervision of the directors, for which they received five per cent on the amount of sales made by and on behalf of the company. This remuneration was to cover all their expenses such as rent, salaries, office expenses, brokerage to brokers, guarantee commission etc. (AA, UGD 91/175). James Finlay, as secretaries, received £600 per year as payment for their services.

The share capital was all allotted by October, 1873, being £200,000 divided into 2,000 shares of £100. The partners of James Finlay took up between them 440 shares and the partners in Finlay Muir took at least 40 shares. Also, relations of former partners took up shares such as John and Kirkman Finlay (130 shares between them) (DM, 1874, UGD 91/178/1).

Call Up of the £200,000 Capital of Champdany

Date of Call	Amount of Call £	Total Paid up Capital £
15-8-73	50,000	50,000
6-1-74	30,000	80,000
19-3-74	20,000	100,000
14-12-75	20,000	120,000
21-6-76	20,000	140,000
27-1-81	60,000	200,000

Table 1

Source: Directors' Minutes (UGD 91/178/1&2)

Table 1 shows when the capital was called up. The first five calls related to the first jute mill purchased, along with working capital needs, and the sixth call was made to finance the buying of a second existing mill.

The partners of James Finlay and their friends were the dominant groups of shareholders in the company. John Muir was elected chairman and remained so until just before his death in 1903. Their powerful position was further entrenched by their willingness to finance the company and to guarantee that credit facilities be made available by other banks both in India and in the United Kingdom. In 1893, when the directors proposed to build a third mill, James Finlay noted that they had invested £83,000 themselves, along with their friends, who had invested about £45,000 . Their majority position was well established.

In 1897 the Champdany Share Trust was established. The agreement turned one half of 5780 ordinary £10 shares into five per cent preference shares. The shareholders who entered the trust agreed not to support the legal action taken by certain minority shareholders against the company (Champdany Share Trust Deed, 1897, UGD 91/174). In 1900 the last major share movement was when James Finlay acquired 3,650 shares in their own name. After 1900, James Finlay effectively had total control of Champdany. The minority shareholders had either sold their shares to James Finlay or had entered into the Champdany Share Trust agreement and so were pacified with the knowledge that they were at least getting two and a half per cent on their investment. It is interesting to note that the preference dividend was accumulated until 1913 when £23,120 was paid into the Share Trust, which represented sixteen years of accumulation (Champdany Share Trust Accounts, UGD 91/173).

Therefore, the accounting records and methods no longer had the same controversy as will be seen when an active minority shareholding existed. This ownership structure also meant, even more than before, that James Finlay and Finlay Muir would make profits through the services they provided to the company even if Champdany itself was not that profitable.

b. The Managing Agency System

The managing agency system of management was first established in India in the 1830's and 1840's. Kling (1966, p. 37) states that a mercantile agency house first assumed the duties of a managing agent in Calcutta in 1836 and that by the 1850's British merchants' houses in Calcutta, Madras and Bombay were employed increasingly as local agents of companies organised in Britain. Brown (1985, Ch. 3) and Kidron (1965, Part 1) suggest that the managing agency system was a contrivance, in that it was essentially an instrument of British imperialism rather than necessarily the most efficient way to run a business. British managing agents, at the time of the First World War, controlled large sectors of the jute, tea and mining industries, especially in the East. However, whether this can be said for the whole of India is doubtful. [1]

There were certainly many practical advantages of the managing agency system for British capital investing in enterprises started and run by British people. British companies with a sterling capital and their head offices in Britain needed to secure the services of managers in India with a first-hand knowledge of conditions at the place of investment. The Indians were not trusted with the responsibilities of business management, thus, managing agents, such as Finlay Muir, provided the only subsystem in the economy with the capital, business experience and continuity to provide managerial talent (Kling, 1966, p. 40). Finlay Muir, although only established three years earlier than Champdany, would be able to provide prospects for the marketing of the jute goods as well as the supervision of the mill.

Usually the managing agents took full charge of the construction of buildings, purchase of machinery, securing of staff, conduct of operations and marketing. Also, they usually took the leading part in the finance of the enterprise (Buchanan, 1966, p. 166). The directors generally had a passive role in the enterprise and were relieved of any real responsibility. The responsibility and power of the shareholders were almost non-existent as well (Anstey, 1942, p. 114).

Finlay Muir's role was not as great initially as described above. Its role developed as a supervisory one at Champdany. The directors in Glasgow, especially up to 1900, wanted to be actively involved in the day to day management of the company. It was Burnett and Luke, as directors of the company, who went to India to get the company started, who hired the mill manager, who bought the machinery and who generally supervised the start of the business. Finlay Muir's role was to ensure the directors' directions and wishes were carried out efficiently.

In Figure 1 the organisational relationships that existed in the organisation are set out. The potential conflict between non-James Finlay shareholders/directors and James Finlay affiliated shareholders/directors comes into focus. A series of conflicts did take place over the first thirty years of the company's existence. The potential conflict in the organisational and ownership structure of the company was realised due to the company's poor results. The minority non-James Finlay shareholders did not get their expected dividend return. Accounting was implicated very directly in the debate.

Organisational Relationships in Champdany Jute Company Ltd.

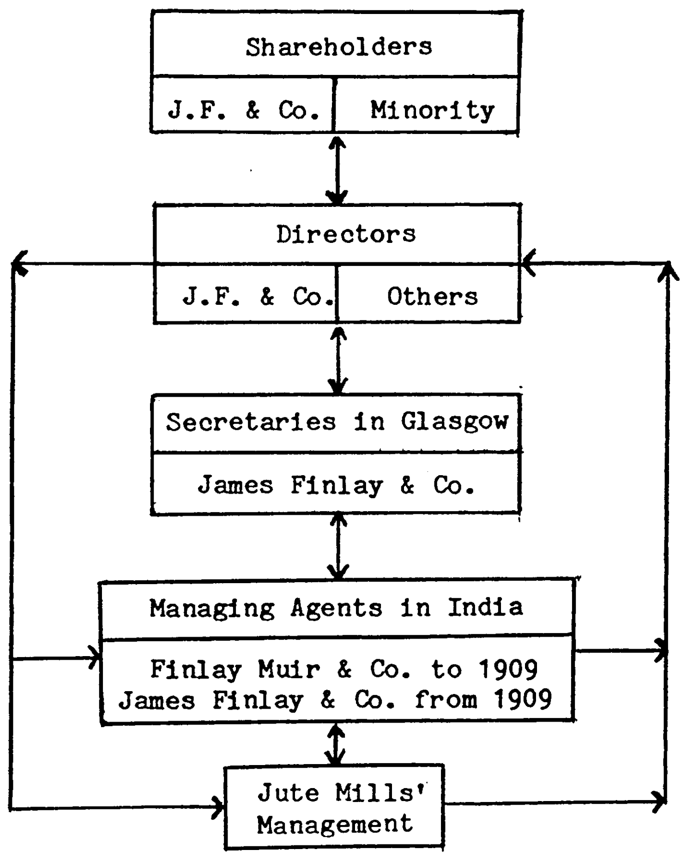

Figure 1

The conflict was a reflection of the ownership structure and the differing interests represented in the organisation. Whereas the minority shareholders wanted a high dividend return, James Finlay was primarily concerned with the long-term survival of the company. Even if Champdany was not very profitable James Finlay still gained commission on the guaranteeing of credit facilities and commission on insurance provided to the company. In 1893 it was alleged by Maxwell Hannay, one of the shareholders who initiated the court action against the directors of Champdany, that in the past twenty years of the company's existence James Finlay had earned on the average £10,000 a year in commissions of sales of goods, accepting and returning bills, salaries, directors' fees, and other sources of profit. Hannay went on to state: "in other words, while the shareholders during the past twenty years have got the miserable return you name...your firm has netted £200,000, or actually £3000 more than the entire capital of the company" (Correspondence, 3 October 1893, UGD 91/178/4). (The Company's capital was only paid to £197,000 at this time).

The conflict also arose when possible ideas of expansion were discussed. Some shareholders were suspicious of James Finlay's motives for such expansion. In 1881 Mr. Steven objected to the company calling up the last of the uncalled capital, at £30 per share, to finance the purchase of another mill. Not only did he feel that this jeopardised the credit standing of a limited company but that on examining the Articles of Association, he suggested that the company was constituted in the interest of "certain parties" rather than that of the shareholders as a whole (DM, 2 March 1881, UGD 91/178/2). In 1893 Mr. Watson, a non-James Finlay director, objected to the possible erection of a new mill by implying that the only beneficiaries of such a plan would be James Finlay (DM, 30 August 1893, UGD 91/178/4).

The managing agency agreement Finlay Muir had with Champdany was modified over time. In 1878 Robert Ewing, a partner in Finlay Muir, pointed out that not only was Finlay Muir responsible for goods delivered but also for any difference which may arise in the price of goods sold but undelivered or even unmade. The clause (58) in the Articles of Association states that Finlay Muir "shall guarantee payment of the price of all goods sold by them on behalf of the company" (UGD 91/175). Ewing suggested that Finlay Muir should not carry the risk of any forward contracts and that the expected benefits of such a risk should be reaped by the manufacturer alone. Ewing, therefore, suggested that Finlay Muir decrease their commission to three and a half per cent of sales and that it should be clearly understood that they should guarantee the due payment of all goods delivered only (DM, 3 July, 1878, UGD 91/178/1). Clause 58 in the Articles of Association was amended to read "they shall guarantee payment of the price of all goods sold, in so far as these have been delivered by them on behalf of the Company" (UGD 91/175).

In 1889 the managing agency clause (58) of the Articles of Association was further changed to secure Finlay Muir's position as the company's managing agents. The clause was changed so that a special resolution was now needed to remove Finlay Muir as agents. This action was taken as the company was about to seek quotation on the Glasgow Stock Exchange and therefore Finlay Muir felt they should secure greater protection for their position. Finlay Muir further modified their commission rate in 1902 when they decreased it to two and a half per cent of sales. This rate of commission stayed intact until the company was registered in India in 1921.

Commission Earned by Finlay Muir & Co.
from Champdany's Agency

Date	Champ. £	Wgtn. £	Total £	Total Com'n Earned £	% of Total Com'n	% Adj. for Rebate	Rebate of Com'n £
1884	-	-	-	-	-	-	1000
1885	1787	1457	3244	34134	10	7	1000
1886	1809	1513	3322	34856	10	7	1000
1887	2494	2131	4625	42678	11	10	500
1888	3557	2979	6536	42760	15	0	0
1889	3730	3607	7337	50791	14	0	0
1890	3063	2764	5827	49591	12	0	0
1891	3883	3343	7226	47340	15	0	0
1892	3166	3014	6180	52049	12	10	1000
1893	4016	3544	7560	60292	13	0	0
1894	-	-	-	-	-	-	2000
1895	3897	3070	6967	-	-	-	0
1896	5319	3229	8548	-	-	-	0
1897	5887	3475	9362	-	-	-	0
1898	5425	3591	9016	-	-	-	0
1899	5474	2865	8339	-	-	-	0
1900	5874	3265	9139	-	-	-	0
1901	7076	4687	11763	54254	22	0	0
1902	5397	3739	9136	50001	18	0	0
1903	5326	3351	8677	-	-	-	0
1904	5347	3387	8734	41009	21	0	0
1905	5421	4987	10408	39256	25	0	0
1906	5379	4930	10309	43010	24	9	6500
1907	7050	6015	13065	49411	26	14	6000
1908	6870	5693	12563	35301	36	0	0
1909	6300	4325	10625	27976	38	0	0
1910	6078	4445	10523	41729	25	20	2000
1911	5897	4298	10195	42169	24	10	6000
1912	6627	4827	11454	54371	21		0
1913	8766	5948	14714	-	-	-	0
1914	9129	6312	15441	47409	32	0	0
1915	6952	5050	12002	82677	15	0	0
1916	10970	11447	22417	98267	23	0	0
1917	10408	11971	22379	97519	23	0	0
1918	10305	13273	23578	-	-	-	0
1919	12946	19119	32065	-	-	-	0
1920	12298	17546	29844	-	-	-	0
1921	13356	17743	31099	-	-	-	0

Table 2

Source: Constructed from Champdany Jute Co., Ltd. Annual Accounts (UGD 91/162, 163, 177/1) and Finlay Muir and Co., Annual Profit and Loss Statements (UGD 91/193, 195)

Notes: Finlay Muir became James Finlay & Co., Ltd. in 1909
- indicates data was unavailable

The commission earned by Finlay Muir & Co., from Champdany, as can be seen from Table 2, formed a considerable proportion of the total commission income earned by the Calcutta agents. From the figures available, the commission earned from the Champdany Agency between 1885 to 1893 represented between ten per cent to fifteen per cent of total commission earned by Finlay Muir. If adjusted for rebates of commission, it still represents between seven per cent to fifteen per cent of total earned commissions.

Between 1901 and 1917 the commissions earned from Champdany represented, on the average, a higher proportion of the total commission income, when compared to the 1885 to 1893 period. The average commission earned from Champdany for this period is around twenty-five per cent of total commission income. Over its life, Champdany became more and more important as a source of income for Finlay Muir. Finlay Muir's most significant source of income from the 1880's onwards was from tea; however, jute interests was the next major item.

The agents did step in on occasions with a rebate of commission either for making up a dividend payment or for mitigating a loss. They did this for almost half of the operating years up to 1894 but thereafter only four times. The lack of a disgruntled minority interest and the increased profitability in the 1910's are the main reasons for this fall.

Therefore, Champdany Jute Co. Ltd. provided Finlay Muir with a significant, regular commission income. Other income from finance facilities and insurance also provided further additional income to Finlay Muir. This, coupled with James Finlay's majority investment in the company, meant that the Finlay organisation was just as concerned with long term survival as with high, regular dividends.

c. Company Management

Finlay Muir usually allocated one of their employees to have primary responsibility for supervision of Champdany. In the 1870's this was P. Murray, one of the original partners at Finlay Muir. R. Williamson, when passing the management of Finlay Muir on to the next manager in 1890, comments: "I think you will find it advantageous not to burden Mr. Walker in any way with any work other than that appertaining to the mills" (Instructions, 5 February 1890, UGD 91/109/3). He recommended this because the manager at Wellington Mill was in need of close supervision.

In 1895 when John Muir went to Calcutta he was extremely concerned about the lack of results at Champdany and wanted a very close watch kept on the company. He suggested that the Champdany department of Finlay Muir was the department "which beyond all others required the immediate and best attention of the managers" (Finlay Muir MM, 15 April 1895, UGD 91/110). Muir requested that his sons, A. K. Muir and J. F. Muir devote their special attention to the mills and that they should go as frequently as possible to inspect the mills and remain at either one for three days at a time (Finlay Muir MM, 15 April 1895, UGD 91/110).

The directors of the company were very concerned that Finlay Muir's role be just a supervisory one and one of simply carrying out their instructions. In 1880 the directors censured Finlay Muir for selling jute goods without Glasgow's approval (DM, 3 3 March 1880, UGD 91/178/2). Mr. Luke, in 1888, had a disagreement with Finlay Muir over machinery supplied by him which arrived at Calcutta in bad condition. They also had serious differences of opinion as to new machinery to be supplied to Champdany mills at that time.

The directors met regularly to discuss the affairs of the company. They always met at least once a month and more often or not they met every two weeks. They took regular trips to India to supervise operations directly. G. Burnett and Muir had other interests in India so they usually went for an extended period of time. Mr. Luke went in 1877 and his visit resulted in the resignation of Mr. Leighton, the Champdany manager, who was not performing to Mr. Luke's satisfaction. In 1881-82 and 1882-83 Mr. Muir, as Chairman of the board, visited the mills. He was obviously concerned to see that the new mill that had been purchased, was operating and being managed satisfactorily.

The new mill, Wellington, had a manager who had to answer to the Champdany manager. This was a cause of conflict between the two managers. Muir reported to the directors in 1882 that one of his reasons for going to India was to bring the two managers together to develop more harmonious action between them (DM, 18 October 1882, UGD 91/178/2). In 1886 both Luke and Muir went to India and investigated the day to day running of the business. They reported back on both mills along with the managers who reported on their separate mills. This was one of the few formal reports any of the directors made on returning from India. Wastage and jute purchasing were the real concerns raised in the report. Auditing procedures were developed to monitor both wastage and to ensure the proper receiving of raw jute into the factory. Another issue was an adequate system of control on the payment of wages to the native workers.

Mr. Luke returned to Calcutta in 1888 and again in 1893 with the chairman to examine the mills. This started a regular visit every year by John Muir (by this time Sir John) to India to take control of Finlay Muir's operations and to supervise closely Champdany's operations. His visits seemed to stop around 1898 when Mr. Crabbe, a former manager, joined the board. He was considered a good manager who retired from Champdany in 1888 when the directors would not give him a commission based on gross profits rather than the basis of dividends declared (DM, 3 October 1888, UGD 91/178/4). He was sent to India in 1898 with the hope that, because of his prior management of the company, he would be able to provide a needed insight into the day to day running of the company. In his report back to the directors in 1899 he emphasised the rearranging of machinery in the factory in order to both save labour and enable easier supervision of the workers.

With Mr. Crabbes's death in 1900, Mr. Phillips joined the board from Liverpool on the basis of his good knowledge of jute manufacture in Calcutta. After visiting the mills in India in 1902, he reported to his fellow directors that the mills were as profitable as the best in Calcutta. It was true that compared to other mills Champdany had a good year, paying an eight per cent dividend to its shareholders. However, this was not usually the case (see Table 4 in Section C) and in 1905, after another visit, Mr. Phillips was very concerned about the cost of production and suggested the possibility of expanding Wellington mills so as to spread fixed costs (DM, 18 April 1905, UGD 91/178/5).

In 1906 the directors were very concerned with the efficiency and lack of profitability of the company, to the extent that they commissioned an independent report on the mills.

In the report, Mr. Ashworth suggested updating the machinery and the factory at Champdany mill. The directors, however, did not act on the report because the proposals were too costly. They estimated that the report's suggestions at Champdany mill would cost around £600,000. This was too costly to entertain as finance for such expansion could only come from a debenture issue or by selling off Wellington mill, neither of which was feasible to the directors (DM, 7 August 1906, UGD 91/178/5).

The Chairman visited the mills in 1907 and again in 1909 with Mr. Phillips. The Chairman since 1903 was Mr. A. K. Muir, the son of Sir John Muir, who took over after his father's death. There was then a decade of no directors visiting India. The mills were reasonably profitable and also unnecessary travel in war time was not recommended.

The directors' meetings would generally discuss the jute market and what their strategy should be concerning jute purchases and stocks; discussion on the management of the mills and the performance of the European staff and the native staff; discussion concerning capital expenditure; and finally, they would discuss the finance of the company and the current cash position.

The directors requested accounting information for a lot of their discussions. They initially wanted information on stocks and costs within the range of jute goods. The cash position, however, was of ongoing importance to them. This was especially so to the James Finlay directors as James Finlay was constantly providing working capital finance. James Finlay also guaranteed credit facilities granted by the banks in India and the United Kingdom.

If the directors and Finlay Muir were the first and second tier of management control, the third tier was the management at the mill locations. Management at both the mills consisted of a general and an assistant manager, along with European mechanics and foremen. Generally, no Indian was given any position of responsibility. On one occasion, when Luke returned from visiting India, he stated explicitly that no native should be trusted with a position of responsibility [2] (DM, 16 February 1887, UGD 91/178/2). The Champdany mill manager was the manager with overall control which meant the Wellington manager had to answer to the Champdany manager. This proved to be a matter of real tension at times. The Wellington manager resented the Champdany manager for having any control over him, especially when Wellington was often more profitable than Champdany.

d. Finance Considerations

At the start the business was financed by the shareholders' capital until it was all called up in 1881, and by credit facilities arranged from trading and merchant banks. In 1881 the directors noted that the cost of finance was around 5.54%. In 1882, 1886, and 1895 the James Finlay directors were concerned with the large indebtedness to James Finlay & Co. They asked the shareholders to invest in 1886 with the hope of getting around £30,000; however, they received only £1200. In 1889 the directors decided to obtain the quotation of the company on the Glasgow Stock Exchange; however, no real market developed for the company's shares.

By the 1900's the company had obtained increased credit facilities and through banks backed by James Finlay's guarantee. In the 1890's there was concern over the lack of dividends so the directors proposed a debenture issue with the idea of giving a regular return to interested shareholders. Applications, however, were around £100,000 (half the share capital) so the directors abandoned the scheme as this represented too high a proportion of the capital. In 1897 a share trust was set up which turned £28,900 of the share capital into preference capital. Around 1900 the directors investigated raising debenture capital in India. However, the scheme was abandoned when Finlay Muir suggested it was not an appropriate time to raise capital in Calcutta.

Internal financing was in the forefront of the James Finlay directors. They were just as concerned for the long term survival of the company as a regular dividend payment. This was a consideration during the conflicts of the 1880's and 1890's over dividend payments and was very evident during the early war years when directors ploughed back a large amount of the profits to provide for earlier expansion at the mills - especially at Wellington.

The case study will now examine the Indian jute industry and Champdany's position in it.

3. Champdany and the Indian Jute Industry

The Champdany mill was one of five mills started in 1874. It was the start of a real boom in the jute industry. Eight more mills started in 1875 and the number of looms increased almost overnight from 1,250 (representing four mills) to 3,500 (Buchanan, 1966, p. 243).

Jute manufacturing had started in Dundee in the 1830's with one of its main source of raw jute supplies being from India. However, in the 1850's some enterprising Scots decided to manufacture jute where it was produced. In 1859 the Borneo Company's mill started spinning and power weaving. This, and the other early mills, became very profitable and led to an upsurge of investment in jute. The 1870's investment boom came primarily from Scottish businessmen and in fact, the Indian jute trade and industry was dominated by Scottish investment right up to the 1930's. Tomlinson has stated that "the jute trade and industry of Bengal is often regarded as the archetypal expatriate business sector" (1981, p. 467). [3] The expatriate firms not only controlled the processing of jute but also dominated the exports of the raw material to manufacturing centres abroad. [4]

The history of the jute industry from the 1870's onwards is one of production constantly outstripping demand. Until this time the products, all gunny bags used for packing rice, wheat, and such like, had been sold in India and Burma but with increased capacity there was the need to develop new markets and products. Champdany, therefore, entered the industry at a time of rapid over-expansion. In the seven years after 1875 only one new mill was started. Then came better markets abroad and five new mills were erected in the three years between 1882 to 1885. However, the expansions since 1875 had nearly doubled the looms (see Table 3) and there was a serious depression in the industry (Buchanan, 1966, p. 244).

In an effort to regulate output, the Indian Jute Mills Association (IJMA) was formed in 1884. Tomlinson (1981, p. 467) has described this as one of the most powerful and effective manufacturers' associations in India. It regulated production by the number of hours worked in each mill and by discouraging extensions or new mills except in times of favourable market conditions. 5

Increase in Number of Jute Looms
1877 to 1922

	Year	Sacking	Hessian	Total
April	1877	2,946	910	3,868
December	1885	4,900	1,800	6,700
January	1890	5,359	2,300	7,659
December	1895	6,584	3,117	9,701
January	1901	8,613	6,600	15,213
January	1905	9,736	11,409	21,195
January	1910	13,421	18,334	31,755
January	1915	15,751	22,603	38,364
January	1920	15,124	24,353	40,367
January	1921	16,445	24,453	40,396

Table 3

Source: Taken from D.H. Buchanan, The Development of Capitalistic Enterprise in India, London: Frank Cass & Co., 1966, p. 245.

Initially, when the IJMA was first talked about in August 1884, the directors of Champdany thought it best to stay aloof of the association. In fact, the directors noted that the IJMA seemed to have collapsed in March 1885, after failure to agree on a price fixing agreement (DM, 4 March 1885, UGD 91/178/2). However, discussion continued among the mill representatives in the United Kingdom, both in Dundee and London. After difficult negotiations the directors signed a short-time agreement in December 1885, restricting the mill to a four day working week (DM, 23 December 1885, UGD 91/178/2).

