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# Desperately Seeking Synergy: Interdisciplinary Research in Accounting and Business History

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## Abstract

In responding to the recent call for interdisciplinary research where synergies can be gained and institutional knowledge broadened, it is argued that a particularly strong case exists for aligning work on business and accounting history. The greater breadth and context about the structure of firms and their operating environment provided by business history facilitates an enhanced understanding of the forces that have driven the changing provision of management accounting services. In turn, it might be argued that historians analyzing the success or failure of firms can learn much by studying more closely the appropriateness of the accounting systems that they have adopted. While integrated studies of business and accounting history have been undertaken in other countries, there are dangers in applying their conclusions to Australasia because of the distinctive aspects of local experience. The importance of primary industries, high levels of concentration, a close state-big business relationship and the influence of multinationals differentiate Australasian experience from contemporaneous experience in other Western economies. Such distinctiveness also provides opportunities to look at central research questions from a different perspective.



## Keywords

accounting history, business history, interdisciplinary synergy, management accounting history

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# DESPERATELY SEEKING SYNERGY: INTERDISCIPLINARY RESEARCH IN ACCOUNTING AND BUSINESS HISTORY

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## 1. Introduction

In a recent report into new research directions in management accounting a geographically and philosophically diverse group of eight scholars argued for a convergence of different and complementary approaches to the subject. They concluded that, "[n]ew directions and advances in management accounting research depend on researchers actively seeking synergy among different research methods and disciplines" (Atkinson et. al. 1997, p. 98). The authors argued specifically that management accounting research can benefit from integration with advances in economic, organizational, and social theory. In another recent assessment, Foster and Young (1996, p. 75) have called for "management accounting academics to gain broader and deeper institutional knowledge [and]...a longer term perspective". In this essay we particularise these general calls by arguing that powerful synergies exist between the study of accounting and business history in Australasia. Historical evidence can be usefully employed to further our understanding of how management accounting systems (hereafter MAS) develop in our leading contemporary corporations.

## 2. The value of longitudinal evidence on the development of management accounting systems

Both demand and supply side conditions influence the nature and development of MAS. The desire for greater efficiency has been widely viewed as a critical driving force although a recent study has balanced this with longitudinal evidence on the redistributive motive (Hopper and Armstrong 1991). They argue that firms design

MAS to extract greater effort from their workforce without an accompanying increase in remuneration. On the supply side, technological progress and changing patterns of thought are both regarded as influences on MAS although little empirical work exists on either (Luft 1997, p. 163).

History provides us with some distinct advantages and powerful tools for understanding the contingency basis for different MAS. The longitudinal approach avoids the limited predictive value of comparative statics. In particular, it enables us to distinguish the short from the long term and therefore filter out aberrations such as fads and reveals systems that only prove their worth in the longer term. While some evidence is always lost through the seeds of time there is also the promise of fuller disclosure of evidence because its competitive value and political sensitivity have been mitigated.

While accounting history studies bring greater longitudinal depth to an analysis of current MAS, the value added is much greater if this is extended to provide breadth through the study of business history. Business history provides critical information about the organisations whose MAS are being studied, the environment in which they operate, and how each of these changes over time. The form of MAS adopted are heavily contingent upon the nature of the firm to which they are applied. In particular, larger and more organisationally complex businesses have a high propensity to use management accounting to control and evaluate different parts of the organisation (Chenhall and Langfield-Smith 1998a, pp. 12-13). This is particularly the case where decentralised management systems are used in multidivisional corporations (Atkinson et al. 1997, p. 91). The competitive structure of the industry can have a bearing; where industrial concentration is high and firms are no longer price takers, they are more likely to use their accounting systems to facilitate rent-seeking activity. MAS are also contingent upon factors such as technological change and diffusion, and environmental uncertainty (Mia and Chenhall 1994; Chenhall and Langfield-Smith 1998b).

Combining business and accounting history is not new although the existing literature does not succeed very effectively. Chandler's (1977) studies of the rise of management accounting in American big business in the late nineteenth century are well known. Edwards and Newell (1991), alternatively, have sought the origins of management accounting in British firms of the eighteenth century. Both studies have been criticised for being too "progressivist" in concentrating only on the efficiency basis for innovations in management accounting and in not recognising some of the disadvantages such as a tendency of some MAS to sustain the status quo within an organisation rather than promote change. Each study has also been criticised for being insufficiently sceptical about omissions and subjectivity in their evidence (Luft 1997, pp. 176-80). The existing interdisciplinary literature also suffers from concentrating too much upon the manufacturing sector, and for little coverage of the last two generations perhaps under the influence of the negative conclusions of Johnson and Kaplan (1977). Finally, there is little or nothing of this genre dealing with Australasian experience.