The working-time agreement arrived at by the IJMA was adhered to by the individual mills for most of the period under discussion in this study. Bagchi comments that "within the limits imposed by the entry of newcomers, the IJMA did operate a quasi-monopolistic body for most of the period of its existence"

(1972, p. 270). Mr. Williamson, the retiring manager in charge at Calcutta, stated in 1890 in advice to the incoming manager, that he should continue to support the IJMA. He states "after all is said and done it is the output of goods that is really at the bottom of good or bad trade - I mean that the demand must not be greatly oversupplied if you are to make profits" (Instructions, 5 February 1890, UGD 91/109/3).

Mill working hours fluctuated between seventy-five and ninety before the First World War with the exception of 1910 and 1911, when the average hours worked per week by mills was around forty-eight hours. During this period some mills failed to adhere to the short-time agreement, since some mills had been caught with high quantities of stock bought at high prices and consequently found it difficult to curtail production by working short-time (Bagchi, 1972, p. 270). Champdany, however, adhered to the short-time agreement at this time and aggregate production overall was still effectively curtailed and the jute market recovered again.

Before the First World War, more than half the raw jute produced in India was exported to foreign countries, particularly those of continental Europe and the USA. When the war came the continental markets, including the United Kingdom, were cut off, which meant a drastic drop in demand for raw jute. This situation, coupled with the shortage of shipping, resulted in raw jute prices falling. Yet, as the war began, the Calcutta jute mills had practically a captive supply of jute and a virtual monopoly on jute manufacturing. If there was a drastic drop in demand for raw jute, the opposite movement was taking place in jute manufactures as the war demand for sandbags, canvas, cornsacks, etc. intensified. This resulted in the jute mills making phenomenal profits during the war and the dividends declared very high by any standard (Investors Indian Year Book, 1921).

While the war enabled the Indian jute industry to get a break on its overseas competitors, it did start to end the hegemonic control of expatriate firms. The effectiveness of the IJMA was eroded by the existence of a number of mills outside the Association, mostly Indian firms, with the result that the fundamental problem of over-capacity lacked an overall strategy of control. Also, cultivators of jute were willing to hold up the crop to ensure better prices and Indian merchants operated a futures market in jute and jute goods which affected the demand for jute goods (Bagchi, 1972, p. 278; Tomlinson, 1981, pp. 468-471).

Bagchi notes that the jute industry had an almost unbroken run of prosperity from 1895 onwards. For good companies, such as Budge-Budge, Howrah, Fort Gloster, Standard and Union, the average rate of dividend exceeded twelve per cent for the years from 1901 to 1910 (Investors Indian Year Book, 1911, p. 71). Champdany's average dividend for a similar period was barely three per cent. Table 4 shows Champdany's dividend rate for the period 1877 to 1921 compared to three companies noted for their prosperity during these years.

The lack of a good dividend rate was a source of almost continual conflict among some shareholders in Champdany. From Table 4 it can be seen that there were some lean years which included fourteen years when no dividend was declared at all.

Dividend Rate Paid by Champdany and Three Other Mills, 1875 to 1921

Year	Budge Budge Reg'd 1873	Fort Gloster Reg'd 1874	Gourepore Reg'd 1876	Champdany Reg'd 1873
1875	-	-	-	7.5
1876	-	-	-	4
1877	-	7	-	6
1878	-	4	-	7.5
1879	-	0	-	6
1880	-	0	-	4
1881	11.25	0	-	4
1882	21.25	10	-	10
1883	17.50	5	-	10
1884	2.50	0	3	4
1885	0	0	0	0
1886	0	0	3	0
1887	5	0	12	0
1888	10	0	20	4
1889	10	7	17	5
1890	12.50	9	14	10
1891	32.50	13.50	13	7
1892	10	5	8	2.5
1893	13.75	6	10	5
1894	10	3	10	0
1895	18	20	16	0
1896	8	7	6	0
1897	4	13	0	0
1898	13	17.50	10	0
1899	8	8	10	0
1900	9	7	10	0
1901	17	7	10	5
1902	10	8	10	8
1903	7.50	8	10	2.5
1904	14	10	10	0
1905	14	17	14	2.5
1906	18	25	12	0
1907	25	18	12	0
1908	20	10	12	4
1909	20	10	10	2.5
1910	20	10	10	2.5
1911	4	5	0	0
1912	4	13	20	4
1913	8	15	30	10
1914	7.50	10	5	6
1915	16	55	50	6
1916	70	90	90	20
1917	65	62.30	60	45
1918	215	180	300	45
1919	110	150	220	70
1920	132.50	200	250	80
1921	45	62.50	20	30

Table 4

Source: Champdany Jute Company's Annual Accounts, UGD 91/161, 163, 177/1; and D. H. Buchanan, The Development of Capitalistic Enterprise in India, London: Frank Cass & Co., 1966, pp. 251-252.

The period of 1890 to 1910 was particularly poor. In the 1890's the lack of good dividends precipitated a court case in which the minority shareholders brought an action against the directors of Champdany. This case will be examined in detail in Section C of the case study; however, it is interesting to note how accounting methods sharpened and defined the conflict, especially the areas of exchange and depreciation, and made visible the possible conflicts of interest inherent in the managing agency system. Finlay Muir certainly benefited from Champdany in the form of commissions on sales of goods; however, they too were concerned about the lack of a satisfactory return to shareholders.

In September 1893, James Finlay, in a letter to the shareholders, offered some reasons as to the poor results of Champdany. They felt that such a statement was necessary because they not only managed the firm in India but also managed two tea companies which in the last four years paid an average dividend of twelve per cent and a jute pressing company which paid fifteen per cent over a twenty year period.

In the letter they suggested that the land Mr. Burnett chose for the erection of the mill was exceptionally unhealthy due to its swampy conditions and stagnant water. This meant that an adequate supply of labour was never really secured. Secondly, the style of building erected by Mr. Burnett was unnecessarily too expensive. The walls were built three to four feet higher than was necessary. James Finlay also stated that the machinery was purchased when it was highly priced. The average dividend to 1893 was around five per cent. James Finlay stated that this may have been fine for a Scottish investment, but it was not satisfactory for a trading company in India (DM, UGD 91/178/4).

James Finlay stated these facts to support the erection of a new mill, to which the shareholders were opposed. This bad start to the company seemed to plague the results through the life of the company. Yet, James Finlay was also keen to improve its managerial performance.

The fortunes of individual mills depended to a large extent on the management of stocks of raw jute and of jute manufacturing. The Investors Indian Year Book states that "in the working of a jute mill there are three distinct operations, the buying of the raw jute, its manufacture into fabrics and the sales of those fabrics. Of these operations the first and last are the most important and require the exercise of much judgement and foresight" (1911, p. 68).

When Sir John Muir visited India, he was acutely aware of this fact. In February, 1895, Sir John referred to the unsatisfactory results of the previous two years, and the need to take utmost care in the future so that the results may at least equal the average of the other Calcutta jute mills. He instructed the manager in charge at Finlay Muir to give his special attention to the supervision of the purchasing of jute and the sales of goods (Finlay Muir MM, 5 March 1895, UGD 91/110).

The prices of jute varied greatly between the immediate post-harvest months and the immediate pre-harvest ones, and they also varied enormously from one year to the next. The ability to buy raw jute at the right times and in the right quantities was an important factor influencing the profitability of the mills.

For this reason the mills were very concerned about the reliability of the annual jute forecasts made by the Government of Bengal (Bagchi, 1972, p. 271).

Jute buying and selling was continually on the agenda of directors' meetings in Glasgow. Finlay Muir had the task of buying and selling, yet ultimate buying policy and control was made and exercised from Glasgow. This highlights a possible inefficiency of the managing agency system, coupled with directors who wanted to virtually control day to day operations from such distance. Time and time again the directors gave Finlay Muir discretion in jute buying and selling. However, directors appeared to lack ultimate trust in Finlay Muir's ability and revoked the discretionary powers as regularly as they were given.

These tight market conditions put a lot of early strain on accounting information on stocks and, because of the volatility in the market, on stock valuations. The directors were always concerned with overstocking and the correct time to buy jute. The volitility of the market can be seen from the following entries in the directors' minutes (DM, UGD 91/178/2):

19 - 11 - 79	Six months' supply of jute on hand
7 - 1 - 80	Stop jute purchases (i.e. Finlay Muir)
18 - 2 - 80	Some mills closing because cannot get jute
3 - 11 - 80	Want Finlay Muir's views on a possible jute shortage
23 - 11 - 81	Concerned with over stocking
11 - 8 - 82	Low jute prices

Finlay Muir attributed the bad results for the years ending 30th April, 1893 and 30th April, 1894 to being mainly due to the "absense of a sound policy in the laying in of jute during the best of the season of crop 1892-3. The market was completely missed when excellent opportunities presented themselves in September 1892, far too much trust was reposed in natives of a worthless sort, large sums were lost in contracts which were never carried through by suppliers" (Finlay Muir MM, 15 April 1895, UGD 91/110). In 1899 a further comment was made in the directors' minutes that they did not get the benefit of cheap jute stock (DM, 31 July 1899, UGD 91/178/5).

The lack of reliable jute supplies and correct buying decisions was no doubt behind the acquisition of the jute buying business of A.M. Sarkies in 1907. Champdany started buying their jute from Sarkies who had access, on the whole, to better quality jute. It seems that in general Champdany aimed for about three months' stock on hand, although it was not uncommon at times to have six months' on hand and perhaps sell forward (DM, UGD 91/178/4).

The directors were weary of forward selling, especially if made at unremunerative rates when there was a prospect of full-time working of the mills. In March 1891, they stated that a large quantity of goods had been sold to speculators and that such goods must come upon the market later on with a depressing effect on prices. Therefore, they suggested to Finlay Muir not to sell further except at a profit (DM, 4 March 1891, UGD 91/178/4). On another occasion the directors recommended selling forward but only "when the average of the prices obtainable is considerably higher than the average of the prices ruling during the proceeding four or five years - and when there is good ground for supposing that jute to cover such sales will be procurable at sufficiently low rates as to leave a fair profit" (DM, UGD

91/198/4). The directors, however, expressed their preference for sales of a non-speculative nature when such are possible, "that is sales that can be affected simultaneously with the purchase of the jute required for their manufacture at a price that would permit a fair profit being realised on the sale" (DM, UGD 91/178/4).

Anstey (1942, p. 281) states that along with the problem of buying and selling jute there was the labour problem. Although all mills had labour problems, it was acutely felt at Champdany and subsequently at Wellington, the additional mill purchased in 1881. Champdany was built in a difficult area of land where disease-ridden water was prominent. Often labourers were sick with fever and cholera due to the lack of sanitary conditions. Eventually the company provided, at both mills, reasonable living conditions, although the shortage of labour was always a problem.

The directors continually featured the labour problem in the Chairman's Report in the Annual accounts. The directors stated in 1893 that for a long period the difficulty of procuring an adequate supply of labour was almost insurmountable. They state "even now it can only be met at a yearly outlay for the erection and maintenance of houses for the coolies, rent free, and by keeping ferryboats and paying the wages of the ferrymen to bring workers over the River Hooghly" (AA/Cs, 1893, UGD 91/178/4).

Wages paid to the workers stayed fairly constant until in 1918, when after a series of strikes, wages increased ten per cent. In 1919 another ten per cent increase was received and in 1920 a further thirty per cent increase occurred. Wage records and accurate time keeping became a regular feature of the day to day management. Once in 1906 the directors noted that perhaps a lack of tactful management was the cause of their labour problems. However, generally they attributed the problems to the location of their mills (DM, UGD 91/178/5). They viewed the natives with great suspicion and were reluctant to give them any positions of responsibility. The distinction between the European staff and the natives was strictly maintained at all times. The "babus," the Indian clerks, were the only Indians to gain any kind of equality of treatment. [6]

The case will now examine the development of the company from its inception to its registration in India in 1921.

4. Company Development

Seventy per cent of the share capital of £200,000 was used to finance the building of the Champdany mill. The ground, buildings, machinery and sundries amounted to £121,250 (Management Notes, UGD 91/151). The mill, as previously mentioned, was built three to four feet higher than necessary and the walls were built thicker than necessary. The building was built to house over 300 looms but initially only 238 were operated in the factory.

The idea of expansion, by the purchase of another mill, was first considered in 1880 when the Oriental Jute Mill was for sale. However, the directors put in an extremely low offer because of the reservations of director Thomas Watson on the whole idea of expansion. This decision was subsequently regretted by the Chairman, John Muir. In writing to Thomas Watson in 1895, he stated that it was "with extreme cause of regret that...(the directors)...did not act independently of you. Eventually you realised the blunder you had made...then we purchased Wellington" (DM, 11 September 1893, UGD 91/178/4).

Wellington Mill was purchased in 1881, for about £42,000 (Rs.625,000) and was mostly financed through the £30,000 uncalled capital. This mill was purchased in preference to expanding Champdany mill which was proposed by Mr. Burnett. The directors, by now, were a little suspicious of Mr. Burnett's judgement after his initial mistakes in setting up Champdany. The reasons for buying the mill were to stop a competitor from buying it and the idea of benefitting from economies of scale by spreading the cost of overhead. The directors stated that whereas Champdany cost £480 per loom, Wellington cost only £208 per loom. If they used half the looms at Wellington the overall cost was down to £412 per loom, or if all the looms were operated then the overall cost per loom of operations would be £370 per loom (DM, 5 January 1881 UGD 91/178/2). Wellington started operations in May, 1881 with 260 looms being worked.

By 1887 Champdany had expanded to 358 looms with 150 making hessian and 208 making sacking (DM, 16 February 1887, UGD 91/178/2). In 1887 Mr. Luke proposed to the company the offer of a half share in a twist mill which he suggested could be erected at Wellington mill. The directors agreed to his proposal and it became operational in May, 1888. The mill provided a good return on the investment right up to 1921, and in 1903 Champdany bought Mr. Luke's half share.

The next major capital expenditure proposal by the directors was not taken up by shareholders. In 1893 the directors proposed building a new mill in order to take advantage of low building costs and a favourable exchange rate. They felt such a move was essential in order to compete effectively with other new mills now starting operations. The directors proposed to invest funds

(£80,000), usually available for the purchase of jute, in this new mill and to subsequently finance jute purchasing through Indian banks. However, the minority shareholders were against the idea because they felt that such a move, although beneficial to James Finlay's interests, would be detrimental to the existing shareholders of Champdany (DM, 29 September 1893, UGD 91/178/4).

As mentioned in Part 2, T. Watson, the non-James Finlay director, was against this proposed development. He listed the folowing reasons: the business was unremunerative; prospects for jute fabrics were gloomy; by increasing the means of production we simply compete against ourselves; the management at Champdany, when compared with other factories, was no good when results are examined; and the lastly, the current amount of capital was barely enough, therefore, there was no need to deplete it further (Correspondence, 20 August 1893, UGD 91/175).

John Muir defended Finlay Muir's management and criticised Watson for being over cautious and being a stumbling block to obtaining improved dividends (Correspondence in DM, 11 September 1893, UGD 91/178/4). In the same month, Watson resigned from the board giving age and health reasons for his decision (DM, 29 September 1893, UGD 91/178/4). However, N. Brown, a shareholder who subsequently was involved in the court action against the company, suggested that the health reasons given by Watson for retiring were only partially true. Rather, he stated, it was more the poor management of the company in the interests of the shareholders and his inability to initiate any improvement, that brought about his decision to resign and sell his shares.

In the end, the directors did not proceed with the mill, as those opposed represented £40,300 of the share capital which the directors felt was too great an opposition for the proposal to go ahead (AGM Minutes, UGD 91/177/1).

In 1894 both mills increased their hessian looms to meet an anticipated larger demand for hessian fabrics for shipment to America. Particulars of the looms working by 1895 were as follows: Champdany, 272 hessian looms and 158 sacking looms and at Wellington, 102 hessian looms and 175 sacking looms (DR, 1894, UGD 91/163). From Table 3 it can be seen that the switch into hessian was a gradual process. The hessian looms first outnumbered the sacking looms in 1905 for the industry as a whole. Champdany had more looms weaving hessian fabrics by 1895.

Weaving hessian fabrics put a lot of pressure on buying good quality jute in order to produce this finer quality fabric. Often a lack of good quality jute meant that wastage was a problem. In 1886 the cost of production on heavy goods was around Rs.65 per ton and for hessian it was around Rs.110 per ton, exclusive of depreciation (DM, UGD 91/178/3). These costs of manufacture can be compared to the 1927 figures, when in a good mill the conversion cost for sacking was about Rs.125 and for hessian about Rs.190 (Buchanan, 1966, p. 250).

In 1902 hessian looms at Wellington increased by sixteen. These looms were made at the mill by Mr. Mudie, the manager. The cost to make the looms was £14 per loom compared to the cost of £25 per loom to import them from Dundee (DM, UGD 91/178/5). The construction of machinery at jute mills was quite a common occurence. This presents a problem in estimating the amount of fixed investment in the jute industry during 1900 to 1920. By examining the amount of purchases of pig iron, Bagchi (1972, p. 274) estimated that machinery constructed at the jute mills could not amount to more than twenty-five per cent of total investment in machinery by jute mills.

In the early 1900's the directors became aware of advances in technology in the jute industry and the resulting lack of competitiveness of their mills. A lot of the machinery operating in the mills had now been there for over thirty years. The directors in 1907 decided to replace and update obsolete machinery and to expand at both mills. The directors by this time were extremely concerned for the profitability of the mills after an independent report was commissioned in 1906 to examine the efficiency of the mills.

In 1907 capital expenditure was proposed by Champdany for approval of the directors amounting to £10,419 for additional machinery and £3390 for replacing obsolete machinery. This was almost all in place and operating by 1908. The Wellington mill extensions took place in 1913 just before the First World War. This was the first major expansion to the mill since it was purchased in 1881. The cost of the buildings and extension was £83,574 which was financed by James Finlay. This amount was recovered over the next three years out of the incredible profits during the war years. Particulars of looms working by 1914 were as follows: at Champdany 276 hessian looms and 218 sacking looms, and at Wellington 356 hessian looms and 211 sacking looms (DR, 1914, UGD 91/163). The labour problem was increased by this increase in the number of looms, so there were problems in getting the mills to run at full capacity.

During the war the hessian fabrics found a particularly lucrative market in the United States. The extension at Wellington was timely, as full advantage was taken of the increased capacity in hessian looms. Production capacity was still maintained in the coarser goods because of the cheap labour at the Calcutta mills. This gave them a comparative advantage compared to other areas of jute manufacture such as Dundee.

The managers' main task at either mill was to ensure efficient handling of the raw jute as it came into the plant and the smooth running of machinery through the production process. The active role of the directors, the managing agent Finlay Muir and the involvement with the IJMA meant that the manager had a limited say in the buying and selling of jute, the financing of operations or the amount of the mill's working hours. He did, however, regularly make submissions and recommendations on capital expenditure and met with the directors when on furlough to the United Kingdom. The management function at the mills, however, was certainly a restricted one to that of supervision of employees, the efficient operation of the machinery and control of the stock of raw and manufactured jute. This had interesting implications for the remuneration of the manager, especially the aspect of commission on profits which were often out of his control. This will be explored in the next section.

The company went into voluntary liquidation and was sold to the Champdany Jute Company Limited, registered in India on the 1st of April, 1921. The directors appeared to have taken this action as a result of the high company taxes they were incurring both in the United Kingdom and in India.

Section C will now examine the role of accounting in the organisation and how many of the aspects of the organisation outlined above were reflected in and shaped by the accounting practices in the organisation.

C. THE ROLE OF ACCOUNTING IN THE ORGANISATION

1. Introduction

There are interesting, technical accounting problems unearthed in this case study - problems such as how to deal with a falling exchange rate, due to the company operating in India but reporting in Scotland; or, how to account for capital investment; or, depreciation accounting and just how depreciation provided for is supposed to operate in the company.

While the technical aspects of accounting are interesting and will be discussed, the aim of the case study is also to give context to these technical aspects and show that accounting is not a neutral activity, but rather an interested activity. Furthermore, it will be shown that accounting practices do not develop in a vacuum but in the complex environment of the organisation in which they are practiced.

Section B has set the context in which the accounting process took place. In fact, some of the accounting themes and practices that will now be examined have already been alluded to in Section B. Before these are elucidated, the study will give an overview of the accounting information prepared in the company and describe what extant material has been consulted in the University of Glasgow's archive.

2. An Overview of the Extant Accounting Information

a. External Accounting Information Prepared

Accounting information was given to the shareholders of Champdany at the Annual General Meeting (AGM) of the company from its inception. The information given at the AGMs was of a verbal nature up until 1882. The annual accounts and chairman's report were read to the shareholders. In 1882 the company, upon the request of the shareholders, started to print the annual accounts and the chairman's report (see Appendix Four for an example of the annual accounts). This printed information, plus any other verbal information given at the AGM, was the extent of the external information offered to the shareholders by the directors of Champdany. The printed accounts were given to a wider audience from 1889 when the company sought listing on the Glasgow Stock Exchange. Up to 1889 the directors insisted, sometimes unsuccessfully, that the annual accounts were for the exclusive use of shareholders and no one else.

Other external information prepared by the company was for the taxation authorities both in India and the United Kingdom.

b. Internal Accounting Information Prepared

The company soon realised the need for information, not only for annual account's purposes, but for purposes internal to the organisation. From 1876 the directors requested costing information and wanted to know what particular classes of goods were the most profitable to make (DM, 19 April 1876, UGD 91/178/1). This was the first of many requests for costing information on goods manufactured, and the start of a debate on just what constituted a cost. Stock levels were always a concern to the directors who required information on how many months' supply of jute was on hand. The directors requested half yearly accounts for the first time in 1878. These were given to the directors in February 1879 for the six months ended 30 October 1878. In 1907 the directors requested that monthly accounts should be telegraphed.

An important statement, which was regularly recorded at the end of the directors' minutes from 1879 onwards, was a statement of finance. This highlighted the company's working capital position. This statement was important to the James Finlay directors as it showed the extent that James Finlay was financing Champdany, along with other sources of finance.

Information Flows

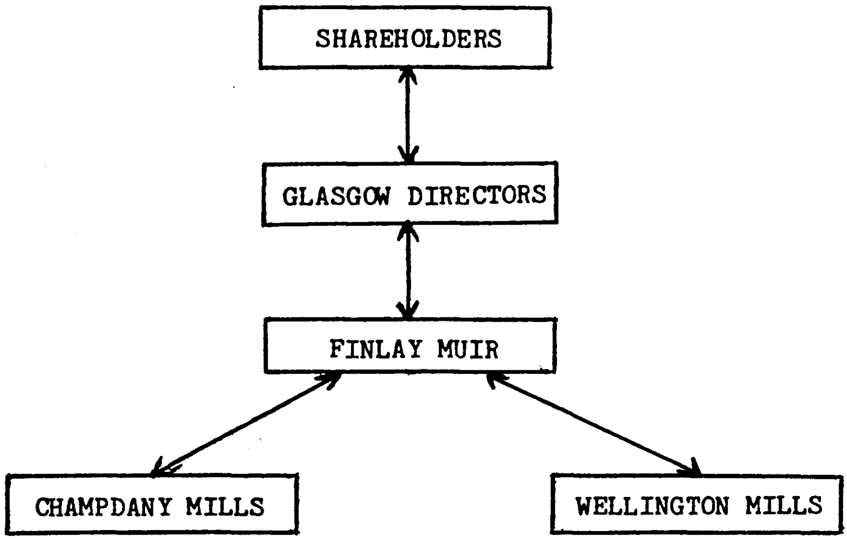

Figure 2

c. Archival Material

The extant material relating to accounting in Champdany is uneven. In the archival material there is a full set of annual accounts from 1874 to 1921; a full set of director's minutes; details on taxation matters; correspondence from shareholders on accounting matters; Champdany's current account with James Finlay, finance details of bills to be paid and received; and also there is miscellaneous information on Finlay Muir's management and production cost information.

What has not been deposited in the archives is essentially the material prepared in Calcutta at the mills and at Finlay Muir. In Glasgow, also what has not survived, are reports such as half-yearly accounts, along with much of the ledgers and journals. Despite this lack of material, the archive has yielded a rich source of material on Champdany and accounting practices in the organisation. In particular, the detailed directors' minutes have provided many insights which a time series of annual accounts only would not have yielded.

3. Legislative, Contractual and Legal Considerations

a. The Companies Acts

The Champdany Jute Company Ltd. was set up under the Companies Acts 1862 and 1867. [7] The company specifically excluded the model set of Articles of Association (Table A contained in the First Schedule) which it had to do if Table A was not to apply. [8] Instead it designed its own set of articles. The auditing provisions were similar to Table A; however, the accounting provisions were modified considerably.

The accounting provisions were contained in Articles 64 and 65. [9] Article 64 states that "the directors shall cause all necessary and proper books to be provided, for the use of the company, and to be kept in such a form as to them shall seem most suitable for preserving an accurate and explicit state of the affairs of the company" (AA, UGD 91/175). This is very similar to the provision in Table A, article 78. A significant modification was made, however, when article 64 continued to state that no shareholder is entitled to inspect the books, accounts, documents or writings of the company. Under Table A, a shareholder had the right to inspect the books, etc. of the company. This restriction on shareholders' access in subsequent shareholder/director conflicts became a point of contention. The idea of the secrecy of information, which lies behind such a clause, was more than just the worry that competitors might get their hands on the information (Edwards and Webb, 1985, p. 183). In this case, the minority shareholders felt this clause was designed to protect James Finlay shareholders and directors and the agency income earned by them, from their scrutiny.

Articles 79, 80, 81 and 82, dealing with the preparation and presentation of the profit and loss account and balance sheet in Table A, were condensed and modified in to article 65 of Champdany's articles. Article 65 stated that a balance sheet was to be presented on a timely basis (no more than three months after balance date), which should show the income and expenditure and contain a summary of the property and liabilities of the company for the period. The content of the income and expenditure, and the detail to be given in the balance sheet, was excluded from Table A. However, article 65 took up the provision for spreading expenditure over several years in article 80 of Table A, if in fairness this could be justified.

In actual fact, the company presented a profit and loss and a balance sheet separately, showing the level of disclosure specified by articles 80 and 81 of Table A. Article 65 did not specify whether the accounts had to be printed and given to every shareholder as in article 82 of Table A. Up to 1882 the company did not print the accounts and distribute them to shareholders, but from 1882, upon the request of the shareholders, the company printed the accounts. This occurred because shareholders became concerned about the company's lack of profitability and wanted to scrutinize the company's accounts in a more diligent and questioning fashion.

The auditing article 66, provided for an audit of the accounts and the reponsibility that the auditor "shall certify to the members the correctness of the yearly financial statement and may give such information on the state of the company's affairs as they may think fit" (AA, UGD 91/175). The auditing articles in Table A are clauses 83-94. Article 86 deals with who may be appointed auditor. A shareholder may be appointed as long as the person is not interested in the business in any other way. This independence clause was not mentioned in Champdany's articles. Yet Champdany appointed Mr. Alexander Sloan, who was not even a shareholder of the company and who was a member of the Institute of Chartered Accountants in Glasgow. Clauses 92 and 93 of Table A were the other significant clauses to be excluded by the company. Article 92 specifies that the vouchers should be examined and article 93 states that the auditor is allowed access to the books and accounts and is entitled to explanations from the directors and officers of the company. As will be seen in Part 6 of Section C, the auditor had an influential role in the company's affairs and his expert advice was sought on occasion. In this role the auditor found himself embroiled in company conflicts between majority and minority shareholders.

The other relevant clauses in the articles were those concerning dividends and reserve funds. Clauses 67 and 68 were very similar to the model set of articles in Table A. Article 67 states that dividends must be declared out of profits. Article 68 gives the directors the right to set up a reserve fund out of profits for any purpose connected with the company, such as to meet contingencies, equalise dividends or to increase works and machinery.

It is interesting to note that accounting rules and practices, at this time, were left up to individual companies to work out and develop in conjunction with the shareholders. The articles of association was a contract between the directors of the company and its shareholders to conduct the affairs of the company by those rules and regulations. The company, registered under the 1862 and 1867 Acts, was not required to supply regular accounting information to shareholders or to have that information audited. If Table A was specifically excluded, the contents of the articles were in theory negotiable between the company promoters and the potential shareholders. The accounting practices at Champdany were developed within the framework contracted for in the articles. The accounting clauses were extremely broad, consisting of preparing an annual balance sheet which included profit and loss data, and an auditing requirement.

This was the period when the idea of the freedom of contract reigned supreme and this was supported by the prevailing "laissez-faire" philosophy of the time (Atiyah, 1979). There is debate on just how extensively Table A was adopted without amendment by company promoters. For example, the Manchester Accountants Student Society was told in 1887 that a large number of companies were registered without articles and therefore Table A applied. Others, however, such as F. Whinney (1888) and D. Chadwick (1887), stated that few companies adopted Table A (Edwards and Webb, 1985, p. 180). This fact, along with other evidence, was given by Chadwick in support of a legislative proposal for uniform accounts in 1887 (Parker, 1980). It appears that over the period of time, from the passing of the 1862 Act to the Companies Act 1900, that special articles were used more frequently due to Table A being increasingly antiquated and cumbersome (Edwards and Webb, 1985, p. 180).

In Champdany's case it is an interesting point as to why the company did in fact contract to supply annual accounts and have them audited in what was essentially an unregulated environment. It was not until the Companies Act 1900 that it was compulsory for a company to appoint an auditor [10] and not until the Companies Act 1907 that a balance sheet was required to be circulated to members before the Annual General Meeting. No legal requirement for profit and loss disclosure was made until the Companies Act 1928.

In the directors' minutes in 1889, the directors stated that the only reason the company was registered under the 1862 Companies Act was to gain limited liability for the shareholders. The directors viewed the company as a private one for a small group of known shareholders.

This would suggest that the accounts were prepared to enable a profit to be assessed for dividend reasons; and that the shareholders, being no more than fifty in number and with the majority of shares in any case held by James Finlay or their friends, were treated like "extended family" to which the directors acutely felt the need to report, verbally, in full detail, the yearly results of the company. An accountability/stewardship explanation seems to fit in well with the facts up to 1881. However, after 1881 a lack of profitability raised a questioning attitude among some non-James Finlay shareholders as to just how well the company was being run. This signals the start of accounting being implicated in and defining the debate and conflict among the shareholders over the next twenty year period. This will be examined in Parts Four and Five of this section.

The other article which became a contentious one was article 55 which restricted the borrowing of the company to one third of the paid up capital. This first became contentious in 1881 when it was suggested by a shareholder, who was opposed to the buying of the second mill (Wellington), that the directors had exceeded their borrowing powers. The directors pointed out that they had not exceeded their borrowing limit because some of the liabilities were trade bills and not in any way loans raised on the assets of the company (DM, UGD 91/178/2).

The other occasion article 55 became contentious was in 1893 when the directors wanted to float another company to build a jute mill, with Champdany investing most of its working capital in it (£80,000). The directors wanted to finance Champdany's working capital requirements from bank loans. This meant the borrowing limit would be exceeded. So the directors proposed a special resolution which extended the company's borrowing powers under article 65. Due to the amount of opposition to the idea, the directors reluctantly decided to let the expansion idea drop.

b. Fiscal Legislation

The company was subject to tax in both India and the United Kingdom from the start of its existence. In India, taxation was assessed on profits. Depreciation deductions were allowed on buildings and machinery. The tax was assessed on a yearly basis.

In the United Kingdom, tax was paid on the dividend declared up to 1892. Then in 1893 tax was assessed on the whole profits of the company. The tax was based on the average profits for the last three years. A depreciation allowance was allowed on machinery of ten per cent, which decreased to six per cent in 1902. Moss (1984) has suggested that fiscal reasons, such as taxation and death duties, would have meant keeping company records which would have been detailed, in order to show tax inspectors how calculations were arrived at. The avoidance of taxation in the United Kingdom also appears to be the reason why the company registered in India in 1921.

c. Other Legal Influences

As more and more businesses took advantage of the company form of organisation, so case law and other legal requirements increasingly impacted on how companies were operated.

In 1889 director, T. Watson, suggested that before considering the possibility of the company's shares being quoted on the Glasgow Stock Exchange, the company should rectify the transaction, when it bought twenty-five of its own shares (£2,500) in 1883. This was considered necessary because of the 1887 House of Lords' decision of Trevor v Whitworth, in which it was found illegal for a company to buy its own shares. At first the company's law agents suggested the company should be liquidated and the shares reissued; however, they eventually suggested that the shares should be sold and the loss borne by the company. (The company's shares had decreased in value by around £30 per share since 1883).

The other legislation to impinge on the company's operations was Indian Factory Legislation. The first Indian Factory Act was passed in 1881. The act was directed mainly at the use of child labour. Children had to be seven to be employed and were only allowed to work at the maximum of nine hour days up to age twelve (Anstey, 1942, p. 297). The directors mentioned this act at their meeting in June 1881. The 1891 Act placed further restrictions on employing children under the age of nine and women were prohibited from working at night. The lack of a regular supply of labour was always a problem at both mills. The short-time agreements imposed by the IJMA kept working hours within reasonable proportions. The factory inspectors, set up under the act, visited the factories and made recommendations on matters relating to sanitary conditions. The legislation probably did not directly affect the accounting records kept in the factory as control over the workers' wages was of key importance to the management.

d. Contractual Influences

A contractual influence that directly relied on the accounting records and accounts and may have influenced accounting in Champdany, were employment contracts with managers and to a lesser extent the other European staff. These will be examined further in Parts Seven and Eight of this section.

4. Ownership and Control Issues

a. Secrecy of Information

The company was set up in 1873 with less than fifty shareholders. The majority of shareholders were either James Finlay affiliated or friends of the main partner in James Finlay, John Muir. The rest of the shareholders were friends of the non-

James Finlay directors and were attracted to the investment in Champdany by James Finlay's involvement. The promise of high returns, along with the security of James Finlay's backing, proved an attractive proposition to those involved. All the shares were allotted almost immediately through the individual contacts the directors had.

This created a company based on trust in the directors and promotors of the company. Indeed, the directors noted in 1889, that for all intents and purposes it was really a private company, where all the shareholders were known by James Finlay/Finlay Muir, and that it only registered under the 1862 Companies Act to obtain the protection of limited liability (DM, 21 February 1889, UGD 91/178/3).

The atmosphere created by such an "extended family" like arrangement meant that the directors were very secretive, concerning information about the company, and so saw no need to print annual accounts for the shareholders as they almost all attended the company's AGM and were happy to trust the directors' reputations and judgements as to the affairs of the company. Thus, the shareholders received verbal information on the company's financial position each year from 1874 to 1881 and could examine the Chairman's Report and a balance sheet and profit and loss account at the AGM each year.

The confidentiality and secrecy of information was established by the directors in 1875 when the Indian Government requested details on the capital of the company, number of looms employed, production details and dividends declared, etc. The directors decided to answer only questions of a general character and instructed Finlay Muir to indicate to the Indian Government that they "were desirous of keeping the company's affairs as private as possible and they regretted they could not see their way to make the return more complete than they had done" (DM, 20 October 1875, UGD 91/178/1). This desire to keep the company's affairs "as private as possible" was an overiding theme that restricted the dissemination of accounting information in the first fifteen years or so of the company's existence. However, the idea was compromised gradually over that period.

The question of printing the Annual Report and Accounts was first raised in 1881 by a shareholder, Andrew Mitchell, who requested that the AGM in 1881 be adjourned and resumed at such a time when the report and accounts had been printed for the shareholders' consideration. After a lengthy discussion Mitchell decided to withdraw his request. This, however, set the scene for the 1882 AGM and the debate over the accounting practices regarding depreciation among the shareholders and directors.

In 1882 a ten per cent dividend was declared by the majority of directors against the chairman's wishes. He, along with the auditor, argued that the depreciation provision was not adequate enough, considering the rates allowed in Dundee and Manchester, and that the mills in Calcutta ran for seventy-one hours per week compared with fifty-six hours per week at Dundee. The chairman, therefore, wanted the shareholders to appoint a committee to ascertain the true value of the company's property and assets generally and postpone the declaration of the dividend until their report was received. However, on the advice of the company's law agent the chairman withdrew his proposal, and the decision of the board regarding the declaration and payment of the dividend was not altered. The chairman requested that the accounts be printed and sent to each shareholder. It appears that the chairman wanted the shareholders to have the chance to examine the accounts and to see the inadequacy of the depreciation provision.

Upon this proposal, Mr. Watson moved that in the future the accounts, with the directors' report, be printed and issued to the shareholders prior to the AGM each year. This motion was carried by a significant majority. Therefore, 1882 marked the first printing of the accounts. They were marked "Private and Confidential". The directors were very concerned in October 1887, when a shareholder did not treat the annual accounts as private and confidential but allowed the accounts to be seen by two Dundee newspapers. These newspapers published an abstract of the accounts along with some unfriendly comments. The directors considered this a breach of faith by the shareholder concerned. In future the directors agreed that before receiving a copy of the annual accounts, the shareholders be required to sign an undertaking neither to exhibit or divulge the contents to any other party (DM, 5 October 1887, UGD 91/178/3).

The 1888 annual accounts stated on the front cover of the accounts: "The directors hope that the shareholders receiving this report and accompanying accounts will treat the same as strictly private and confidential, as requested in the report" (AA/Cs, 1888, UGD 91/163). In the report the directors stated:

> "As your directors have given full details, for the information of the shareholders, regarding the business generally, they request that all shareholders will kindly keep this report and accompanying accounts strictly private and confidential. When it was first arranged to send these documents to the shareholders, it was distinctly understood that the information contained should be strictly confined to them, and a notice to that effect was printed on each copy.

> Notwithstanding this, a shareholder, whose name has not yet been ascertained, allowed the documents to be seen by parties connected with two newspapers, and these commented on the same in an unfriendly spirit, and to the disadvantage of the Company" (AA/Cs, 1888, UGD 91/163).

It does not appear, however, that the shareholders were asked to sign an undertaking of confidentiality. One shareholder pointed out to the directors, that he intended selling his shares and that he would need to show the report and accounts to any intending purchaser. The directors stated that there was no objection to this being done, rather what was objected to, was the improper use of the information contained in the report and accounts (DM, 27 July 1888, UGD 91/178/3). The directors had also written to the editor of one of the newspapers, the "Dundee Advertiser," offering to give him some details on the AGM and the results of the years working for 1888 and asking him in return to refrain from publishing any hostile criticisms of the company. The editor replied that he could not agree to such a proposition. The directors, nevertheless, decided to send the editor some information on the 1888 results with the hope that he might be persuaded to respect the directors' wishes (DM, 27 July 1888, UGD 91/178/3). The 1889 directors' report reiterated the directors' wishes in the 1888 report. They stated:

> "Your directors have thought it well to give full details in this report regarding depreciation, insurance accounts, and other matters, as the attendance at annual general meetings is usually small; and, as in former years, they request that all shareholders will kindly keep this report and accompanying accounts strictly private and confidential" (AA'Cs 1889, UGD 91/163).

In 1890 the annual report and accounts took on a different style. This is especially so in the directors' report. The directors' report up to this point in time, was invariably two or three pages long, containing information such as, the directors' ideas for the future of the company, additional accounting information over and above the details in the balance sheet and profit and loss account; and special managerial reports and correspondence concerning the profitability and financing of the company were included in the accounts. For example, in the 1883 accounts, included was a management report on the mills and a detailed letter on depreciation from the auditor. In 1888 the accounts included details on a call for funds from existing shareholders and a general discussion on the financing of the business. In 1889 the directors' report included details on depreciation over the last ten years of the company (AA/Cs, 1883, 1888, 1889, UGD 91/163).

From 1890 the directors' report took on a very concise, business-like statement, reiterating information in the accounts and mentioning certain legalities in connection with director rotation and reappointment of the auditor. The information in the balance sheet and profit and loss accounts remained essentially the same; however, the accounts were no longer marked private and confidential.

The change in philosophy by the directors to the company's annual report occurred because the company sought quotation on the Glasgow Stock Exchange. Champdany shares were accepted for quotation in March 1890 and the Stock Exchange committee requested a copy of the annual report to be filed yearly for reference purposes.

Stock exchange listing had been first suggested in 1885 by Dr. Blackie, a shareholder, who during the 1880's voiced his concern over what he described as obscurities in the annual accounts (AGM Minutes, 24 July 1885, UGD 91/177/1). In January 1889 the company reconsidered the possibility of stock exchange listing again. This appears to have been suggested by non-James Finlay shareholders to create a market for Champdany's shares. This would save on the costs of getting shares valued and mitigate against management's bias to value the price downwards, when it came to selling their shares. A further reason for quotation could possibly be the visibility of a quoted share price and the pressure this would exert on the James Finlay shareholders to maintain the share price. This did not occur, however, and the James Finlay directors were not concerned that Champdany's shares did not find a market.

The listing on the stock exchange prompted the James Finlay directors to entrench the position of Finlay Muir as managing agents, by changing the articles to make a special resolution necessary before Finlay Muir could be replaced. This changed the atmosphere of the company from being essentially a private one to one where more unknown persons could become shareholders.

From this period on, secrecy of information ceased to become a problem in the sense that it was possible for anyone to become a shareholder and thereby disbanding the cosy, private company arrangement which existed. The directors though, did become less candid and open regarding their plans for the company and in their explanations of accounting practices in the accounts, especially when they impinged on the dividend decision. Also, in the accounts themselves, the profit and loss account became less informative. The expenses, instead of being categorized, had now become an omnibus figure. No longer could the separate expenses of insurance, interest, administration, rent and exchange losses be determined.

In 1893 the whole question of the adequacy of information given to the shareholders was raised by N. P. Brown at the company's AGM. The directors, on the advice of the auditor, had written down the accumulated depreciation and insurance reserve fund and the bank and land and buildings, to reflect the fall in the rupee-sterling exchange rate. [11] This drew Brown's attention to the lack of profitability of the company and he pointed out that an average dividend rate of less than five per cent over the existence of the company, was completely different from what the promoters had originally stated (Correspondence, DM, 16 August 1894, UGD 91/178/4). At the AGM, Brown was concerned with a lack of information on the amount of commissions received by James Finlay and Finlay Muir, in their repective roles as secretary and managing agent. The reason he wanted this information was that the company's poor results led him to the conclusion that either the company was poorly managed or that the managing charges were too high.

The chairman's answer to his question was brief and must have had a certain bluntness to it because Brown, when writing to Sir John Muir soon after the AGM, stated that his answer "took the wind out of my sails" and had prevented him from asking any more questions. Brown went on to state that the barest opportunity was afforded to the shareholders for getting information other than that conveyed in the accounts. He suggested that this lack of information and discouragements thrown in the shareholders' way when they sought to get any information, was to do with the fact that the company shares, although quoted on the Stock exchange, had not found any market there. He further stated that James Finlay was to blame for creating the impression that they charged extravagantly for their services, because for nearly ten years after the formation of the company, no printed accounts were issued to the shareholders [12] (Correspondence, DM, 16 August 1893, UGD 91/178/4).

In fact, Brown and some other shareholders, formed themselves into a group and asked the directors if they could examine the company's books. The directors turned their request down and instead answered some of their questions (Correspondence in DM, 9 November 1893, UGD 91/178/4). (See exchange discussion in the next Part).

In the 1895 accounts, disclosed as another category of expense for the first time, was Finlay Muir's agency commission. The directors disclosed this amount in view of the questioning and unrest among the shareholders as to the commissions earned by Finlay Muir.

However, at the 1895 AGM this gesture was not enough for Brown and his fellow shareholders, who again asked if they could obtain access to the company's books. This request came against the threat of a pending court action, regarding the management of and accounting practices used by the company. The directors stated that the shareholders could look at the books but they could not be accompanied by a professional accountant (AGM Minutes, 31 July 1895, UGD 91/177/1). Subsequently, the court appointed an independent investigation by a professional accountant of the company's books in regards to the court action brought by some of the above group of shareholders against the company. The idea of secrecy of information was slowly broken down by this group of minority shareholders to the extent that legal means were ultimately used to get all the information they required.

This discussion of the secrecy of information raises the position of James Finlay and Finlay Muir as managing agents and majority shareholders. It also highlights the division that had developed and was developing between non-James Finlay shareholders/directors and James Finlay shareholders/directors. It is interesting to see how accounting seems to define and make visible this widening division.

b. Finlay's Position as Managing Agents

James Finlay, because of being majority shareholders, managing agents and secretaries of Champdany, had different goals for the company than the minority shareholders. Initially the company was set up with the shareholders of like-mind, in what to them had a private company atmosphere to it. Yet, because of Finlay's [13] organisational dominance in the firm, the like-mindedness of the shareholders was under threat from the minority shareholders. Such tension became a problem, as already noted in Section B, in the major capital expansion decisions. To recapitulate, in 1881 a shareholder challenged the purchase of a second mill on the grounds that it was really benefiting Finlays but not the shareholders in general, because in this shareholder's assessment the expansion project jeopardised a good dividend flow. Such argumentation was used again in 1893 when an investment of Champdany's working capital funds in another jute company, was proposed by the directors. Shareholder, Maxwell Hannay, suggested that Finlays were wanting to increase their commission income and financial services income, at the expense of the minority shareholders in Champdany (Section B).

As well as the conflicts that occurred over business expansion decisions, debate occurred over the adequacy of the depreciation provision, treatment of capital expenditure and the treatment of the rupee amounts in sterling. Again these debates took place in the context of the different interests of the majority and minority shareholder groups. These will be developed in the next Part. The analysis will highlight the different goals each shareholder group had for the company. James Finlay shareholders were concerned for the survival and long-term interest of the company because of the regular commission income received. Table 3 highlighted the importance of the commission income to Finlay Muir. Non-James Finlay shareholders were concerned with a regular dividend flow at a rate well above the rate expected for a similar investment in Scotland. The directors themselves suggested that such a rate at the minimum should average around seven and a half per cent (DM, UGD 91/178/1). This was highlighted when some of the original shareholders had died and the estates were in the hands of trustees, who out of their fiduciary obligations, were particularly exacting in their evaluation of investments. This raised the issue of profitability and shareholder interest in accounting practices. Volatility in the jute market, for both raw and manufactured jute, increasing competitiveness in the jute industry and scarcity of labour, brought significant pressures to bear on both the external and internal accounting practices in the organisation. This focus on the accounting practices, particularly as it related to the dividend decision, increasingly exposed the division that was occurring among the shareholders.

From 1899 the division in the shareholders faded because James Finlay had bought a lot of the dissenting minority's shares and the rest of the non-James Finlay shareholders had converted their shares to preference shares. Thus, the virtually homogeneous nature of the shareholders resulted in an acceptance of the directors' management of the company and their accounting practices.

The next part of this section will specifically examine the external accounting practices and how they were implicated in the existing ownership structure.

5. Conflicts Over Profit Determination and the Dividend Decision

a. Depreciation and Capital Expenditure

The dividend decision in Champdany was always a residual decision. If the company had a profitable year a dividend was declared by the directors, after they provided for depreciation and perhaps, transferred amounts to an insurance fund and a reserve fund. This residual dividend policy was entirely dependent on the definition of profits as arrived at by the directors.

Clause 67 of the company's Articles of Association stated that dividends must be declared out of profits. This guideline, however, was of no practical help when it came to determining the profits available for distribution. Table 5 shows the profits available for distribution from 1875 to 1921, and how the distribution was made between depreciation, reserves, insurance, and dividends paid.

Champdany Jute Co., Ltd.
Profit (Loss) Distribution
from 1875 to 1921

Date	Profit for Dist. £	Depn £	Res £	Ins £	Divi Rate %	Divi Amt £	Bal B/F £
1875	14,229	2,344	0	1,050	7.5	7,481	3,354
1876	6,459	2,000	0	2,019	4	4,725	1,069
1877	21,160	2,000	0	6,367	6	8,379	3,484
1878	22.492	3,655	2,000	7,000	7.5	10,474	2,847
1879	12,787	3,600	2,000	0	6	8,379	1,655
1880	8,845	3,600	0	0	4	5,586	954
1881	8,496	3,000	0	0	4	5,586	264
1882	38,033	11,000	4,000	1,000	10	19,950	835
1883	37,455	13,628	0	3,290	10	19,950	1,422
1884	9,669	6,000	(3,500)	0	4	7,880	711
1885	(13,080)	0	(3,500)	(6,000)	0	0	(2,869)
1886	(12,732)	0	0	0	0	0	(15,602)
1887	513	0	0	0	0	0	(15,088)
1888	32,822	9,850	0	0	4	7,880	4
1889	41,353	28,550	0	2,500	5	9,850	475
1890	29,522	9,731	0	0	10	19,700	548
1891	19,876	5,813	0	0	7	13,790	821
1892	11,441	6,220	0	0	2.5	4,925	118
1893	15,498	5,614	0	0	5	9,850	152
1894	(32,968)	0	0	0	0	0	(32,816)
1895	7,049	0	0	0	0	0	(25,767)
1896	25,836	0	0	0	0	0	69
1897	(59,452)	14,244	0	0	0	0	(45,139)
1898	26,639	0	0	0	0	0	(18,500)
1899	6,591	0	0	0	0	0	(11,938)
1900	12,112	0	0	0	0	0	173
1901	26,346	0	0	0	5	9,850	16,670
1902	28,887	23,000	0	0	8	15,760	6,797
1903	20,743	16,000	0	0	2.5	4,925	6,615
1904	15,496	10,000	7,500	0	0	0	4,611
1905	19,855	11,000	2,500	0	2.5	4,925	6,041
1906	(5,485)	0	0	0	0	0	556
1907	8,317	6,000	0	0	0	0	2,873
1908	33,324	11,000	16,000	0	4	7,880	1,317
1909	20,537	14,000	0	0	2.5	4,925	2,930
1910	17,402	14,000	0	0	2.5	4,925	1,490
1911	5,890	7,000	0	0	0	0	299
1912	30,629	21,000	0	0	4	7,880	2,048
1913	92,961	20,000	50,000	0	10	19,700	5,309
1914	49,885	20,000	10,000	0	6	11,820	13,376
1915	20,315	17,000	0	0	6	11,820	4,876
1916	163,386	90,000	14,000	0	20	39,400	24,859
1917	122,563	30,000	0	0	45	88,650	28,774
1918	139,197	30,000	0	0	45	88,650	50,086
1919	236,484	22,391	0	0	70	137,900	126,281
1920	390,785	24,854	0	0	80	157,600	329,782
1921	243,111	27,681	0	0	30	59,100	486,112

Table 5

Source: Annual Accounts of Champdany Jute Co., Ltd., (UGD 91/163, 91/169).

The first dividend debate occurred in 1882 (already referred to in the previous part) when the James Finlay directors were concerned about the amount of the dividend when, in their view, the depreciation provided was inadequate. The other directors were concerned with the dividend payout up to this point in time. Until 1881 the average dividend declared was five and a half per cent, which was at least two per cent down on the minimum level desired by the directors. These directors disagreed with making up any inadequacy in the amount of depreciation in prior years, even though the auditor had recommended this. They disagreed because, firstly, the accounts up to now had been passed at the AGM's by the shareholders, thereby absolving the directors of any responsibility for accounting practices adopted in them; secondly, the recent purchase of the new mill (Wellington) at a cheap price had reduced materially the cost per loom of the company; and thirdly, they gave the reason that there was a prospect of good trade in the coming 1882-1883 year, which meant they could provide more adequately for depreciation then if necessary (DM, 5 July 1882, UGD 91/178/2).

The chairman disagreed with his fellow directors and suggested that the points of difference among the directors should be resolved by Professor Robertson , the company's law agent. Professor Robertson attended the next directors' meeting just before the AGM. The majority of directors at this meeting still insisted that a ten per cent dividend be declared. This was arrived at after two letters were read from the auditor suggesting that more depreciation should be written off, and after obtaining Professor Robertson's views on the matter (DM, 26 July 1882, UGD 91/178/2).

Yet, the chairman was unhappy with the decision to declare a dividend of ten per cent. At the directors' meeting on the day of the AGM he stated that the directors should take heed to the auditor's comments that the provision for depreciation is inadequate. He suggested that the shareholders should appoint a committee to ascertain the true value of the company's property and assets and postpone the declaration of the ten per cent dividend until the committee's report was received. Muir and Murray were voted down by the four other directors (DM, 31 July 1882, UGD 91/178/2).

At the AGM, the Chairman could not let the dividend debate drop, and proposed that the dividend declared be held back until a committee of shareholders examined and reported on the company's property and assets. The company's law agents advised the Chairman that such a move might be illegal, as the directors had already recommended the dividend of ten per cent. John Muir let the matter go, at this point, but insisted that the accounts be printed so that shareholders could see on close examination the position as regards to depreciation, and take note of the auditor's report commenting on the lack of depreciation (AGM Minutes, 1882, UGD 91/177/1). Also, at the meeting, Mr. Luke was not re-elected by the shareholders and Mr. A. Currie was elected instead. One shareholder was obviously very irate at this and lodged a protest against the new director and the re-election of the auditor (AGM Minutes, 1882, UGD 91/177/1).

Tension between the directors was obviously running high after these meetings. At the next directors' meeting in August, 1882, A. Hannay and T. W. Brown indicated that they wanted their support to be noted for the protest made at the AGM by the shareholders. In the same month Mr. Burnett resigned as a director also and was replaced by a James Finlay employee, A. M. Brown. Mr. Luke was first offered the directorship but turned it down. In the space of a month the composition of the board had changed dramatically. Prior to the AGM James Finlay directors numbered two compared to non-James Finlay directors of five. Now James Finlay affiliated directors were four in number and non-James Finlay directors, three.

In September, Messrs. Hannay and Brown withdrew their protest made in August. They did this in the interest of the unanimity of the board (DM, 20 September 1882, UGD 91/178/2). This set the scene for further conflict in 1883 over the accounts and the dividend to be declared. The non-James Finlay directors were now in the minority with the result that the Chairman was able to carry out decisions reflecting his views.

The year 1883 proved to be the best year yet for Champdany. The directors attributed the Company's success to the purchase of the Wellington mill and the high prices received for their manufactured goods compared to the low raw jute costs. The Chairman decided to print the auditor's detailed letter on depreciation, which was submitted to the AGM in 1882, to support his view of the need to adequately provide for depreciation. Accordingly, he supported a rate of three and a half per cent on the buildings and seven and a half per cent on the machinery. It was arranged to apply the above rates on a diminishing balance basis (cost minus accumulated depreciation) and to credit the accumulated depreciation account for the past year with interest at five per cent. This last calculation was not repeated again when dealing with depreciation. [14]

Mr. Watson suggested that two per cent and six per cent were sufficient rates. However, the Chairman's wishes were accepted; but the deficiency in the accumulated charge over the last seven years, as indicated by the auditor in 1882, was not made up. The directors declared a dividend of ten per cent after providing for depreciation although the Chairman thought it was too large. A figure of £1422 was carried forward to next year, which left £4,500 to be allocated.

The Chairman also brought up the fact that the company should make full provision for losses sustained since the company started business. He suggested that this had occurred, firstly, through a fall in the value of land at Champdany and in machinery prices; secondly, through buildings built unnecessarily higher and more substantially than needed; and lastly, through a fall in the exhange (DM, 26 July 1883, UGD 91/178/2).

In the directors' report, the Chairman estimated that a saving of £41,821 could have been saved if the company was started up now (in 1883). The £41,821 was made up in the following manner: a saving in the cost of land, £2,000; a saving in the cost of buildings, £17,542; a saving in the exchange on the cost of buildings, £7,461; and a saving in the cost of machinery and freight, £14,818. The Chairman suggested that the £4,500 be used as a start to writing "down the property of the company to a level of safety" (DR, 1883, UGD 91/163, see Appendix Four).

The three non-James Finlay directors disagreed with this treatment of the £4,500 residual. Instead, they wanted to increase the Reserve Fund. They also disagreed with the directors' report. This became obvious at the AGM when Mr. Hannay would not second the Chairman's motion to approve the directors' report and accounts. He said he would only do so if his disapproval of the entry, by which £4,500 was written off the various asset accounts, was recorded. The recording of his objection was agreed to by the Chairman. This, however, precipitated a discussion among the shareholders which showed some difference of opinion over the treatment of depreciation and the way the decreased value of Champdany was dealt with in the accounts.

Shareholder, Dr. Blackie, suggested that the approval of the accounts be postponed until they were printed, although the dividend should be paid, as it was not the accuracy of the accounts that was being disputed but rather their form. A committee of shareholders was set up to consult with the directors in order to promote unanimity. The committee included Dr. Blackie, Professor Robertson, J. Polson and T. Ferguson.

The committee recommended that the company amend and re-issue the 1883 accounts. (See Appendix Four). The directors agreed to their recommendations which disagreed with the Chairman's original accounting proposal and wrote back the £4,500 written off the asset accounts and credited £4,500 to the depreciation account. The committee also recommended that the buildings and machinery account be increased by the amount written off in the profit and loss account for Wellington mill (£6,376). Instead of expensing this amount they suggested that, as the expenditure was to replace existing machinery and to make repairs, alterations and renewals, it should be capitalised. Therefore, £3,087 was credited to depreciation (being five and a half per cent on the 1882 buildings and machinery balance of £57,117) and the balance of £3,290 was credited to the insurance fund. Both adjustments increased the asset amounts of the two mills (DM, 2 July 1884, UGD 91/178/3).

In the 1885 accounts, a four per cent dividend was declared after providing £6,000 depreciation. This was done after writing back from reserves £3,500 and receiving a £1,000 rebate from the managing agents. At the directors' meeting, immediately after the AGM, two of the three non-James Finlay directors resigned their seats on the board because they felt powerless due to the present way the board was constituted (DM, 24 July, 1885, UGD 91/178/3). The board expressed regret at the resignations and requested the men to reconsider.

The only remaining non-James Finlay affiliated director, T. W. Brown, suggested at a subsequent directors' meeting that the board be reconstituted and consist of only five members. He proposed that these be John Muir (JF & Co.), T. W. Brown, A. Currie (JF & Co.), T. Watson and J. Luke. This meant that Messrs. A. M. Brown and Murray tended in their resignations and that the board was now made up of two James Finlay directors and three non-James Finlay directors.

The years of 1885, 1886 and 1887 were loss making years for the company. The debate between depreciation and dividends ceased to be an issue as no depreciation was provided for and of course, no dividend was declared. Dr. Blackie provided the only real debate during this time when he complained of obscurity in the accounts. The minutes were not explicit as to the issues he raised but verbal explanations were given at the AGM by the Chairman (AGM Minutes, 15 July 1886, UGD 91/177/1). At the AGM in 1885, as previously mentioned, Dr. Blackie suggested that the company's shares should be placed on the Glasgow Stock Exchange. This was the first time that the suggestion of listing was made and it was not raised again until 1889.

The company became profitable again in 1888 and the directors started allocating amounts of depreciation and declaring dividends. It is significant to see how the depreciation and capital expenditure accounting policies changed over time. In discussing the preparation of the 1876 accounts, the following statement appeared in the directors' minutes: "...after careful deliberation it was agreed to write off from available profit £2,000 to Depreciation Account, and to credit this account with a like sum yearly. It was further agreed that all renewals and repairs be charged against Revenue in the years such take place" (DM, 4 July, 1876, UGD 91/178/1).

In 1878 the directors decided that the depreciation provision should be £10,000 so they charged £3,655 to depreciation. They subsequently decided to maintain it at this rate for the next three years by charging £3,600 per year. Then came the 1882 and 1883 debates already mentioned with the auditor's letter expressing the inadequacy of the depreciation charge, and establishing the rates of three and a half per cent on buildings and seven and a half per cent on machinery. What was not previously mentioned in the debate over the 1883 accounts was that Mr. Watson, a non-James Finlay affiliated director, was concerned with the charging of the cost of repairs, alterations and renewals to revenue and that these amounts should rather have been charged to capital and a corresponding sum credited to depreciation (DM, 26 July 1883, UGD 91/178/3). This was what ended up happening in the 1883 amended accounts of the Wellington mill. This proved to be just the start of modifying the original policy set in 1876.

In 1884 the directors made the comment that no depreciation needed to be provided this year for the Wellington mill as the property in their opinion did not stand at too high a value (AA/Cs, UGD 91/163). Then came the years of no depreciation at all due to the losses suffered by the company. The idea of reflecting the "true position" or "true value" seemed to have been the idea behind the depreciation discussion up to this point.

In 1887, although no depreciation was credited to the depreciation account, it was discussed by the directors. Again, non-James Finlay director T. Watson, suggested that when in the future depreciation is provided for, that consideration should be taken of short-time working at the mills and that all charges for repairs should be debited to the depreciation accounts. From 1888 to 1903 the company continued to charge repairs to depreciation. As can be seen from Table 6, the company also charged renewals of fixed assets to the depreciation account.

Champdany Jute Co., Ltd.
Accounting for Depreciation, 1875 to 1921

Date	Champ	Less Repr Renl	Bal	Wgtn	Less Repr Renl	Bal	Tot Bal
	£	£	£	£	£	£	£
1875	2,344	0	2,344	-	-	-	2,344
1876	2,000	0	4,344	-	-	-	4,344
1877	2,000	0	6,344	-	-	-	6,344
1878	3,655	0	10,000	-	-	-	10,000
1879	3,600	0	13,600	-	-	-	13,600
1880	3,600	0	17,000	-	-	-	17,200
1881	3,600	0	20,800	-	-	-	20,800
1882	10,000	0	30,800	1,000	0	1,000	31,800
1883	10,542	0	41,342	3,086	0	4,086	45,428

1884	6,000	0	47,342	0	0	4,086	51,428
1885	0	0	0	0	0	0	51,428
1866	0	0	0	0	0	0	51,428
1887	0	0	0	0	0	0	51,428
1888	5,000	2,182	50,160	4,850	1,572	7,364	57,524
1889	18,500	323	68,337	10,050	437	16,977	85,314
1890	5,674	259	73,752	4,057	300	20,734	94,486
1891	3,889	5,065	72,576	1,924	335	22,323	94,899
1892	4,198	2,665	74,109	2,022	1,607	22,738	96,847
1893	3,032	11,352	65,789	2,582	1,030	24,289	90,078
1894	0	19,763	46,026	0	6,295	17,998	64,024
1895	0	1,979	44,047	0	2,564	15,433	59,480
1896	0	1,529	42,518	0	231	15,202	57,720
1897	9,522	690	51,350	4,772	311	19,663	71,013
1898	0	718	50,632	0	523	19,141	69,773
1899	0	2,594	48,038	0	7,016	12,124	60,162
1900	0	2,443	45,595	0	2,004	10,119	55,714
1901	0	816	44,779	0	2,067	8,052	52,831
1902[a]	3,000	800	56,979	10,000	580	17,472	74,451
1903	16,000	2,891	13,109	0	0	0	87,560
1904[b]	10,000	2,941	7,059	0	0	0	94,619
1905	11,000	0	11,000	-	-	-	-
1906	0	0	0	-	-	-	-
1907	6,000	1,000	5,000	-	-	-	-
1908	11,000	0	11,000	-	-	-	-
1909	14,000	0	14,000	-	-	-	-
1910	14,000	0	14,000	-	-	-	-
1911	7,000	0	7,000	-	-	-	-
1912	21,000	0	21,000	-	-	-	-
1913	20,000	0	20,000	-	-	-	-
1914	20,000	0	20,000	-	-	-	-
1915	17,000	0	17,000	-	-	-	-
1916	90,000	0	90,000	-	-	-	-
1917	30,000	0	30,000	-	-	-	-
1918	30,000	0	30,000	-	-	-	-
1919[c]	2,391	0	22,391	-	-	-	-
1920	24,854	0	24,854	-	-	-	-
1921	27,681	0	27,681	-	-	-	-

Table 6

Source: Annual Accounts of Champdany Jute Co., Ltd. (UGD 91/163, 91/169).

Notes:

a. Wellington mill depreciation was not shown separately beyond 1902.

b. After 1904, accumulated depreciation was no longer disclosed in the accounts. The accumulated depreciation (£94,619) was written off the asset accounts, and thereafter, until 1919 a net figure for assets was shown.

c. In 1919 the tax authorities in India would only allow depreciation on the cost of assets shown in the balance sheet. Hence, the accumulated amount of depreciation was shown again.

Depreciation was again provided for from 1888 to 1893. In 1889 the next debate occurred over depreciation. The Chairman put forward the position that the rates recommended by the auditor in 1882 should be adhered to and the shortfall in depreciation over the last four years should be made up. In the directors' report of the 1889 accounts the Chairman set out his position this way: "By reference to the Reports for 1887 and 1888 it will be seen that the exact position of Depreciation Account is as follows:

Champdany Mill - Depreciation unprovided for in	1885	£6,546
	1886	5,732
	1887	3,954
	1888	4,350
	1889	4,492
		£25,074
Deduct amount written off in 1888		5,000
		£20,074
Further amount to be now written off		18,500
Leaving a Debit Balance to be provided in 1890 of		£ 1,574

Wellington Mill - Depreciation unprovided for in	1885	£4,011
	1886	3,731
	1887	2,606
	1888	2,917
	1889	3,052
		£16,317
Deduct amount written off in 1888		4,850
		£11,467
Further amount to be now written off		10,050
Leaving a debit balance to be provided in 1890 of		£ 1,417

The Directors fear they may not have acted quite properly last year in paying a dividend without making adequate provision for Depreciation, but they were desirous to pay a dividend for that year of 4% and this year they have decided to declare a dividend of 5%, although there is still a deficiency of £2,991 in the proper amount for Depreciation, which will require to be provided for in next Balance" (DR, 1889, UGD 91/163).

T. Watson and J. Luke suggested that such a large depreciation adjustment (£18,500 for Champdany mill and £10,050 for Wellington mill) should be spread over two years or more. They further suggested that the dividend could then be increased to six and a quarter per cent or even seven and a half per cent. John Muir stated that he did not agree with their proposal but offered to refer the question if they so desired to the company's banker, Mr. Fleming, who was Cashier of the Royal Bank of Scotland. Watson and Luke stated that this would not be necessary as they did not want to press their views to a division (DM, 16 July 1889, UGD 91/178/4).

In 1890 the company had another profitable year. It made up the amounts of depreciation still to be provided for from 1889 plus provided depreciation for the year ended 1890. The company also declared a dividend of ten per cent for only the third time in the company's history to this point in time.

In 1892 the directors stated in their report that instead of charging £8,022 for depreciation they were going to only charge £6,022, which left a shortfall of £2,000 which they stated would be made up in a subsequent year. This enabled a dividend of two and a half per cent to be declared. At the AGM one shareholder suggested that the whole amount of the depreciation charges should be deleted from the present accounts. The directors assured the shareholder that the question of future depreciation charges would be looked at by the directors (AGM Minutes, 29 July 1892, UGD 91/177/1).

The 1893 AGM was the catalyst for a conflict that eventually ended up in certain minority shareholders taking the majority shareholders and the directors to court over alleged mismanagement of the company's finances and for the over charging of agency fees by Finlay Muir. These details will be developed in the next part of the study. Capital expenditure and depreciation accounting policies continued to be a part of the conflict although the accounting for a fall in the sterling-rupee exchange rate was the major accounting policy which defined and made visible undercurrents of conflict in the organisation.

For the year ended 1893 the company declared a dividend of five per cent. The directors stated the following in their report:

> "The question of dispensing with this charge (depreciation) altogether was raised at last Annual General Meeting, by one of the Shareholders, and the Directors have since then had the matter under careful consideration. They are of opinion that, while large sums are being debited to Depreciation Account for renewal and replacement of old and worn-out machinery, boilers, engines, and engine gearing, and for repairs on buildings, etc., it would be unwise and improper to discontinue the practice of making provision for cost of same annually. Had this policy not been adopted in past years, the amount of £11,351:18s.10d. expended this year on replacements and repairs on account of Champdany Mill, and £1,030:6s.11d. on account of Wellington Mill -- say together, £12,382:5s.9d -- instead of being placed to the Debit of Depreciation Account, as has been done, would have been chargeable against the year's revenue, and would have left the Shareholders without a Dividend. While, therefore, the Directors consider it right to continue to provide annually against Depreciation of machinery, they think that the charge of 3 1/2 per cent, hitherto made in respect of Depreciation of Buildings, may for the present be discontinued.
>
> They have also decided that for the present, the Depreciation of £1,000 on each Mill -- together, £2,000 -- undercharged last

year, and which it was arranged should be charged to the year now closed, shall be still held over, till a future and more prosperous year, when it will be placed to the credit of Depreciation Account.

The Directors propose to write off now, Depreciation at the usual rate of 7 1/2%, on Machinery only, amounting in respect of:

Champdany Mill, to	£3,032
and of Wellington Mill, to	2,582
Together,	£5,614" (DR,

1893, UGD 91/163).

T. Watson, who did not draft the report, agreed with the approach taken over the depreciation accounts. However, he disputed the fact that "the entire cost of the new engine is placed to the debit of the depreciation fund instead of partly to capital" (DM, 21 July 1893, UGD 91/178/4). He pointed out that the old machine was still in fine working order and hence a valuable working asset. He concluded that the new machine is a fresh item of capital outlay and is also technologically superior to the old machine.

It appears that from about 1890 to about 1902 new capital expenditure was either debited to the depreciation account if it was a renewal or replacement of an existing asset, and debited to the asset account if it was an addition to the existing assets. This policy, however, was not clear when presented with a technological superior asset as outlined above (DM, 30 July 1890 and 16 February 1894, UGD 91/178/4).

The capital expenditure policy of charging renewals and repairs against depreciation, as stated by the directors, enabled this expenditure to come in "below the line" and thus enabled a dividend to be declared.

In 1896 a group of shareholders, concerned that they had not received a dividend since 1893, petitioned the company with respect to its accounting practices. They suggested, among other things, that there was no need to provide any more depreciation because the mills had already been reduced substantially by the depreciation fund. The directors gave the petition to the company lawyers, Maclay, Murray and Spens, for their advice as Champdany was in the midst of a court action from another group of shareholders. The lawyers advised the directors in the following manner: "...assuming the Board is in favour of a policy of paying a dividend as soon as may be, we think it might well suggest to the shareholders to appoint a small committee to confer with the Board as to the whole question of capital and revenue and of the proper mode of stating profit and loss with a view to securing that profits can be made available for dividend" (quoted in DM, 16 July 1896, UGD 91/178/4).

There was no depreciation provided for in the 1896 accounts as well as no dividend declared. A committee was appointed and met with the directors. Because of the court action, the directors did not want the accounts to be changed in any way. They alternatively suggested that debentures might be a possibility for securing a regular investment income from the company. However, shareholders representing £100,000 of the share capital applied for debentures, and as this was for too high a proportion of the share capital, the scheme was abandoned (DM, 24 February 1897, UGD 91/178/4). The attempt to increase profit through alternative accounting practices, did not prove fruitful in this case.

From 1894 to 1901 no depreciation was charged in the accounts except for 1897. The auditors drew attention to this in their report to shareholders at the AGM in 1902. During this same time period a dividend was not declared until 1901.

In 1902 an outcome related contract, based on profits rather than on the dividend declared, was negotiated by the company with the manager of Champdany who also supervised the Wellington mill. This appeared to prompt the Chairman of the directors, at the same meeting and immediately after the management contract was discussed, to state a new policy on the treatment of repairs. He suggested that all repairs in the future should be expensed rather than put to the debit of the depreciation account. He also stated that each new item of capital expenditure, whether a replacement or an addition, should be dealt with separately in the accounts in a manner approved of by the board (DM, 17 August 1903, UGD 91/178/4).

It appears that this expensing of repairs against profits was prompted by linking the manager's bonus into profits; whereas previously repairs were debited to depreciation to enable a larger amount of profit to be available for dividend. This, however, was not so important now as the heat had been taken out of the dividend debates because of the more homogeneous nature of the shareholders. This had occurred in 1898 because James Finlay had bought up much of the dissenting shares and the rest of the non-James Finlay shares had been converted to preference shares.

From 1907 onwards no expenditure for replacements or renewals was debited to the depreciation account. Capital expenditure was capitalised. However, from 1905 to 1919 accumulated depreciation was no longer shown in the accounts, only the yearly charge in the profit and loss was shown. The assets were shown at their written down amounts.

In 1919, however, the Indian tax authorities decided to base the annual depreciation allowance on the value of the buildings and machinery as shown in the accounts. The directors had, in the 1910's, written the assets down significantly. As seen from Table 5, in 1916, £90,000 was charged to profit and loss and in 1917 and 1918, £30,000 in each year was charged. This large amount charged in 1916 was to make full provision out of revenue for the cost of the recent extension at the Wellington mill and other recent capital expenditure (DR, 1916, UGD 91/169).

It was now decided, however, to show the full cost of the buildings and machinery less accumulated depreciation at the rate of five per cent (the rate allowed by the Indian tax authorities). The directors transferred to the credit of a Special Replacement Reserve account the remainder of the sum previously written off for depreciation.

As previously mentioned, income tax in particular, and fiscal policy generally, affected accounting practice. The company kept separate asset and depreciation records for tax purposes. The wear and tear allowance, which came to be known as depreciation, was only allowed as a deduction for United Kingdom taxation with respect to machinery. The allowable rate was ten per cent from 1875 to 1901 and from 1902 the allowable rate was reduced to six per cent. In the tax depreciation there was no charging of replacements but rather the full amount allowable was claimed (Tax Records, UGD 91/168). For the purposes of Indian taxation, depreciation allowable was greater and it was also allowed on buildings. In 1919, as already noted, the Indian authorities stated that depreciation had to be based on the asset values as shown in the accounts.

Depreciation and capital expenditure accounting practices were constitutive and reflective of conflicts in the organisation over profit determination and the dividend decision. The dividend decision was more important for the minority, non-James Finlay shareholders because of their different interest in the company, than the James Finlay affiliated shareholders, whose goals for the company were long term and influenced by the commission income and other income earned from Champdany. This tension in the organisation became defined and made visible by the depreciation and capital expenditure practices, in such a way that the accounting practices were embroiled in distributional effects rather than any desire for any notion of what was "correct" practice.

The depreciation account was conceived of differently by different interested parties; it was variously described as a fund, an account, a valuation procedure, or an allowance for wear and tear. Despite this, however, the real issue in the company over these accounting practices was their distributional effects and the justification of the practices by the appeal to experts (the auditor, lawyer, and banker) by the dominant shareholders. This was not the case after the shareholders had become a more homogeneous group in 1899. After that, depreciation was affected by internal management procedures such as contracting with mill management, and definitions of cost for pricing decisions (to be covered in the next part). Also taxation regulations influenced practices such as rates of depreciation and the disclosure of asset values, as was the case in 1919.

The case will now examine the accounting practices associated with exchange rate movements and how these became embroiled in a conflict that ended up in the Court of Session, Scotland's highest court.

b. Acoounting for Exchange Rate Movements

(i) Background

The directors were concerned that the company had such a poor start. They acknowledged that the Champdany mill was too substantial, and therefore more costly than was necessary for a jute mill. This, they realised, was an initial mistake. However, the directors were always at pains to point out that they had built the mill and purchased machinery when prices were high. The funds outlaid for this purpose cost on the average, 1s.11d. for every Rupee (£1=Rs10.5). In 1893 the directors stated that the exchange rate at which such funds could now be remitted was 1s.4d. per Rupee (£1=Rs15) which showed that a mill could be built, at present, at about thirty per cent less on the Indian expenditure (Correspondence, 27 September 1893, UGD 91/178/4).

Average Rate of Exchange, 1872 to 1921

		Pence to Rupee	Rupees to Pound
Decade ending	1872	23	11
	1882	20	13
	1892	15	16
Year ending	1893	16	15
	1894	13	18.5
	1896	14.5	16.5
	1898	16	15
	1899	16	15
	1900	16	15
	1901	16	15
	1912	16	15
	1917	16	15
	1919	22	11
	1920	22	11
	1921	16	15

Table 7

Source: V. Anstey, The Economic Development of India, London: Longmans, Green & Co., 1942, pp. 412-421.

Table 7 shows how the exchange rate moved during the period from 1872 to 1921. The most dramatic fall in the exchange rate was in the twenty years from 1875 to 1895. India's currency had a silver standard imposed on it in 1806 by the East India Company, [15] for silver prices began to slump from 1874 onwards, from 69p per ounce in 1873 to 24p per ounce in 1910, with the lowest price being 21p per ounce in 1897. During this time the government of India was concerned about this state of affairs and continually suggested that Britain let her adopt a gold standard. However, British commercial interests prevailed as they argued that continuous currency depreciation was the only remedy against world-wide falling prices, and the only way of keeping Indian exports competitive in in world markets (de Cecco, 1984, pp. 64-65).

Champdany would have benefitted from this policy in selling its jute. However, in 1893 the Herschell Committee realised that the adoption of the gold standard was the only way to avert disaster. The Indian mints were closed to the coinage of silver in order to reduce the number of rupees in circulation until the gold value of the rupee rose to 1s.4d. The value of rupee stabilised much to the relief of the Indian government, as this period had put a great strain on state revenues (Anstey, 1942, pp. 409-411).

It was not until 1917 that further exchange rate fluctuations occurred. This was due to the price of silver increasing dramatically at the end of the First World War (Anstey, 1942, p. 420).

(ii) Controversy Over Exchange Treatment

The downward decline of the exchange rate presented an accounting problem to the Champdany directors. John Muir, Chairman in 1883, argued that the company should make full provision for losses sustained since the company started business and that part of these losses had been incurred due to a fall in the exchange rate. As already noted, the Chairman stated that a saving of £42,821 could have been made, of which the fall in exchange constituted £7,461, if the company had been started up in 1883 (DR, 1883, UGD 91/163). However, the non-James Finlay directors and shareholders disagreed with the writing down of assets to reflect any loss in value. The matter was not brought up again by the Chairman until ten years later in 1893.

The company had accounted for foreign exchange transactions up to 1893 by using a "bookkeeping rate" of 1s.9d. for remittances to or from India. This rate approximated the average rate current when, and for some time after, the company was started. The difference between 1s.9d. and the actual current rate on remittances, was credited or debited as the case might be, to the Exchange account, the balance of which was added to or charged against the year's profit.

The exchange loss or gain was shown as a separate item in the accounts until 1889. In 1890 the separate disclosure of the figure fell victim to the company being quoted on the Glasgow Stock Exchange. The directors became less candid and open about expense categories and preferred to lump them all together. It can be seen from Table 8 how, in the last five years, the exchange loss was growing and the "bookkeeping rate" of 1s.9d.

was no longer approximating the current exchange rate.

Champdany Jute Co., Ltd.
Exchange Gain or Loss, 1875 to 1921

Year Ended 30 April	Exchange (Gain) or Loss £
1875	(191)
1876	0
1877	1,002
1878	0
1879	1,281
1880	407
1881	1,618
1882	664
1883	1,825
1884	331
1885	2,049
1886	383
1887	2,766
1888	6,999
1889	8,342
1890	-
1891	-
1892	2,777
1893	-
1894	-
1895	866
1896	939
1897	665
1898	3,619
1899	1,345
1900[a]	638

Table 8

Source: Annual Accounts of Champdany Jute Co., Ltd. (UGD 91/163, 91/169).

Notes: a - After 1900, the accounts did not disclose the exchange gain or loss separately. The 1900's and 1910's, except for 1920 and 1921, the exchange rate did not move too much around the accounting rate of 1s.4d.

\- Data not disclosed

The company also, at year end, took the stock of raw and manufactured jute on hand and adjusted the figure by the year end exchange rate. This was the only balance sheet item that was adjusted to the rate prevailing at balance date (Correspondence, 24 July 1893, UGD 91/175).

It is interesting to see how this fall in the exchange rate highlighted the way the company was presently accounting for it. More importantly, now that the directors proposed to change the way they had accounted for it, the reaction of the shareholders to the change, brings to the surface dissatisfactions and tension with the management of their company that had been simmering for a long time.

The auditor stated that he had been giving the question of exchange his most careful consideration "with the result that I have come to the conclusion that it is necessary that an adjustment should be made in order to bring the accounts into harmony with the rate of Indian Exchange which the Government is now seeking to fix at 1s.4d. per rupee" (Correspondence, 24 July 1893, UGD 91/175). He further stated that the result of the present method of dealing with exchange rate fluctuation was the following:

> "....that while the Annual Profit and Loss Account has....been adjusted with the current rates all accumulations of profit retained in India have been allowed to remain in the Company's Books at the book-keeping rate of 1/9.
>
> The Depreciation Fund has been built up with such accumulations, and I am of opinion that it is now necessary that an adjustment should be made in order to bring it into harmony with the rate of exchange which is now sought to be fixed, and that for the future the Accounts should be based upon the current rate of, 1/4 or thereby.
>
> To give effect to such proposed adjustment, the following entries would require to be made:
>
> Depreciation Account and the Insurance Funds which now stand together at £103,999 and Sundry Deposit accounts at £2,288 would require (together) to be reduced to the

equivalent of 1/4 or £80,981 and the difference of £25,306 would fall to be deducted from:

1. F.M. & Co. A/C; Advance A/C; Calcutta Twist Co. A/C, to bring them to the equivalent of 1/4 - £2823.

2. Cash in Bank and at Works, to bring it to the equivalent of 1/4 - £7192.

3. Lands, Buildings, Machinery and Sundry Debtors, the balance, representing the difference on Rupee expenditure in these items - £15,291

(Total) - £25,306" (Correspondence, 24 July 1893, UGD 91/175).

Sloan's letter on exchange was read at the AGM held on 31 July, 1983. The Chairman stated that he approved of the adjustment of the company's books being affected in accordance with the recommendation of the auditor and stated that the recommendation would be made in the accounts for the current year (i.e. year end 30 April, 1894). The Chairman and auditor answered some questions from N. P. Brown and others and this appeared to be the end of the matter (AGM Minutes, 31 July 1893, UGD 91/177/1).

However, this was the catalyst for a conflict which ended up in certain minority shareholders taking the directors to court for mismanagement of the company. A series of letters was sent to the company by N. P. Brown as a follow up to the questions he raised at the AGM. He was concerned that the commissions earned by Finlay Muir in India and James Finlay in Glasgow were not being properly disclosed to shareholders. He wrote six times to Champdany from 31 July 1893 to 11 October 1893.

His concern over the commissions focussed on the potential conflict that existed in the organisational and ownership structure of the company. As James Finlay both controlled (through their majority shareholding) and managed (through Finlay Muir being Champdany's managing agents) Champdany, this revealed according to N. P. Brown, a "double interest" in the company. He accused Finlay, stating "....you have a double interest....and that your interests as Shareholders are largely subordinate to your interests as Managers, Agents and Financiers" (Correspondence, DM, 29 September 1893, UGD 91/178/4). Brown raised similar objections to the amount of commission income earned as compared to the dividend return, as raised by Watson and Hannay when the directors proposed further investment in a new mill in 1893 (see Section B, Part 2).

James Finlay questioned Brown as to why he did not give the company notice of the questions he was going to ask the AGM. Brown replied that his questions were largely unpremeditated and, therefore, he could not give notice of what he had no definite intention of doing before coming to the AGM. He stated "the Auditor's letter upon the subject of Exchange was really what led me to put the question regarding your commissions" (Correspondence, DM, 29 September 1893, UGD 91/178/4).

Sloan also gave, as another reason, why he now deemed it necessary to bring attention to the fact that the actual rate of exchange current at balance date differed so much from the bookkeeping rate used for accounting purposes. He stated that it was only in the last two years that the "Cash in Banks" had amounted to a considerable sum and it was the possibility of having to bring these sums home that made him reconsider the question of exchange (Correspondence, DM, 16 August 1893, UGD 91/178/4).

In explaining the proposed exchange adjustment to N. Brown the Chairman stated that "the auditor's recommendation would have the effect of reducing the accounts to figures that more nearly represented real values in sterling and would make the exchange loss hereafter appear smaller" (Correspondence, DM, 16 August 1893, UGD 91/178/4).

It is significant that J. Muir brought up the argument that the new method of treatment would reduce the exchange loss on funds remitted in the profit and loss account. Previously, in arguing the director's case over depreciation amounts, he always used the opposite argument with respect to the effect on the profit available for dividend. He obviously was concerned that the yearly exchange loss was charged to the profit and loss account and was getting too large and uneven. This can be seen from Table 8.

T. Watson, the non-James Finlay director, also responded to the auditor's recommendation by letter to his fellow directors, as he did not attend that AGM. He stated:

> "....I take exception to the auditor's interfering with Directors or Shareholders as to what prices they should pay for Land, Buildings, Machinery, Jute, Oil, Coal etc. or at what prices they should sell the products of the Mills and I most strenuously object to the proposal he makes to reduce the value of the first named three items because that exchange is much lower since the Contracts for such were entered into. Doubtless some contracts were made in the Currency of India i.e. Rupees. But our Company is not a Rupee concern, but one of Pounds Sterling with its Registered Office in this City for conducting its affairs.
>
> There are 19,700 shares each of £10 Stg. fully paid, making up the Capital of £197,000 Stg. Each Shareholder had to pay 'parri passu' for the various items required for the manufacture of Jute fabrics. Some of these items were contracted for and paid in this Country; others were puchased in India and primarily paid in Eastern Currency, they were really paid for in Sterling - Bills being drawn at the Exchange of the day and paid for by the Shareholders in Pounds through their financial representatives -Messrs. James Finlay & Co. Each transaction of the kind was

> thus completely settled - discharged and closed.
>
> I am astonished that this question of reduction in value of the fixed Properties should again be stirred up after the painful experience and recollections of 1882/83 and in view of the settlement that was made" (Correspondence, DM, 30 August 1893, UGD 91/178/4).

Watson recounts how the attempt to account for the fall in exchange was completely squashed by the committee of shareholders. He finished his letter by stating that "supposing that instead of *falling*, exchange had *risen* ....would a Profit and Loss entry be made debiting Fixed Property therewith? If so from what fund would this imaginery gain be paid to the shareholders who are entitled to all Profits after meeting all charges?" (Correspondence, DM, 30 August 1893, UGD 91/178/4, emphasis in original).

Watson saw no reason, then, to account for an unrealised (imaginery) exchange loss. Not surprisingly, A. Sloan (auditor) was not impressed by the letter which he felt was designed to intimidate him as auditor. (This dialogue over the auditor's duties will be examined in the next part of this section). Sloan replied to Watson, stating:

> "Mr. Watson misapprehends the scope of my proposal. I endeavoured to make it as clear as possible that the reduction which I proposed extended only to the sum of the accumulated profits represented by the Depreciation and Insurance Funds amounting together to £103,999. This amount has been reared up on the basis of exchanging the Rupee @ 1/9, and, having been expended in India or retained there, it remains in the Accounts at that rate. It is represented on the other side of, the Balance Sheet by (1) expenditure under the heading of, Lands, Buildings, and Machinery, and (2) the balance of Cash in the Calcutta Banks.
>
> My proposal is that *this amount* be reduced to the equivalent of 1/4 per Rupee,

> and that the difference be applied (1) in bringing the Cash in Banks to the same equivalent, and (2) in writing down Lands, Buildings, and Machinery <u>in respect of Rupee expenditure thereon out of accumulated profits</u>. I trust I have made it clear that the deductions which I propose in my letter, do not touch the expenditure representing the original Capital of £197,000 (which I deal with below) but only the expenditure of, the accumulations of Profit, which, as the accounts are framed, appear on both sides of the Balance Sheet at the equivalent of 1/9 per Rupee." (Correspondence, 6 September 1893, UGD 91/175, emphasis in original).

Sloan further states that since writing his previous letter of the 24 July 1893, he has come to think that a more sweeping reduction of values should be made. He stated:

> "It is quite true as Mr. Watson says that 'each Shareholder had to pay "pari passu" for the various items required for the manufacture of Jute fabrics' and that whether, the money was paid in this country, or, whether it was remitted to India at the Exchange of the day, and then paid in Rupees, so far as the Shareholders were concerned the payments were made, as Mr. Watson says '<u>in pounds</u>'.
>
> As regards the value of Machinery sent out from this country; <u>and which cannot be procured in India</u>, I do not think the question of the fall of the gold value of the Rupee need be considered.
>
> <u>As regards Rupee expenditure in India, however, the case is altogether different</u>.
>
> In considering this question it must be borne in mind that while <u>the gold value</u> of the Rupee has fallen from 2/- to 1/4 since 1873, <u>the purchasing power</u>, of the Rupee in India has not decreased, That is to say that while it now requires Rs 15 to purchase a Sovereign which twenty years ago could be bought for Rs 10 - Rs 10 will today purchase as much in India as they would in 1873. Therefore a Sovereign, which in 1870 could only purchase ten articles (each worth Rs 1) will today purchase fifteen; or in other words <u>the sterling value</u> of ten articles which twenty years ago was £1, is now, only 13/4.
>
> A considerable portion of the original capital of, £197,000 was remitted to India at the Exchange of the day - at an average of say 1/11, or Rs 10.42 per £1. Say for example, that £1,000 were so remitted, and that the

equivalent in Rupees was expended in the purchase of Land and the erection of Buildings etc; then let us assume that if these were sold today they would realize their exact cost in Rupees, viz,£10,420 - the exchange value thereof, at 1/4 would only be £694; or £305 less than cost at which they stand in the Books.

If £80,000 were so remitted and expanded, the present value in sterling @ 1/4 Exchange would only be £55,573 and to bring the items down in the Books to that figure, there would require to be written off, the sum of £24,426. This view of the question should, I think, receive the most careful consideration of the Directors (Correspondence, 6 September 1893, UGD 91/175, emphasis in original).

Sloan finally addressed Watson's point about how the company would account for a rise in the exchange rate.

> "If the case previously considered were exactly reversed - if Rupee had stood at 1/4 when the Capital was expended, and was now, worth 1/11, <u>and appeared likely to continue at that value</u>, then I certainly think it would be right and proper, to make such an entry as Mr. Watson suggests with the view of bringing the Rupee expenditure in "Fixed Property" up to its true equivalent in gold.
>
> The sum so added to "Fixed Property" would be no "imaginary gain," but a definite and ascertained increase in the <u>gold value</u> of said Property, and it would be perfectly right and proper, if so determined, to divide it amongst the Shareholders in the form of a bonus. Take the case of a Public Company in this country, having as one of its assets, property which owing to circumstances - say the discovery of minerals - has unquestionably largely increased in value. It would be manifestly improper to allow said property to remain in the Accounts of the Company at the original valuation. As in that case any Shareholder ignorant of the true value might part with his holding for much less than it was really worth. It might either be paid to the Shareholder in the form of a bonus, or carried to their credit in a Special Reserve, or other similar account in which latter case a Shareholder selling out would receive his share of the increase in the enhanced price which such a favourable state of Account would command for the Stock of the Company (Correspondence, 6 September 1893, UGD 91/175, emphasis in original).

Watson retired from the board on the 29 September, 1893. This issue of accounting for foreign exchange and the issue of investing Champdany's working capital into a new mill, were the final blows in a series of conflicts over the years with the James Finlay affiliated directors.

N. P. Brown followed up on his requests for details on the commissions and other income earned by James Finlay and Finlay Muir. By this time Brown had formed a group of shareholders together who shared the same concerns he had over the management of Champdany. His law firm, Brown and Gilfillan, requested James Finlay's law firm, McGrigor, Donald & Co., to supply them with detailed answers to a set of questions on the accounts of the company for the year ended 1893. The directors had previously turned down a request from Brown and Gilfillan to examine the company's books.

Their questions were concerned with the break-down and explanation of figures in 1893 accounts. The questions included detail on "James Finlay & Co., Cash Advanced by them and under their guarantee"; what were the separate amounts charged in the Profit and Loss Account for "Charges"; what were the separate amounts for "Cost of Materials used in manufacture"; what were the terms of sale of goods; information on cash management in India; and lastly, details were requested on the amount of the exchange loss for 1890 and 1891 (Correspondence, 9 November 1893, UGD 91/175).

The company did not immediately reply to these questions as J. Muir and Mr. Luke were in India over the winter period in Glasgow. It was not until 28 July 1894, just before the 1894 AGM, that the directors replied to the shareholders' questions.

The director's reply was relatively detailed, but some of the questions were not answered specifically, especially on details of commissions earned in financing the company (Correspondence, 28 July 1894, UGD 91/175).

With the AGM meeting on the 31 July 1894, N. P. Brown wrote to Champdany, stating some questions that he had on the 1894 Accounts. He asked six questions, five of which pertained to the exchange adjustment which was carried out in the 1894 accounts. The auditor's proposed adjustment was put through the accumulated depreciation account and the insurance reserve accounts below the line and the current years adjustment from the "bookkeeping rate" of 1s.4d. to the end of year rate of 1s.1d. for stocks and cash was put through the profit and loss account.

The Chairman, after reading the auditor's letters relating to the exchange treatment, and T. Watson's letter containing his view on exchange, answered N. P. Brown's questions with the help of the auditor, Alexander Sloan. Their answers further explained the exchange adjustment. The Chairman then moved that the accounts be approved and adopted. This motion was challenged by J. Polson, who suggested that a committee be appointed to consult with the directors and secretaries regarding the accounts with the view to obtaining fuller information and to report to a future meeting. Polson's challenge to the accounts was defeated. However, the AGM had again sparked unrest among shareholders and the exchange treatment in the accounts was the focus for this unrest (AGM Minutes, 31 July 1894, UGD 91/177/1).

John Hedderwick, representing some dissatisfied shareholders, wrote to Sloan after the AGM. He stated that the method of treating the exchange in the accounts was incorrect and suggested that the company should take the initiative in correcting the accounts rather than to wait until the shareholders took action. Sloan replied that he would not act on his (Hedderwick's) letter until he knew which shareholders he was representing (Correspondence, 11 August 1894, UGD 91/175). It is interesting that Hedderwick approached the auditor rather than the company.

On the 11 August 1894 the directors wrote to Alexander Sloan stating that as some shareholders still seemed dissatisfied with the exchange treatment, they planned to met Messrs. John Polson, N. P. Brown and John Craig to consider the matter further. They also mentioned that as he (Sloan) would be on holiday when this meeting would take place, would he confirm whether he had altered or modified his view in any way from his views as set out in the letters of 24 July and 6 September 1893 (Correspondence, 11 August 1894, UGD 91/175).

Sloan replied that his views were still in accordance with his previous views as set out in the letters and that he saw no reason to change them after considering the views expressed by the three men they were going to meet with. Also in his letter of 6 September 1893, he had suggested "that a more sweeping reduction of values should be made" and that the fixed capital invested in lands, building and machinery should be reduced to the current rate of exchange. To this suggestion he stated: "I quite recognise this is a question regarding which a good deal may be said on both sides, and that looking on the company as a going concern there is perhaps no sufficient reason why the figures at which the Fixed Assets stand at present in the Books, should be reduced" (Correspondence, 11 August 1894, UGD 91/175). Sloan felt that the new "bookkeeping rate" of 1s.4d. was sufficient to, as the Directors' Report stated, "represent more nearly the real sterling values than formerly" (DR, 1894, UGD 91/163). He invoked the going concern [16] argument to justify his recommendation although as the rate at the balance sheet date was 1s.1d., 3d. down on the "bookkeeping rate," his reasoning could easily have been used to to justify keeping the accounting rate at the original 1s.9d.

The directors invited Messrs. Brown, Polson and Craig to meet with them to discuss the treatment of exchange. N. P. Brown declined the directors' invitation, stating that the directors should have set up a committee at the AGM and that "in view of the great dissatisfaction which prevails amongst the shareholders with regard to the accounts of the Company, the present invitation is of too informal a character to lead, in my opinion, to any good and satisfactory results" (Correspondence, 14 August 1894, UGD 91/175). Polson also shared Brown's opinion and declined the directors' invitation. However, in declining he gave his opinion on the state of the company: "....one of the prominent disadvantages under which we labour is the large amount (£132,544) of borrowed money required to carry on the business and the high rate of interest payable on it - 5% and 6%. This in conjunction with the amount of capital (£197,000) required to work a business with turnover of £226,426, as also the high rate of charges generally is a great source of our present position" (Correspondence, 15 August 1894, UGD 91/178/4). The exchange question had motivated Polson to question the lack of a good, regular dividend and the way the company was being managed.

Craig, however, did meet with the directors. He expressed the opinion that all the assets of the company, including the fixed assets, should be written down to the present rate of exchange. If this procedure was adopted, according to Craig, all questions of exchange would be eliminated in the future. They all agreed that the exchange treatment was a difficult one. The directors said that they acted in strict accordance with the auditor and that it was "their desire to have the accounts, as regards exchange, and in every other respect, made up on a fair and equitable basis" (DM, 16 August 1894, UGD 91/178/4). The directors indicated their willingness to still meet with Messrs. Polson and Brown.

Polson did subsequently meet the directors and the auditor on the 10 September 1894. The chairman and the auditor explained again the adjustments in the 1894 accounts. Mr. Polson suggested that a depreciation of gold might occur and lead to an appreciation of silver and an increase in the value of the rupee. John Muir, the chairman, dismissed the likelihood of this happening. He also stated that the stock write down from 1s.4d. to 1s.1d. explained a large part of the loss in the accounts for 1894. John Muir justified the use of the "bookkeeping rate" of 1s.4d., given that the year end rate was 1s.1d., by stating that "unforeseen circumstances might possibly run the exchange rate up nearly to that level, and it was undesirable to change the rate frequently" (Memorandum, 10 September 1894, UGD 91/175). Muir also addressed the proposal to write down all the company's assets. He stated that a considerable proportion of the assets consisted of machinery and other iron work which were sent from Scotland and charged in the accounts at their sterling costs. Therefore, these values are not affected by the fall in the exchange rate and consequently should not be written down.

Mr. Polson seemingly approved of the manner in which the exchange had been treated. The meeting then discussed generally the company's poor performance, especially compared to other mills. John Muir pointed out again the disadvantage the company was under by starting business in 1873 rather than the 1890's, especially as the purchasing power of the rupee had remained much as it was then, while the rupees themselves could be purchased at thirty per cent less. Muir also told Polson that the funds existent at balance date had been brought home and used to reduce the company's indebtedness and that Finlay Muir would obtain working capital from banks in India under Finlay Muir's guarantee (Memorandum, 10 September 1894, UGD 91/175).

Apart from the auditor, who wrote advising the company on how to keep those accounts into which rupee transactions entered,[17] the exchange issue was not specifically mentioned in the conflict which developed over the 1895 accounts; although it had been the accounting practice that had significantly motivated and defined the terms of the conflict.

(iii) Conflict Leads to Court Case

The AGM took place in the knowledge that a court action was being brought against the company. On 17 July 1895, Maxwell Hannay and others raised an action against the directors of Champdany. This greatly influenced proceedings at the AGM which was a stormy affair. The accounts, John Muir as chairman, and A. Sloan as the auditor, were all opposed by the shareholders involved in the court action. Their amended motions were, however, outvoted. The dissatisfied shareholders complained that not enough information was given to them. The board replied that they were willing to give the fullest information. Mr. Polson asked if a professional accountant could accompany them, to which the chairman replied that board approval would need to be given.

The court summons was formally served on the company on 2 August 1895. The action centered around alleged fraudulent management practices and the payment of the dividend out of capital for the year end 1893, because of the exchange accounting treatment. The company sent the following details to the shareholders written by their now lawyer, Maclay, Murray and Spens. "We have now to report what we are doing in this Action, which, as you are aware, purports to be Action to have certain monies paid over to the Company by your Firm and others. We have carefully investigated the circumstances affecting the case, and we think the whole claims are without foundation" (Correspondence, 14 October, 1895, UGD 91/175).

The letter went on to list the four separate claims and comment on them. The first claim for £16,250 was concerned with James Finlay's and Finlay Muir's appropriating sums in excess of their agreed remuneration as set out in Article 58 of the Articles of Association. The second claim for £8,160 was for interest charged by James Finlay and Finlay Muir on financial arrangements made with Champdany. This claim was allegedly made at the expense of the Champdany shareholders. The third claim was for £8,000, which was for James Finlay using Champdany's funds without paying Champdany any interest for such financial accomodation. The fourth and last claim for £9,850, was concerned with the dividend paid in 1893 which the pursuers alleged was paid out of capital.

In the letter, the lawyers appealed to A. Sloan's professional competence. They also stated that the claims were made only for the five years between 1889 to 1894. This, they suggested, was because up to 1889, relatives of the pursuers were directors in the company and hence culpable. The letter went on to state:

> "The Pursuers' reason for beginning at 1889 is obviously that until then one of the Directors was Mr. John Brown, but the financial arrangements and general management between 1889 and 1893 were the same as those in existence for many years prior to 1889.
> It further seems to us your firms had a right to claim remuneration for what they did, and our information is that the rates charged are reasonable, as we would expect, when passed by men of business, such as we have referred to.
> The reckless character of the averments, with regard to this claim, confirms our view - if confirmation were necessary - that the other claims are without fou nda tion....We think litigation over such claims is injurious to the Company's interests, and we, therefore, are lodging a short defence for the Company, objecting to the Action" (Correspondence, 14 October 1895, UGD 91/175).

At a preliminary hearing on the 3 March 1896 the defenders agreed to have an independent chartered accountant examine their books (i.e. Champdany, James Finlay and Finlay Muir) in order to make the pursuers' allegations more specific. C. Kerr, who was a member of the firm McClelland, Mackinnon & Co., made a detailed investigation of the books of the company which involved sending an assistant to India.

On 25 June 1898, the pursuers lodged amended claims for their first three allegations, based on the results of Kerr's investigation. The amounts reduced the original claims for the first allegation to £1,307, the second allegation to £5,300, and the third allegation to £3,544, with the fourth staying at £9,850.

The case was heard in the Court of Session [18] on 16 December, 1898 which ruled on points of law raised by the case.[19] The court ruled that allegations two and three should be dismissed because the amounts were not able to be apportioned between James Finlay or Finlay Muir. The first allegation should only be heard against Finlay Muir and the last allegation against the directors should also be heard.

All that now remained was the first action against Finlay Muir for £1,307 and the fourth action against the directors for the dividend paid out of capital. The payment of the five per cent dividend in 1893 was the result of a discussion among the directors in July, 1893. Initially, draft accounts were made up which showed that only a dividend of two and a half per cent could be paid. T. Watson and D. M. Hannay expressed the wish that a five per cent dividend should be paid. The profit available for a dividend could be increased either by reducing the amount of depreciation for the year or by increasing the rate of exchange from 1s.3d. at 30 April 1893 (year end) to 1s.4d., the rate at the 28 June 1893 when the accounts were made up by the secretaries. The directors and auditor agreed to this treatment as the government of India had fixed the gold value of sterling at 1s.4d. (Memorandum, 3 June 1898, UGD 91/175). This fact was noted by Kerr in his investigation (Note 10, Minute of Investigation, 30 June 1898, UGD 91/175).

In their defense, the directors regretted conveying the impression that the balance date rate was used in valuing the stocks when in fact it was the rate at the end of June. However, they argued that they were fully justified in using this rate, as the rate of exchange had now stabilised at 1s.4d. The pursuers also alleged that the loss on exchange on the amount of the dividend declared was not debited against the profit for the year ending 30 April 1893. The defenders restated the policy, that the exchange loss on remittances were debited in the year that remittances were made.

The pursuers also challenged the directors' depreciation policy and alleged that the directors failed to charge £2,000 which had been carried forward from the 1892 accounts. The defenders argued that it was not necessarily obligatory of them to build up the depreciation account to the extent they had. They stated that in 1893 there was a good deal more than the amount of the dividend, then declared, available for division standing at the credit of that fund. They also argued that the mills had been kept in good repair out of revenue. They posed further, in their defense, the question "are such companies as the Champdany bound to write down out of profits, before declaring a dividend, any depreciation in the Capital value of their mills?" (Memorandum for Defenders, August 1898, UGD 91/175).

In answering their question they quoted the decision in Kingston Cotton Company [20] and the Lee Neuchatel Case [21], suggesting that the directors do not have a duty to provide depreciation (Memorandum for Defenders, August 1898, UGD 91/175).

In summing up their position the directors stated:

> "....that at 30th April 1893, the Company had during the year made profits which entitled the Directors to recommend the Company to declare the dividend which was paid; that apart from the year's profits the Company had undivided as at 30th April 1893 profits which were available for dividend to an amount exceeding the dividend then declared and divided; that the whole Directors and in particular Mr. Watson as appears from his letter of 26th July 1893 produced, approved of

> the payment of the dividend and of the way the accounts were made up; that in making up the accounts as they did the Directors acted bona fide with reasonable care and judgement, and with the approval of the Auditor, and the shareholders approved of and ratified the accounts; that since April 1893 the Company has made profits available for dividend to an amount exceeding said dividend which have not been divided and now form assets of the Company (Memorandum of Defense, July 1898, UGD 91/175.

It is significant to notice how these minority shareholders now argued their position as compared to the previous conflicts, especially over depreciation. Before, the arguments were that inordinately large amounts had been written off as depreciation and that the rupee had been converted into sterling so as to make it appear the company was making low profits and that by these accounting practices legitimate profit available for dividend was not being made available. Now, however, the pursuers took the other side of the argument and alleged that not enough was charged for depreciation and that the wrong exchange rate was used to falsely boost the profits. Accounting was firstly implicated in minimising profits, but now it was implicated in inflating profits in order to enable a five per cent dividend to be paid.

The action on this dividend issue and on overcharging of commission against Finlay Muir did not eventually go to court. It appears that the pursuers realised the difficult task of proving their allegations and withdrew from the action before the case was due to come to court on 17 October 1899 (Correspondence, 1 March 1899, UGD 91/175).

(iv) Alternative Shareholder Reaction

While this court action was being resolved, other shareholders were still pressing the company on the exchange treatment issue. On 1 July 1896, a requisition signed by shareholders, representing £53,100 of the par value of the company's capital, was received by the directors. It dealt with the accounting practices used in making up the accounts regarding exchange and depreciation. The groups of shareholders were again motivated by the lack of a regular dividend.

In the requisition the shareholders stated that they realised that the "proper method of treating exchange is a subject on which considerable difference of opinion does exist" (Shareholders' Requisition in DM, 27 July 1896, UGD 91/178/4). They further stated that as some of them did not agree with writing down some of the asset accounts from 1s.9d. to 1s.4d., and that as the exchange rate in 1894 was even lower than 1s.4d. The following treatment of exchange was, therefore, recommended. Firstly, that the stocks and cash should not be subject to a fluctuating rate of exchange which may either be above or below the average rate at balance date. Rather the average rate of 1s.4d. should always be used. Secondly, they suggested that all remittances should be taken at the actual exchange when the money is remitted.

On the matter of depreciation, they stated that there was no further need for any depreciation to be written off. The requisition finished up by stating that in preparing the accounts for the year end 30 April 1896, "if our advice is acted upon you should be able to pay a dividend for the last twelve months, as it has been a profitable year for jute mills in India, and we feel confident that by acting in the manner we have recommended, you will have the approval and support of most of the shareholders" (Shareholders' Requisition in DM, 27 July 1896, UGD 91/178/4).

The directors obtained the advice of the company's lawyers Maclay, Murray and Spens, who stated that in view of the policy in the past, the directors should not simply adopt the suggestions as taking the Rupee at 1s.4d. Rather they suggested that a small committee be appointed to look at the accounting practices of Champdany with a view to securing profits that could be made available for dividend (Correspondence, 15 July 1896, UGD 91/178/4).

The directors took up the lawyer's opinion and set up a committee at the AGM to confer with the directors on the accounting practices. N. P. Brown, one of the shareholders bringing the court action, was invited to join the committee but declined. In presenting the accounts, the directors also stated in their report that the profit for the year would have increased by £12,414 if the accounts had been prepared in accordance with the shareholders' suggestions (DR, 1896, UGD 91/165). The AGM was adjourned so that the directors might meet with the committee to discuss if a dividend could be declared and the accounting practices in general (AGM Minutes, 31 July 1896, UGD 177/1).

On meeting the directors, the committee stressed the need of a regular dividend, as a considerable number of the shares were held by or for widows and families of original shareholders to whom it was a matter of real importance and "to whom it was little consolation to know that the company had made a good profit if no sum was divided" (AGM Minutes, 28 August 1896, UGD 91/177/1). Mr. Spens, the company's lawyer, felt it was inadvisable to change the accounts in view of the court action on paying dividends out of capital. Two other suggestions were made, that of reducing the capital to £5 per share or for those shareholders desiring, a regular dividend could be issued with debentures. The accounts for 1896 were left as originally presented and no dividend was declared.

The committee continued to consider two suggestions. The directors decided to float debentures but the applications of £100,000 was too great a number and so accordingly, they abandoned the scheme. However, in 1897 a stock split took place, splitting the capital into ordinary and preference shares. One half of 5,780 ordinary £10 shares were converted into five per cent preference shares by way of a Share Trust. The shareholders who entered the Trust agreed not to support the court action against the company (Champdany Share Trust Deed, 1897, UGD 91/174). The shareholders who entered into this arrangement were essentially the same shareholders who brought the requisition.

(v) Further Exchange Issues

In 1898 the auditor rectified a technical point on how stocks had been brought forward at the wrong rate of exchange (DM, 14 September 1898, UGD 91/178/4). Apart from this, the exchange practice now established continued on until 1901, when in presenting his report on the accounts, the auditor stated that from now on all rupee entries contained in the books, including the opening and closing stock, would be exchanged into sterling at the rate of 1s.4d. per rupee (Auditor's Report, 30 July 1901, UGD 91/177/1).

After the First World War the price of silver increased.

The exchange rate temporarily increased to 2s. instead of the official rate of 1s.4d. Accordingly, in the 1920 accounts, working capital was exchanged at 2s. per rupee instead of the 1s.4d. and the balance, thus, arising (£245,419) had been transferred to the Exchange Capital Reserve Account. The increased exchange rate was shortlived, however, and in the 1921 accounts the above transfer to the Exchange Capital Reserve Account was cancelled and 1s.4d. was reverted to in working up the accounts (AA/Cs, 1920 and 1921, UGD 91/169).

The other area where exchange rate movements became an issue, was in employment contracts with European staff which involved a home payment. Initially the company took the risk of exchange movements by paying a fixed amount at home, based on a fixed exchange rate. However, when the exchange rate continued its downward slide, the contracts transferred the risk to the employee, much to the employee's disgust at times.

(vi) Concluding Comments

The accounting practices for exchange rate movements proved to be a catalyst for conflict in the company. Accounting set the arena for the conflict and defined the terms of the debate. Accounting practices made visible the opposing interests of the minority and majority shareholders in the company and the inherent conflict in the "management agency" system of management.

The reactions among the non-James Finlay shareholders is instructive. A small minority went to the court and argued that the company had not been conservative enough in their accounting practices and accordingly had paid dividends out of capital. Whereas, the other group wanted the company to be less conservative and pay out higher and more regular dividends. The interested and malleable nature of accounting becomes evident from such processes. The power of the James Finlay shareholders, legitimised by appeal to the professional opinion of the auditor and others, in the end defused the conflict. The homogeneous nature of the shareholders after 1899 meant that the accounting practices related to the dividend decision never became controversial in the same way again.

c. Other External Accounting Issues

Apart from the depreciation and exchange issues already discussed, the other two accounting practices that the directors juggled with, were reserve accounts and the insurance accounts. The reserve and the insurance accounts were used in 1884 and 1885 accounts to enable a dividend to be paid in 1884 and decrease a loss in 1885. Article 68 of the company's Articles of Association, as already noted, made provision for the setting up of a reserve to meet contingencies, equalise dividends or to increase the buildings or machinery. It was not until the 1900's and 1910's that reserves were set up again. Reserves were set up as there was no longer the pressure of the 1880's and 1890's for a dividend to be declared. Generally, the reserves appear to have been set up in order to meet certain contingencies. In 1913, £50,000 was set aside in view of the extensions to Wellington mill. The depreciation account was also used for the same purpose at this time.

Stock valuations in the balance sheet were first referred to in the accounts in 1903, when the stock of jute was valued at the cost price and the cloth and bags were valued at the market price. It is not clear when this policy was first established. In 1895, because of a sharp rise in the price of jute, stocks were revalued to the market rate. This was the only occasion, until 1907, when there was an adjustment in the books for a change in the market value. In 1907 jute prices had fallen, so the stock was written down.

Further stock adjustments occurred from 1910 onwards, when a physical stock take became a yearly occurence and stock quantities had to be reconciled to the amounts in the ongoing records. The influence of taxation requirements on stock valuations appears minimal. From a taxation point of view, the lower of cost or market rule appears not to have been important until the late 1910's (Edwards, 1981, p. 33). However, the lower of cost and market rule was probably well established in Britain by the end of the 19th century (Parker, 1965).

The lack of an active minority interest and the homogeneous nature of the ownership structure meant that accounting practices became less controversial. With the lack of organisational tension, the company's accounts became status quo instruments. The accounts reflected the organisational dominance of James Finlay and were more influenced by legal, fiscal and management contracting considerations. The non-James Finlay shareholders had the sting taken out of them and they were pacified with the assurance of a preference dividend. The dividend decision became subservient to the long-term strategies that James Finlay had for Champdany. The dividend decision became a residual decision that was not negotiable in the same manner as in the 1880's and 1890's.

6. Professional Influences

Alexander Sloan, the Champdany auditor in the above disputes, was admitted to the Glasgow Institute of Accountants in 1867. [22] He was a prominent member of the Institute and by 1873 he was appointed secretary, a post which he held for thirty-six years. When he resigned as secretary in 1909 he was elected President of the Institute. Sloan was also a member of the Glasgow Stock Exchange Association. This was not uncommon for Glasgow accountants, who generally had strong links with the Stock Exchange. The Edinburgh Institute, on the other hand, was more closely allied with actuaries, insurance and the legal profession (Stewart, 1977).

Audit work was only starting to become significant for accountants in the 1870's. The significant line of business for accountants was generally bankruptcy work in the early emergence of the profession (Briston and Kedslie, 1984, 1986). A public company did not need to appoint an auditor until the 1900 Companies Act. However, Champdany's articles specified that an audit should be carried out. As already stated, Sloan's remit was to "certify to the members the correctness of the yearly financial statement and....give such information on the state of the company's affairs as they (he) may think fit" (AA, UGD 91/175).

Sloan's role of certification was soon mixed up with an advocacy role. In 1877 the auditor's advice was asked for on the accounts sent from Finlay Muir on the mill. Also, his opinion was sought on the bookkeeping system generally and he was asked if any simplification needed to be made. The auditor suggested no alteration was necessary (DM, 1 August 1877, UGD 91/178/1).

The first set of accounts included the following audit report:

> "I hereby certify that the above Balance sheet is correct; that it corresponds with the certified Statements and Inventories received from the Agents of the Company in Calcutta and that it contains a full and true statement of the financial condition of the Company" (AR, 21 June 1875, UGD 91/162).

On the rest of the accounts, Sloan put the words "examined and found correct." The extent of his audit work seemed to relate to the arithmetical accuracy of the accounts and the agreement of the accounts to the statements of the Calcutta agents. He relied totally on the representation of the Calcutta agents.

In the 1881 accounts, Sloan expanded his audit report to include that he had examined the books of the company and compared these with the vouchers as well as the agent's statements.

In 1882 the auditor got embroiled in his first conflict situation over the accounting practice of depreciation. The Chairman appealed to the auditor's special report on depreciation, which recommended that rates of three and a half per cent on buildings and seven and a half per cent on machinery be used retrospectively. He further stated that the deficiency in the depreciation accounts should be made up as soon as possible (AR, 31 July 1882, UGD 91/163).

This report was appealed to by the Chairman to support his view of a smaller dividend payment. The first year the accounts were printed in 1882, Sloan changed his audit report to include the profit and loss statements of Champdany and Wellington mills. Also, the report no longer used the phrase a "full and true statement of the position of the company." The report now stated "correctly set forth the position of the Company" (AR, 1882, UGD 91/163). The audit report remained this way up to 1901, when several changes were made due to company legislation.

In 1893 the auditor got involved in another conflict over accounting practices. At the 1893 AGM, his letter of recommendation on exchange treatment was read. This debate has already been examined in Part Five of this section. However, it is instructive to see how the auditor was appealed to as a legitimation device by the Chairman, John Muir, to support James Finlay's interests in Champdany. The auditor's letter was the catalyst for a far reaching debate, not only on the accounting practice itself and its distributional effects, but also on the management of the company.

Thomas Watson, a non-James Finlay director, wrote to the company in response to the auditor's letter. Watson questioned the auditor's role in the company and suggested that such a letter of recommendation was outside the scope of an auditor's work. Watson stated that he took exception to the auditor interfering with the directors and shareholders by dictating the values assets should be stated at in the accounts (Correspondence, DM, 30 August 1893, UGD 91/178/4).

Alexander Sloan replied to Watson's criticism, stating that he considered it his duty to recommend the exchange treatment to the company. He suggested that Watson misunderstood the scope of his recommendations and that his views of an auditor's responsibilities were diametrically opposed to Watson's views. He further stated that in giving his views to the directors on the exchange question he did so "under a very deep sense of my responsibility to them and to the general body of Shareholders, from whom I hold my appointment. From the tone of Mr. Watson's letter one would suppose I had some sinister design upon their property. With all respect I must say that to resent, as Mr. Watson has done, what he calls the interference of the Auditor is an extraordinary position for the Director of a Public Company to take up, and one, which, in certain circumstances, would be sure to be severely commented upon, as calculated to intimidate the Auditor in the discharge of his onerous and reponsible duties." (Correspondence, 6 September 1893, UGD 91/175).

In the 1894 accounts, which implemented Sloan's recommendation on exchange, the directors, in justifying the treatment, stated not only will "the Accounts represent more nearly the real sterling values than formerly but also....this method of stating the Accounts has the approval of the auditor" (DR, 1894, UGD 91/163).

In the conflict that took place after the 1894 accounts, some of the disgruntled minority shareholders approached Sloan directly and requested that he change the accounting treatment of exchange. Sloan had become identified with the Chairman and the James Finlay affiliated shareholders. The secretaries, at one point, were concerned whether Sloan had changed his views, as the intensity of the conflict had increased. However, he reassured them that he had no reason to change his original views (Correspondence, DM, 13 August 1894, UGD 91/178/4). In further discussions with inquiring shareholders, the directors again turned to the auditor to legitimise their views. In presenting their case on the exchange question, they stated "that they had acted in strict accordance with the views of the Auditor" (DM, 16 August 1894, UGD 91/178/4). At another meeting of inquiring shareholders in September 1894, Sloan was with the directors giving more explanations for the exchange treatment (DM, 10 September 1894, UGD 91/178/4).

At the 1895 AGM the auditor was opposed by the shareholders who were bringing the court action against the company. He was fully identified as giving "expert" justification for Finlay's interest in Champdany, which was opposed to the minority shareholders' goals of regular dividend income. In a letter to the shareholders, explaining the court action and the different allegations against the company, the directors stated the following about Mr. Sloan:

> "Our information is that there is no foundation whatever, in fact, for the claim, and we see every reason to believe that this is so. It has to be remembered that the Company's Accounts are audited by Mr. Sloan, C.A., a high-class professional man. We cannot see how it is possible Mr. Sloan could have been ignorant of the state of matters alleged by the Pursuers, if it had any existence" (Correspondence, 14 October 1895, UGD 91/175).

The directors viewed Mr. Sloan as a "high-class professional man." Sloan's position as secretary of the Glasgow Institute was obviously a high profile position. The professionalism that Sloan had attained was based on his high-profile membership of a blossoming profession. James McClelland wrote in 1869 that "the profession of what is termed a Chartered Accountant, has now obtained considerable status and great development in the metropolis of Scotland and in the City of Glasgow" (McClelland, 1869, p. 5). Also, by calling Sloan a high class professional man, the directors were invoking a moral and ethical standard of behaviour, where characteristics like integrity, truthfulness, a sense of justice, independence, and trustworthiness were highly regarded (McClelland, 1869, p. 23).

By 1869 the professionalisation process was laid down. It involved a four year apprenticeship, the passing of various law and commercial exams and the undergoing of an examination before the Council of the Institute (McClelland, 1869). When Sloan was appointed secretary in 1873 the membership of the Institute was sixty-seven; when he relinquished the office in 1909 it was five hundred and seventy-five.

An interesting question is why did the company contract to have their accounts audited in the absence of any legal requirement to do so? Agency theory would suggest that auditors are a part of a monitoring mechanism used by shareholders to monitor the self interested behaviour of management. Equally, management will submit their information systems to the audit process in order to minimise their bonding costs (Watts and Zimmerman, 1986). Because of these agency costs, auditing is likely to exist in an unregulated environment. However, such an explanation denies the historical emergence of auditing in Champdany's situation, especially when the ownership structure is considered.

Initially it is quite possible that the auditor was appointed to lend credibility to the accounts. The private company atmosphere, however, did exist where all the shareholders were known to the directors. Alternatively the auditor might have been appointed as a safe guard against fraud (c.f. Lee, 1970). If the auditor's role was purely one of checking the Calcutta agent's representations and vouchers and agreeing the accounts to the books, then the fraud argument could be sustained. Yet, this is doubtful, given the auditor was completely reliant on the information that came from Finlay Muir in India. He was, therefore, limited in the work he could do on checking fraud. [23]

Sloan was soon used to give advice and recommendations on accounting practices which had distributional effects among the shareholders. This first occurred on the depreciation question in 1882, but more particularly on the exchange question in the 1890's. It could be argued that James Finlay's interests were furthered by appealing to the expert opinion of the auditor who gave accounting practice recommendations to legitimise their position of power. The auditor was not dispensing unproblematic, neutral, technical recommendations, but rather problematic, debatable recommendations that were organisationally determined.

After the court action and the resultant homogeneity of the shareholders, the accounts from 1899 were not controversial. The auditor was not visible as in the 1880's and 1890's. The auditor's report changed again in 1901 as a result of the 1900 Companies Act. This made it compulsory to appoint an auditor. Sloan's audit report now only included the balance sheet but the statement "true and correct view" was included to meet the requirements of the Act.

Edwards (1976) and Gilling (1972) have argued that the audit legislation of the Companies Acts has made the audit emphasis too narrow and has restricted the development of auditing. Certainly in this case, the scope of the audit report was now only restricted to the balance sheet and did not include the profit and loss, which was previously included. The 1909 Companies Act again affected the audit report wording. The report set out in more detail the work done by auditors and the kind of evidence that had been examined to suppport their opinion.

By 1919 the auditor had expanded his services to Champdany. They were paid for giving taxation advice, especially as it related to excess profits duty (DM, 28 February 1919, UGD 91/178/6). Alexander Sloan had obviously improved his firm's ability to provide taxation services, as previous advice was obtained in 1900 from Mr. Stacey Webber, who described himself as an Income Tax Expert. After getting Mr. Webber's views on being taxed on profits, rather than just the dividend alone, James Finlay commented: "I think it would be better not to employ Mr. Webber (as he suggests) as the medium between JF & Co., and the tax office. They might think we were trying to do them in some way employing such a sharp man as Mr. Webber" (Statements, Figures, etc., 8 July 1900, UGD 91/168).

Other professionals were used in the conflicts over the accounts. In the 1882 conflict over depreciation, initially the Chairman thought Professor Robertson, the company's law agent, would solve the debate. However, it became clear that he did not see himself as having such a role, but rather it was a matter for the shareholders (DM, 20 and 26 July 1882, UGD 91/178/2). On another occasion, the chairman suggested a dispute over the dividend to be paid, should be referred to the company's banker, Mr. Flemming, at the Royal Bank of Scotland (DM, 16 July 1889, UGD 91/178/3). However, the auditor was primarily appealed to as the expert who became just as much a legitimisation mechanism for the power of the James Finlay directors to run the company entirely in their interests, as a watchdog for fraud or a lender of credibility to the accounts.

7. Internal Accounting Issues

The directors were active in their management of Champdany. They met regularly twice a month and discussed financial and non-financial information. Non-financial information discussed at board level varied, such as market conditions and trends, the native labour supply, working conditions, stock levels expressed in terms of production needs, competitor information, information on accounting policies, information on working hours, European employment contracts, and details on the IJMA. Non-financial information was an important part of the information discussed by the directors.

However, financial information did become increasingly visible over time.

a. Cost and Control Considerations

About a year after Champdany had started trading, the directors requested cost information. In April 1876, one director drew attention to the need of "detailed cost statements of the goods made at Champdany" (DM, 5 April 1876, UGD 91/178/1). The director was concerned that when goods were sold, they were sold at a profit. Such information would also help the directors identify the most profitable goods. Finlay Muir, were instructed to hire a clerk to prepare such statements. Up to this point the decisions were made without such cost information. However, general market information for raw jute and manufactured goods was available. Statements of the "manufacturing cost of the leading fabrics" were submitted to the next directors' meeting and approved by Mr. Luke, who was knowledgable on jute costs over different products (DM, 19 April 1876, UGD 91/178/1).

Prior to this request for information on particular goods produced, the directors had received information on the weekly cost of production at the mill. This was prompted by a slump in the market early in 1875. The weekly cost of production in March 1875 was as follows:

	Rs.	Rs.
Cost of European supervision	465/-	
Establishment i.e. clerks, etc.	116/10/-	
Wages paid to workers	4,203/9/-	
		4,785- 3-0
Cost of repairing machinery and stores from home (estimated)	192/4/-	
Calcutta Foundry A/c say	87/-	
		279- 4-0
Cost of Material		
Jute consumed 3,394 mds. 12 seers	11,880/-	
Oil, batching and lubricating	1,091/-	
Coal	958/10/-	
		13,929-10-0
Petty expenses and trade charges incurred at the works, say		100- 0-0
Tear and wear of machinery 5% say on Rs. 1,000,000/-		1,000- 0-0
Glasgow charges, fire insurance, etc.,	875/-	
Calcutta Insurance godown rent etc.,	232/-	
		1,107- 0-0
	Rs.	21,201- 1-0

Source: Correspondence 1875, UGD 91/141.

The archival data does not exist on how they then allocated this information across products. At the end of 1896, the idea of production standards was suggested to Mr. Luke on his first visit to the mill. It was suggested that he fix a standard rate of production on various fabrics from the various widths of looms; and when the standards were not met, the mill manager should be instructed to give a satisfactory explanation of any shortcoming (DM, 20 December 1876, UGD 91/178/1).

In February 1877, the directors requested a calculation to be made as to the percentage of fixed charges on the total cost of producing hessians. They required this information, as they were prepared to sell production even if they had to sacrifice one half of the fixed charges. Another drop in the market in 1879 brought about a similar discussion by the directors. They desired to know "how much under cost, heavy goods could be sold at without losing more than the fixed charges" (DM, 17 June 1879, UGD 91/178/1).

The concept of cost was a problematic concept for the directors. Despite obtaining the cost information across the various products in April 1876, the directors expressed dissatisfaction at not knowing the actual cost of various goods in February 1877. This inquiry into cost was prompted by information that the company's manufacturing costs were high at £10 per ton on the cost of jute, as compared to another mill with manufacturing costs of £7 per ton. One of the differences was that Champdany included depreciation in their costs. This, however, did not account for all the difference, hence the directors' concern. The directors also recommended that the jute, when received into the mill, should be classed into good, medium and inferior jute so that costs could be better estimated (DM, 28 February 1877, UGD 91/178/1).

Two years later, the Calcutta agents, Finlay Muir, were still unsure about whether to include depreciation in cost estimates. They suggested that they no longer include depreciation, but use present values. The directors stated that making cost statements on this basis would be entirely misleading and asked Finlay Muir to continue to include depreciation (DM, 16 March 1881, UGD 91/178/2).

In 1891 and 1892 the basis of cost was again discussed, especially as related to profit calculation when the cost of jute was so volatile (DM, 4 November 1891 and 20 April 1892, UGD 91/178/4). The idea of what is a cost was constructed over time. The concentration on costs was spurred on by the highly volatile market for jute and the long period of low profitability experienced by the company.

As accounting calculations permeated through the organisation, further questioning of areas previously not reached by accounting records and calculation, occurred. A visibility had been created which enabled areas such as wastage, employee control, and stock control to be examined. This particularly was the case, when after two unprofitable years, in which no dividend was declared, concern was focussed on the areas of wastage, labour and stock control. Wastage was investigated thoroughly in 1877. Wastage was either analysed as being a legitimate part of the production process, or as being unaccountable or due to bad buying policies (DM, 16 February 1887, UGD 91/178/3).

It was decided in 1886 that European workers should be scaled down and jobs given to "clever native workers" (DM, 5 May 1886, UGD 91/178/3). Yet, after taking this action, Mr. Luke visited the mills in February 1887 and was upset that an Indian should have been given a responsible job of weighing jute purchases, and ruled that no native should be given responsible positions (DM, 16 February 1887, UGD 91/178/3). Also, details on the wages system in the factory was reiterated. The pay sheets, after being made up by the timekeepers, were to be checked by the office clerks. A European must examine them before being sent to the Calcutta agents and all pay books were to be examined by the mill managers. It is interesting to note that although economic rationale suggested giving the local Indians more responsibility, thereby saving on high European wages, the lack of trust in the Indians, bred by the imperialistic attitudes of the British, meant economic rationalisation could only go so far.

Production and sales information were regular features of directors' meetings. The information on production was suggested as a possible bonus basis for the European employees other than the mill manager. This was suggested in 1880; however, the mill manager did not introduce the scheme, as he thought the European assistants would perceive it to be detrimental to their interests, given the amount of fixed salary they would have to give up (DM, 4 August 1880, UGD 91/178/2). However, the mill manager, Mr Crabbe, changed his mind and did introduce the bonus system in November 1880. In reporting to the directors, he stated that the men were pleased with the system "and that it would probably act as an incentive to them to bring in all the workers they could" (DM, 3 November 1880, UGD 91/178/2). It is interesting that such a bonus scheme should have the hoped for potential to solve the labour problems at the mills. The scheme was not successful and was discontinued in 1882 (DM, 19 April

1882, UGD 91/178/2).

In 1888, the bonus system based on production figures was reintroduced, although the directors disapproved of the principle involved in paying such a bonus, in view of the fact that the shareholders were receiving no dividend (DM, 21 March and 3 October 1888, UGD 91/178/3). As shall be seen, this issue was an important consideration in the employment contracts with the mill managers. This bonus for the year end 30 April 1889, was paid to the employees inspite of the production target not being reached (DM, 16 July 1889, UGD 91/178/4). Again, it was discontinued and the idea of a bonus system was not brought back again until the 1910's. However, it was not tied into production, but was more in the nature of a fixed salary "top up."

Contracts with mill managers will be examined in the next part of this section.

b. Finance Information

Information on stocks and the costings on the range of goods manufactured, emerged in the initial years of operation. However, information on the cash position of the company was of an on going importance to the directors. This was especially important to James Finlay directors, as James Finlay were constantly providing working capital finance and they also guaranteed credit facilities, granted by the banks in India and the United Kingdom.

The finance report was established from very early on as a regular report submitted to every directors' meeting (DM, 1875-1879, UGD 91/178/1). The statement monitored the indebtedness of the company to James Finlay, to other banks and to shareholders. The following is an example of such a statement (in DM, 8 May

1899, UGD 91/178/5):

Finance Statement at 8th May 1899

		£	£
Cash Balance per last statement			71,364
Disbursements £7351 Bills Retired £28,000			35,351
			106,715
Less Proceeds of Bills Discounted		39,665	
Remittances from Calcutta		24,000	63,665
			43,050
Due to James Finlay & Co.,		42,431	
Due to the Royal Bank		619	43,050
Bills Current on --	Fred Huth & Co.	5,000	
	Webster Steel & Co.	18,000	
	Kelly & Co.	14,000	
	A. L. & Co.	10,000	
	Baring Bros. & Co.	3,000	
	Finlay Muir & Co.	13,000	
	Royal Bank	20,000	
	J. F. & Co.	16,000	99,000
Deposits			20,636
			162,686
Calcutta at DR. with Bank of Bengal		12,430 @ 1/4	
Calcutta at DR. with Nat. Bank of India		14,648	
		27,078	
Calcutta at CR., Finlay Muir & Co.		168	26,910
			£189,596

Internal accounting information emerged alongside the external accounting information. For day to day management of the company the cash position and debt analysis were relevant for the management information needs of the directors.

The construction of the costing statements, production and sales figures, were used for examining Champdany within the context of the Calcutta jute industry. These statements, along with finance statements, were more relevant for decision making purposes than the information contained in the annual accounts, although these statements also emerged as surveillance devices and came to serve a much wider function in the organisation.

8. Management Contracts

Employment contracts with the manager of the mills were negotiated with a fixed element and an outcome related element right from the earliest beginning of the company. This is interesting, not only for reward and motivational reasons, but also for accounting reasons and the emerging construction of profit.

The second contract with the mill manager was from 1 January 1876. During the previous year the manager, Mr. Leighton, expressed the desire that any contract offered to him should have included a "percentage of profits" component (DM, 21 April 1875, UGD 91/178/4). Accordingly, a contract was negotiated in which Leighton was to receive two and a half per cent on the dividend paid each year. An outcome related component to managers' contracts now became a regular feature of all future mill managers' contracts.

The basis on which the commission was calculated was raised as an issue in contract negotiations in 1883. Mr. Crabbe, the then manager, wrote to the directors expressing disappointment as to the amount of his commission and suggested that the commission should be calculated on the gross profits after deducting depreciation, instead of on the dividend paid. The directors were strongly against the suggestion of Mr. Crabbe because "it would place the managers in a better position than the shareholders themselves" (DM, 5 December 1883, UGD 91/178/3). This view of the directors did not change until 1902.

It appears that it was for ideological and social reasons, on the one hand, and ease of calculation on the other, that the directors held their view. Distribution should be first to shareholders; labour could not share the rewards of the company in quite the same way. Also, it took the problematics of calculation out of the managers' and directors' hands, and into the wider arena of the shareholders and directors at the AGM. So the commission base, although indirectly linked to the managers' efforts, was ultimately not under the manager's control, but was the result of an agreement among the shareholders of the company.

Mr. Crabbe, in 1888, again raised the issue of the basis of his commission and stated again that it should be on profits after allowing for depreciation. The directors continued to be strongly against such a proposal (DM, 3 October 1888, UGD 91/178/3). The directors offered to increase the commission rate, but Crabbe, after much negotiation, resigned from the company. In the last four years, prior to 1888, no dividend had been declared on three occasions and only a four per cent dividend had been paid in the other year. Understandably, Crabbe was disappointed that the commission base was not changed.

In 1902 the Board approved of an outcome related contract, with the commission based on the profits of Wellington mill, without any deduction for depreciation. The reason given for the change was "so that he might have a strong incentive to do his best for the mills under his charge" (DM, 3 March 1902, UGD 91/178/5). This change in attitude by the directors continued in their contract negotiations with the overall manager of the mills, Mr. Harris. His commission was to be calculated on profits after deducting £12,000 for depreciation each year. The depreciation amount was to be deducted regardless of whether such a charge appeared in the accounts.

The accounting policy regarding the charging of repairs to profits, rather than below the line to the provision for depreciation account, was decided by the directors at the same meeting as the decision on Harris's commission base (DM, 17 August 1903, UGD 91/178/5).

This approach to the commission base was made on the expectation that the shareholders would be better off. However, the negotiation procedures of the distributional effects of accounting policies were brought back to an earlier stage. Such negotiation would now initially take place between the managers and the directors. Also, by this time (1902) the potential for controversy over the dividend decision no longer existed because of the now homogeneous nature of the shareholders.

The terms of the contract with the new Wellington mill manager in 1907, were one and a half per cent on gross profits with no depreciation deduction, but the repairs on buildings and machinery were to be charged against profits (DM, 5 February 1907, UGD 91/178/5). In 1908 the contracts with the managers at both the mills did not include a depreciation clause.

The negotiation of management contracts may also have been behind a change in the transfer pricing policy of the company. The twist mill at the Wellington mill complex was requested to discontinue the practice of supplying yarn to the Champdany mill at a lower rate than that current in the market, and to adopt instead rates which fairly reflected the market price at the time of the contracts. The managers at both the mills would have had an interest in such a policy (DM, 25 July 1905, UGD 91/178/5).

Details of management contracts are too sketchy and incomplete to analyse or comment further. However, when the basis changed from dividends declared to profit, the concern for what made up profit became more important, although it was under the direct control of the directors in negotiation with the managers and did not have to be debated in the more questioning arena of the AGM (e.g. what occurred in the 1880's and 1890's).

D. CONCLUDING COMMENTS

The case study has sought to ground accounting in its organisational and wider context. It has traced the emergence of certain significant accounting practices which were reflective of and actively created the organisational environment. It has shown that accounting was called upon to serve a wide variety of different and changing purposes. Accounting repeatedly changed, continually displaying the "tendency to become what it was not" (Hopwood, 1983, p. 289).

The management agency system of management, the distance that existed between owners and managers, the volatile nature of jute prices, the dynamic nature of the jute industry, the active and a questioning minority interest, have provided a rich context in which to study accounting change.

Accounting was initially set up as a relatively unproblematic procedure which enabled a dividend to be declared to the shareholders of the company. A "private company" atmosphere existed among the shareholders who entrusted the management of the company to James Finlay because of their investment in the company and their integrity and reputation as the directors/promoters. During this period of time, to around 1882, accounting practices such as depreciation, capital expenditure, and exchange accounting, were set in motion.

The volatility of the jute market and the lack of promised profitability provided stimuli for accounting change in the organisation. This manifested itself in the tuning of "cost" information during the first five years of the company's existence. With detailed costings of jute manufactures, an "accounting eye" moved over the organisation which enabled suggestions to be made regarding production standards for the monitoring of managerial performance, stock control procedures, and wage control procedures. Very quickly, information requested for decision making was used for surveillance of management and control of the production process.

From very early on, information on costs and stock levels, and market and cash flow information became important to the directors. Information on finance and working capital were important to James Finlay because of their provision of large amounts of working capital finance and the guaranteeing of other credit facilities.

Accounting practices increasingly became visible as Champdany's poor performance continued. They particularly came into focus because of the organisational and ownership structure of the company. The managing agency interest of James Finlay was as important, if not more important, than their interests as shareholders. The tension and conflict that this brought with the non-James Finlay shareholders intensified from 1882 onwards.

Depreciation and treatment of long-term assets was the first accounting practice to be questioned and scrutinised. The James Finlay directors increased the rates of depreciation based on an investigation of the auditor as to the "correct rate" to apply to Champdany, given the hours the machines were worked and the climatic conditions in which they were operated. This technically ideal rate was never attained in the 1880's and 1890's. Another reason given was that the rates of depreciation were to more nearly reflect the true value of the company's assets. This also was one of the reasons put forward by the James Finlay directors to support their exchange accounting treatment in 1893 and 1894.

The accounting practices defined and sharpened the conflict between the shareholders. Originally they were advanced as being the best technical way of accounting which had the auditor's approval. Now, however, the accounting practices came to be seen as techniques with distributional consequences, reflecting and shaping power structures in the organisation.

These conflicts shattered the "private company" type atmosphere which existed in the organisation. The trust and integrity placed in management was dismantled and the annual accounts were forced to go public. After the conflicts of the 1880's and 1890's over the annual accounts, a certain tranquility settled on them. The "private company" atmosphere became even stronger. The annual accounts almost had the rationale of the owners reporting to themselves.

However, the annual accounts then came to be seen as defining distributional clauses in management contracts. Other accounting practices, for example the issue of the expensing of repairs and of transfer pricing between mills, emerged out of the owners negotiating with the mill managers. The negotiation of accounting practices was pushed further down the organisation, although the power position of the directors in the negotiation process was less likely and less able to be challenged. The depreciation practices in the 1910's did not relate in any way to such abstract notions of true value and in fact, the directors wrote the assets down way below any notion of market value or their historical cost. When the taxation authorities in 1919 stated that the amount of fixed assets in "printed" accounts was to be the basis for depreciation charges, the fixed asset amounts were accordingly increased.

Information used for decision making purposes were the regular finance statements, production and sales statements and market information. The buying and selling of jute and working capital finance decisions were critical for Champdany. Internal cost information was also used for control over the production process. The information flows for decision making emerged alongside the emergence of accounting practices affecting the distribution of profit.

The question of "what was accounted for?" was linked into private property concepts of capitalism and the attitudes nurtured by imperialism. When accounting intersected with social attitudes, the social attitudes modified and checked accounting. For example, the idea of management not sharing in profits until 1902 was ideologically determined; and the cost savings gained by promoting Indians to responsible positions in place of the more expensive European staff in the organisation, although economically sound, was unacceptable due to imperialistically created attitudes of distrust.

Accounting emerged in Champdany for many reasons. The legislative framework of the Companies Acts had a minimal impact. Although annual accounts were prepared initially, they were not published or perhaps even examined by shareholders, for any stewardship reasons. Receipt of a regular dividend was a good enough check of accountability. However, lack of profitability focussed attention on the accounting practices. Annual accounting statements emerged in Champdany for distributional, fiscal and employee contracting reasons. Information for decision making was initially developed through the costing of jute manufactures; however, these were soon used for other purposes such as control of labour and the production process generally.

This case study has attempted to explore the conditions and consequences of the production and use of accounting information. Accounting practices which were justified as neutral, technically sound practices, were challenged, debated and recognised as representing differing interests in the organisation. Accounting emerged in Champdany Jute Company in the midst of conflict, failure, and tension as a social technology, embracing many facets of organisational life.

FOOTNOTES

CHAPTER EIGHT

1. See Tomlinson (1981) for detailed discussion on this point.

2. See Brown(1985, Ch.3) for details on the relationship through the nineteenth century of the British to the Indians.

3. Tomlinson states that expatriate firms controlled both the marketing and production of jute. Also the Indian Jute Mills Association was powerful in its ability to control the jute industry to its members' collective advantage (1981, p. 467).

4. In the 1920's exports of raw and manufactured jute represented about 25% of India's total merchandise exports (Tomlinson, 1981, p. 468). Bagchi suggests that part of the explanation for such dominance lies in the fact that jute was pre-eminently an export commodity both in its raw and manufactured state. "The market for jute manufactures had to be sought out and this search could be made only by businessmen who had an intimate contact with the export trade" (Bagchi, 1972, p. 263).

5. Bagchi notes that "an interesting part of the agreement was that mills or their managements agreed not to expand their production capacity in any way during the validity of the agreement except when specific permission was given. This was, thus, an attempt at controlling not only production but also investment in an expanding market" (1972, p. 270).

6. In 1918 and 1919, two "babus" were given pensions for long service to the company (UGD 91/178/6).

7. "The Companies Act, 1862" (25th and 26th Vict., Cap. 89); "The Companies Act, 1867" (30th and 31st Vict., Cap. 131).

8. See 1862 Act, Section 15.

9. Articles 64 and 65.

   Article 64: "The Directors shall cause all necessary and proper books to be provided for the use of the Company, and to be kept in such form as to them shall seem most suitable for preserving an accurate and explicit state of the affairs of the Company; but no Shareholder, not being a Director or Auditor of the Company, shall be entitled to inspect or to have in equity a discovery of the books, accounts, documents, or writings of the Company, except such as may be produced for inspection at any meeting of the Company, and except also the Articles of Association of the Company; and the principal books and documents of the Company shall be preserved at the Registered Office of the Company."

Article 65: "The books of the Company shall be brought to a balance as at the 30th day of April in each year, the first balance being made as at the 30th day of April, 1874; and the Directors shall, not later than the first Tuesday of July thereafter, lay before a General Meeting of the Company a balance sheet, which shall show the income and expenditure, and shall contain a summary of the property and liabilities of the Company made up for the period embraced by the balance. In cases where any item of expenditure which may in fairness be distributed over several years has been incurred in any one year, the amount of each item may be so distributed" (AA, UGD 91/175).

10. No mention is made of the auditor's qualifications. Not until the Companies Act 1948 was it specified that the auditor of a company had to be a member of a body of professional accountants.

11. The rate had fallen from 1/9d. in 1874 to 1/4d. in 1893 (see Table 7).

12. It was only eight years that no accounts were printed.

13. James Finlay and Finlay Muir were different partnerships (but essentially had the one owner John Muir) up to 1909, when Finlay Muir became a branch of James Finlay & Co., Ltd., a private company.

14. Either this was just a ploy to hold back more funds from distribution, or depreciation was understood as a quasi-fund, which should have the benefit of interest.

15. According to de Cecco, the East India Company forced silver rupees into circulation in Southern India, displacing the "golden pagodas" of the Madras Presidency. He states: "This policy had a clear aim: to extract gold from circulation at a time when gold production was stationary and demand, especially because of the resumption of cash payments by the Bank of England, was running high" (de Cecco, 1894, p. 63).

16. The going concern concept was used by Dicksee in his book on auditing, when discussing asset valuation (Dicksee, 1907, pp. 197-201.

17. Sloan stated: "I have to recommend (1) that in future all Rupee transactions be posted to the Ledger in an inner column <u>in Rupees</u>, the Sterling transactions (if any, in these accounts) being posted to the outer column; and (2) that at the end of the year <u>the sum</u> of the Rupee transactions appearing in the inner column be exchanged into Sterling at the rate of exchange current at the date of the Balance and the Sterling amount carried into the outer column.

In order to carry out the above principle for the year ended 30th April last it will be necessary that the Rupee transactions which have been already exchanged in detail in the Books @ 1s./4d. be now exchanged at the rate current on 30th April viz: 1s./1 3/16d.

It will also be necessary to reduce the balances as at 30th April 1894 on all the Accounts kept in Rupees in Calcutta such as Finlay Muir & Co.'s a/c. Calcutta Deposit a/cs, from 1s./4d. - the rate at which they were exchanged at that date - to 1s./1 3/16d., so as to bring them into harmony with the other Rupee accounts" (Correspondence, 3 July 1895, UGD 91/175, emphasis in the original).

18. Hannay and others v. Muir and others, 1898, No. 51, 306-315.

19. The defense argued that the case was not relevant, as James Finlay and Finlay Muir were separate firms. They also argued that as the pursuers were minority shareholders, they had no title.

20. (1896) 2 Ch. 279.

21. (1889) 41 Ch. D.1.

22. Sloan served an apprenticeship of four years with Mitchell and Watson, C.A., and remained with them a further year before joining J. Wyllie Guild, C.A., for two years. A year after his admission to the Glasgow Institute, he set up his own firm (Stewart, 1977, p. 151).

23. Lee (1970) argues that this was the prime reason for the early development of auditing.

CHAPTER NINE

SUMMARY AND CONCLUSIONS

A. THESIS OBJECTIVE

To recapitulate, the aim of this thesis was to examine the emergence and development of accounting in two Scottish companies between 1870 and 1920.

This has been done by situating accounting, as it was practiced, in its immediate organisational and wider social contexts. In taking a contextual approach, accounting is seen to have meaning within the context in which it was produced and used. Accounting, therefore, has been viewed as a problematic, interested activity in itself and not just a technical phenomenon per se or even a technical phenomenon with social and political consequences. This critical perspective has enabled some interesting and insightful understandings to emerge on how accounting operated in the two companies studied.

Emphasis has been given to the processes of change in the belief that <u>why</u> accounting change occurred is inextricably tied up with <u>how</u> accounting change has occurred. Due consideration has been given to human agency as well as organisational and societal structures.

The case study research strategy has been used to explore the complicated relationship of accounting and its context. This was considered the best method for the inductive, in-depth, descriptive nature of the research. Such an approach is a more fragmented and modest endeavor than a more totalising, allencompassing, general history of accounting. The exploratory nature of the research has sought to emphasise a subtle, complex and nuanced history of accounting development. Accounting has been shown to have existence and implications in small interventions, petty decisions, and ephemeral and more long term confrontations, just as much as in salient events such as major company policy decisions, legislative requirements, or a desire for "objective" neutral accounting techniques.

B. HISTORICAL RESEARCH IN ACCOUNTING

The view taken in a lot of prior accounting history research is that accounting is viewed as a sophisticated, technical, service function that responds or adapts to the needs of the emerging business organisation so as to facilitate organisational action. Such histories, usually implicitly, posit a view of history which is an adaptative, progressive one. Under such a view the past is considered to march purposively towards the present. Such an interpretation is a Whiggish view of history where the past is used to legitimate the present and the present is used as a benchmark to judge the past. Consequently, only the most adaptive or prototypical accounting techniques are remembered in traditional histories. Maladaptive or "failed" accounting techniques are perhaps interesting for antiquarian reasons but essentially they do not enter the historical frame of reference.

Johnson (forthcoming) has identified a Littleton school of cost accounting history as an example of this approach to history. It interprets the history of cost accounting as one which came about due to the desire to produce meaningful financial statements reflecting a "more correct" income figure rather than any control or decision making need of management. Cost accounting history is, therefore, interpreted in terms of financial accounting history.

Lister (1984) also has adopted a Whiggish view of history. He, in fact, suggests that accounting history is not worthwhile because all past accounting has not lived up to what he believes is accounting's essential role - that of providing information for decision making.

The new awareness of the organisational context of accounting has been exemplified in the historical case studies of Johnson (1972, 1975, 1978). His research has been informed by business history, organisational theory and transaction cost theory. His work views accounting as responding and enhancing organisational structures and initiatives. Johnson's explanation for accounting tends to be largely economic in that it relies heavily on market-hierarchy internalisation theory.

The contribution of Johnson's work is found in alerting accounting historians to accounting's organisational context and to the role of accounting in planning, control and motivation. Other recent work in accounting history has taken a more critical perspective and has explored the broader social context of accounting rather than just the accounting-organisation relationship or a totally accounting-centred situation.

These histories have been informed by differing social theorists such as Foucault and Marxist thought. Some of these histories have worked within certain views of history that have been just as deterministic as some of the traditional histories of accounting. For example, the Marxist history of accounting has tended to focus on accounting being used in the service of capital in order to extract surplus value and control the labour process.

Foucault has also provided a set of conceptual lenses which has informed some of this recent historical work. Foucault has provided themes of analysis stemming from his concept of power-knowledge relations. In particular, accounting is viewed as a disciplinary power which operates as a surveillance device over production in the workplace (Hoskin and Macve, 1986; Loft, 1986). Other work has used Foucault's method of doing history (Burchell et al., 1985). His genealogical approach emphasises discontinuity in history which has been used as an antidote against teleological, progressive histories.

The history of accounting presented in this thesis has sought to be contextual in both an organisational sense and a wider social sense. It has sought to utilise the insights of both organisationally-based work and the more critical work. Such an approach has been used in order to enrich and deepen traditional accounting histories (see Chapter Two).

The view of history taken in this thesis was that there is no pre-determined path of accounting development where accounting simply progressed from one stage of development to another. Rather, accounting development was seen more as a complex, lurching process which is in the process of becoming (Abrams, 1982; Hopwood, 1983, forthcoming). In addition, accounting was viewed in a sceptical, questioning manner and the constitutive, as well as the enabling role of accounting, was recognised.

The historical case studies have attempted to highlight the interplay of individuals, organisations, institutions, issues and processes in which accounting has been implicated. Each case study has sought to highlight the particular and varying features of accounting change. The historical context of conflict, power, and tension have provided a complex and interesting history in which the interested nature of accounting has been manifested.

The case study research strategy has been ideally suited for the inductive, in-depth studies presented. The themes and topics of analysis chosen in the case studies were not derived from a pre-given theoretical framework. Rather, they were generated from within the archival material itself. However, this was done based on the prior theoretical stance taken on accounting and accounting change. The dynamic nature of the research process meant that the themes and topics of analysis were modified as the research progressed because of continuous interaction with the archival material. The case study research strategy and view taken on history and accounting, has also attempted to overcome the false dualism of the accounting-environment model of change.

This research is presented in response to the lack of historical studies of accounting as it was practiced. It has sought to offer a more holistic and interdisciplinary history of accounting change. The broader perspectives taken in the research have inevitably meant not only a close involvement with accounting reports and records, but also an involvement with non-financial data such as minutes, correspondence, memoirs and other data that has impinged on accounting or provided contextual information.

Accounting history has enabled the exploration and description of the complicated relationship of accounting and its context. The history of accounting has been considered to be inherently interesting in itself and has helped to understand and illuminate what is at stake in some of the pressures and processes of accounting change.

C. CASE STUDY FINDINGS ON ACCOUNTING

1. Introduction

In the last decade accounting has increasingly been recognised as an interested endeavor with social and political consequences. This emerging understanding of accounting has been based on work such as that of Zeff (1978) who identified the rise of economic consequences of accounting and argued that in the accounting standard setting process the economic and social consequences of accounting practices "may no longer be ignored as a substantive issue" (Zeff, 1978).

Watts and Zimmerman (1979) analysed the status and form of accounting theory and how theory has been used to bolster specific accounting changes, again emphasising the interested nature of accounting. Burchell et al. (1980) continued this emerging understanding of accounting in broadening the context in which to understand accounting, by specifically introducing the social.

Through the stimulus of this work, accounting has come to be seen in the literature as an interested activity in itself. Work by Burchell et al. (1985), Hopwood (1985, forthcoming), Loft (1986), Roberts and Scapens (1985) and Tinker et al. (1982) have all added to this emerging understanding of the accounting craft. This research has also found accounting to be an interested activity that has, for example, found accounting embroiled in debates over distributional issues where the pressure for accounting change has come from particular interests.

2. James Finlay and Company

The James Finlay case study (Chapter Seven) has provided some interesting findings on accounting due to the company expanding and diversifying into areas such as jute, tea and cotton from 1870 onwards; and also due to such aspects as the strong desire to maintain family control of the business and the operation of the business at considerable geographical distance.

Accounting initially emerged in James Finlay as an allocation, distribution device between partners. Conservative, safe accounting practices were used to ensure that no partner got more than his fair share. This was evidenced by the James Finlay partnership contracts and the partnership contracts entered into by James Finlay with their branches. Accounting also enabled regular control of the branches to take place especially in overseas branches. As each of the branches developed, accounting became an integral part of a package of controls to ensure fidelity of the overseas employees and partners.

Accounting increasingly became situated in the contracting arrangements of James Finlay. Company growth meant that employment contracting became the organisational means for controlling the business which was so dispersed. The partnership form became unwieldly for organising the business. Increasingly, outcome related contracting was used in the organisation which directly implicated the accounting practices used in the organisation. This was found to occur predominantely with overseas employees who had reached certain levels of autonomy in the overseas branches. It was also found that at the higher managerial ranks, overseas employees were generally more experienced and had long-term contracts.

Initially the outcome related contracts were linked into a sales figure or a cash remitted figure. However, in the 1900's and 1910's an accrual basis for calculating outcomes emerged. In the first outcome negotiated contracts in the 1870's, the contract stated that the employee had no right to examine the accounts on which their commission amounts were based. These were for local Glasgow contracts. Such a stipulation was obviously impractical for accounts prepared at each of the branches, both in Britain and overseas.

The Muir family, who by the 1880's had outright control of James Finlay, maintained the conservative, safe accounting practices by operating very effectively suspense accounts at the branches. This enabled the head office to control the distribution of profits to employees. The debate at Calcutta in 1885 illustrates vividly the anger employees felt over arbitrary, retrospective charges against profits which affected the amounts employees received on outcome related contracts. Commission accounts for each employee were increasingly introduced in the 1900's. They operated in much the same way as suspense accounts did at branch level.

Accounting techniques not only affected each set of branch and head office accounts, but with the employee contracting, a set of accounting techniques emerged and developed which were completely distinct from those accounts. These were generally arbitrary, budgeted techniques, such as amounts for depreciation or office expenses, that were ex ante amounts negotiated at the start of the contract period.

The agency theory explanation has been referred to as a possible explanation for the existence of accounting. This was referred to because it is a theory that is dependent on accounting being implicated in employee contracting. In a general way it does provide an explanation for the existence of conservative accounting practices when linked to outcome related compensation schemes. It also highlights the problem of moral hazard and issues of control and motivation. Agency theory has also proved useful heuristically, to analyse the nature of the contracting in James Finlay.

However, a more nuanced explanation for accounting's development is gained by examining the social and historical context in which accounting has emerged and developed. The accounting practices were an important aspect of the structure of control in the company. The use of conservative accounting practices, such as suspense and commission accounts, illustrated not just a desire to dampen employees' optimism, but also provided a way for the head office to manipulate the accounting practices to their own advantage and maintain the upper hand in any distributional debates. The conflict with and exercise of power by the head office highlighted the interested nature of accounting and the paramount importance of the head office's interests.

John Muir maintained tight control over the organisation through family control and autocratic leadership. His sons, in a vicarious way, represented his presence abroad. Muir's leadership style was to impress upon his employees that they were trustees of his wealth. The departmental accounting practices emerged to enable accountability of his employees to reach further down the organisation.

When Sir John Muir died, the maintenance of tight family control was exercised through accounting in greater measure. This occurred through the greater use of accounting in the employment contracting, especially budgeted charges against income and the use of commission accounts, but also through the use of auditors. Auditors were initially appointed at the head office and the branches for fiduciary reasons, but James Finlay soon saw their potential for internal control and required the branch auditors to be detailed in their examination of the branch accounts.

However, within twenty years this role of the auditors changed, along with the rationale for the accounting practices. On becoming a public company in 1924 the accounting practices which had emerged as distributional devices in the relatively private setting of family shareholders, senior managers and employees, were now used to attract and promote investment in James Finlay in the public arena of the share market. The auditors, especially the head office auditors, now primarily had a regularising role in the capital market, rather than being an agent of internal control within the company.

Accounting provided John Muir and his sons with the ability to financially examine their organisation. Information for decision making was found in market information on interest rates, exchange rates and commodity prices. The accounting practices enabled an assessment of the trusteeship of the employees and on a broader basis, they made the differing aspects of the organisation visible.

3. The Champdany Jute Company Limited

The Champdany Jute Company Limited case study has also provided some interesting insights into accounting and accounting change. The management agency system of management, the distance between owners and managers, the volatile nature of the jute industry and the fact that it was an investment company of James Finlay, have provided an interesting context in which to study accounting change.

Champdany was set up as a public limited liability company to operate jute mills in India. However, the volatile nature of the industry provided the initial pressures on accounting in that the company experienced a low period of profitability soon after it was founded. This lack of profitability provided the catalyst for the directors to understand the cost of production of various classes of goods. This was a concept that was not unproblematic. It was constructed through a series of discussions. For example, one issue was whether it included depreciation or not. The discussions on the costs of production created a visibility which enabled areas such as wastage, employee control and stock control to take place. The cost information requested initially for decision making purposes, was soon used for surveillance of management and control of the production processes. Information on finance and working capital was also important to the directors as James Finlay provided large amounts of working capital finance and the guaranteeing of other credit facilities.

Accounting practices, however, were made increasingly more visible due to the continued low profitability. As Champdany was one of James Finlay's investment companies, James Finlay affiliated shareholders were in the majority shareholders with non-James Finlay shareholders providing the rest of the capital. James Finlay promoted the company and their reputation attracted the additional capital. Although it was a public company, this was only done to ensure limited liability. James Finlay were also the managing agents in India and the secretaries in Glasgow.

Herein lay the problem and the reason why the accounting practices - in particular depreciation and exchange - became such a divisive issue. James Finlay, according to the minority shareholders, had a double interest in the company - both as shareholders and managing agents. The minority interest began to debate accounting practices when they were not getting a regular high dividend return, which they were expecting because their money was being invested in India. Accounting practices defined and sharpened the debate between the two groups of shareholders.

Through a series of conflicts, the minority shareholders continually raised the question whether James Finlay's interests as the majority shareholders were subordinate to their interests as Champdany's managing agents. The first accounting practice to come under scrutiny was depreciation and the treatment of long-term assets. James Finlay directors decreased profit by increasing depreciation charges. They did this on the basis that it was the technically best way of accounting for depreciation and best reflected the true value of the company's assets. The directors appealed to the expert advice of the auditor for legitimation for their view.

Whether it was the technically best way to account for depreciation or not, "held no water" as an argument to the minority shareholders. They saw the depreciation accounting practice as a technique with distributional consequences that reflected the superior power position of the James Finlay shareholders.

The exchange accounting conflict was driven by similar concerns that the minority interest had over James Finlay's management and shareholder interests. The conflicts over the accounting practices were only settled when James Finlay bought more of the minority shares and silenced the remaining minority interest through providing preference shares.

It is interesting to note that the directors from 1910 onwards developed depreciation practices that were not in any way related to abstract notions of true value and, in fact, they wrote down the assets considerably below historical cost or any notion of market value.

In the 1900's the accounting practices were then implicated in defining distributional clauses in management contracts. The information for decision making purposes, such as finance statements, production and sales statements, and market information, emerged alongside the development of accounting practices affecting the distribution of profit. The legislative framework of the Companies Acts under which the company was registered had minimal impact on accounting in Champdany. Accounting emerged and developed in Champdany for many reasons - such as distributional, fiscal and employee contracting reasons. Accounting practices which were justified as neutral, technically sound practices were challenged, debated and recognised as representing differing interests in the organisation.

D. CONCLUDING COMMENTS

The case studies have attempted to explore the conditions and consequences of the production and use of accounting information. It has been seen that accounting is not a neutral discipline which provides unproblematic facts about organisational life. Rather accounting has been seen as an interested activity that was intricately involved in the organisational and social context in which it operated. At the same time that accounting has reflected its context it has been recognised that it actively shaped its context and, in fact, became part of the influences that impinged upon itself. Accounting was called upon to serve a wide variety of different and changing purposes. It emerged and developed in a domain where strategems and tactics of complicity and compromise ruled.

It is clear from these studies that accounting has no pre-given essence or inherently correct definition. Various rationales and imperatives exist for accounting. For example, accounting provides an accountability mechanism; accounting exists for agency reasons; accounting enables the control of the labour process; accounting enables organisational surveillance; or accounting provides information for decision making. On the basis of the case studies, the rationales given for accounting were not homogeneous and in some cases were in conflict. Surveillance and control were important reasons for explaining the way accounting operated in the case studies. Another important rationale was the quasi-adjudication role accounting played between various parties. Accounting was seen to be embedded in the political and conflictual nature of organisational life.

The provision of information for the decision making rationale for accounting was not a prominent finding in the case studies. It is interesting to note that in today's situation the decision making rationale may be grossly overstated for accounting. Feldman and March (1981) make the interesting observation that much of the information in an organisation is gathered in a surveillance mode rather than a decision mode and that much of the information used in organisational life is subject to strategic misrepresentation.

It is also instructive to see that often in the case studies, when an accounting practice was introduced, whatever the initial reasons may have been, the accounting technique created a dynamic which had unintended consequences and revealed new justifications as the accounting process unfolded. In some senses the accounting techniques took on a life of their own (Ellul, 1965). The accounting practices created a visibility mechanism over the organisation. Because of the problem of distance in James Finlay, for example, accounting became the almost exclusive bearer of knowledge of the overseas branches. Accounting then became a technique of knowing, which at the same time became a technique of action. Accounting was used to justify and legitimise interventions in the organisation which had distributional consequences.

In presenting the case studies in this thesis a process of ordering and presenting the archival material has taken place. The case studies are not just a collection of evidence in a positivistic sense, but rather are presented as accounts of how accounting functioned and changed in its organisational and social context. Geertz (1973) has distinguished between "thin description" and "thick description" in rendering accounts of social events or episodes. The first is a kind of narrative that is not obviously theory-laden. The second is explicitly interpretative where explanations are constructed that take in not only actors' accounts of their actions but also attempts are made to place them in an appropriate conceptual framework. In practice it cannot be supposed that even a thin description is theory-neutral.

The case studies presented in this thesis are closer to thin description than thick description. However, the accounts do carry with them implicit explanations and sometimes explicit explanations where reference has been made to wider theoretical perspectives. The case studies have provided insights into accounting change which it is contended could not be obtained in any other way. The analytical perspective taken in the research has been one of examining historical accounting change as in the process of becoming; of taking a critical, questioning perspective on accounting; and of viewing accounting as a contextual phenomenon.

Such a historical approach has avoided assumptions about accounting having a pre-given imperative or essence. It also has attempted to overcome the dualism of the accounting-environment contingency model of accounting change which analyses accounting change in terms of the distinction between accounting on the one hand, and its environment on the other. Such a perspective underplays the interactive nature of accounting. Yet, in many ways, the perspective on accounting change presented here is a contingency perspective in that everything depends on the circumstances and situation under which change occurs. There is no general theory of accounting change (see Burchell et al., 1985).

This historical research has examined the practices of accounting. No prior distinction has been made between financial accounting history or management accounting history. This distinction is considered to be a present day distinction that violates the historical contingency of accounting. Rather, accounting has been studied as being embedded in the contexts in which it operated. To extract accounting from its context and analyse it as an abstract phenonomon would not give due consideration to such things as law, organisational rules and functioning, contractual considerations, long distance control, ownership considerations and professional influence. Such contextual phenomena are what gives accounting its meaning and significance.

This history of accounting, by examining the practices of accounting and the processes of accounting change, has sought to present a complex and interesting history, albeit within the boundaries of two case studies. It has sought to enrich and deepen conventional histories by taking a contextual and critical approach. It is recognised, in presenting the case studies, that no one mode of analysis or view point is likely to provide a general history of Scottish company accounting or explain how accounting operated historically. Multiple approaches are needed to ensure an undogmatic view of the history of accounting. Although the histories of accounting presented are particular and fragmented, they are presented in the belief that an understanding of the processes of accounting change, even in a small way, is inherently interesting in itself and may be of help in understanding what is at stake in current pressures on accounting to change.

ABBREVIATIONS

The following abbreviations are used within the thesis:

AA	Articles of Association
AA/Cs	Annual Accounts
AGM	Annual General Meeting
CR	Chairman's Report
DM	Directors' Minutes
DR	Directors' Report
EC	Employment Contracts
MM	Management Minutes
UGD	University of Glasgow Deposit (Reference used for collection in the Adam Smith Business Records Collection at the University of Glasgow Archive)

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