*Sectoral distribution, concentration, and foreign influence*

Distinctive aspects of Australasia's corporate past make it important that we learn from our own experience rather than merely draw upon the findings of studies of nations such as America or Britain.[1] Australia and New Zealand have been, in many ways, outliers in terms of their economic and business structure. In contrast to most other high income nations at the turn of the twentieth century the Australasian economies drew their wealth largely from primary rather than secondary industries. At the turn of the century Australian primary industries accounted for 30 per cent of GDP and manufacturing only 12 per cent (Butlin 1987, p. 133). A similar economic structure can be seen in New Zealand (Hawke 1986, pp. 42-45). It was not until after World War Two that manufacturing began to occupy a leading place in the Australasian economies, although primary industries have maintained a relatively important position compared with most "developed" nations. This evidence naturally raises the question of the degree to which the design of MAS is sensitive to differences in the broad structure of the economy. Contemporary research has pointed to the link between strategy development and MAS; for example, how control systems might vary according to the strategic options of the firm (cost leadership, differentiation), levels of competition, discretionary decision making, coast control, and reward systems (Langfield-Smith 1997, pp. 217-21). Do we find, for example, structural (and perhaps informational) differences in MAS in Australasia in comparison with America or Britain? If so, how are these differences driven by the external environment (for example, cost leadership in primary production requiring non-financial measures such as rainfall or salinity levels; cartels monitoring tariff policy, costs and customer-retailer behaviour) and by internal business characteristics (high capital-labour ratios in Australasian farming; the extent to which managers were entrepreneurs or conservative).

The importance of sectoral distribution is enhanced by the additional evidence that the dominance of the primary sector has been strongest amongst Australasia's largest and most organisationally complex corporations. In 1910 nine of the top ten Australian companies were located in the resource and resource services industries and in 1964, inspite of the rise of manufacturing, there were still seven.[2] Although Australian firms have tended to be less product diversified than their American counterparts, questions of control over long distances has spurred regional divisionalisation. The 1910 top ten included seven pastoral agent companies among whom the decentralisation of management into regional divisions was becoming increasingly common by the interwar period. This sector also dominated big business in New Zealand and led the move to national expansion after 1918 (Jones 1994, pp. 48-50). It is worth exploring, therefore, how managers of the largest and most organisationally complex firms designed and implemented MAS in Australasia.

Local corporate leaders, however, were minnows compared with big business in Germany, America, or Britain. Australia's largest firm in the 1930s, Colonial Sugar Refining, would not have brought it close to the top fifty industrials globally and it was only one-sixtieth the size of America's top industrial company of 1930, US Steel. In Canada, which might be a more appropriate comparator, the largest non-financial corporation in 1929 after Canadian Pacific Railway was International Paper which was nearly six times larger than Colonial Sugar Refining.[3] This might suggest, from an efficiency perspective, that the demand for management control systems would have been quite modest. However, levels of industrial concentration were quite high in some sectors in Australia. The top 25 large scale enterprises were relatively more important than in a number of other major economies. The assets of the leading 25 industrial firms in America and Japan accounted for ten per cent of GDP in 1917 and 1918 respectively compared with nine per cent for Germany in 1912 but 19 per cent in Australia in 1910. In industries like brewing, sugar, and pastoral services concentration levels had reached high levels by the turn of the century. In the latter industry, for example, the five firm share had reached 51 per cent in both Australia and New Zealand by 1901/10.[4] With the emergence of oligopolistic market structures, the demand for MA might have been driven more by redistributive considerations than efficiency as firms sought to compare key measures of performance with their competitors.

One of the main reasons for high concentration levels was that foreign multinationals have been a prominent feature of the Australasian corporate environment. British multinationals predominated in the primary sector from the mid nineteenth century, while American manufacturers became increasingly common after World War Two, and Japanese firms since the 1970s (Dunning 1993, p. 43). In 1910 nearly a third of the top one hundred firms operating in Australia were domiciled overseas. Although the form of measurement had changed by the 1960s the relative importance of foreign firms appears to have been very similar. Given the paucity of empirical work on the origins and diffusion of new ideas on MA it is worth inquiring as to the role played by multinationals. Brash's study of American multinationals in Australia has revealed their important role in other aspects of the international transmission of technology and management practices. Were MAS designed by the local division or imposed (and perhaps tailored to local circumstances) from the multinational centre? if the latter, how did the transmission of overseas MAS take place?

*Economic cycles and government intervention*

If sectoral distribution, concentration, and foreign influence have been three key features of corporate enterprise in Australia, volatile economic cycles and government intervention have helped shape the business environment in both countries. The dependence on agricultural income as the main engine of growth left the agriculturally dependent Australasian economies open to unstable national income through changes in world product prices. The interwar period, and the 1970s and early 1980s are pertinent examples. By contrast, the "long boom" between 1940 and 1970 represented a more stable business environment (Maddock and McLean 1987). These periods represent "natural experiments" from which researchers may be able to discern how firms' MAS change given economy-wide structural change brought about by a combination of endogenous and exogenous factors.

Government intervention in the form of tariff and anti-monopoly policy created a unique "Australasian" business environment which altered the nature of firms' construction of accounting information. The use of tariffs as a development tool involving tariff setting and subsequent policy review placed pressure on import substitution firms to satisfy informational demands of policy makers with regards to cost structures. The link between MAS and rent seeking in Australasian policy environments remains unexplored. How did firms develop financial and non-financial indicators to accurately monitor outcomes from rent seeking behaviour?

In a similar way the institutional rules governing mergers, acquisitions and market conduct could well have influenced MAS.[5] In Australia, the lack of an effective Federal (or indeed State) anti-monopoly policy (at least up to 1974) contributed to high levels of industrial concentration and the dominance of collusive activity. As Hunter (1961) and Karmel and Brunt (1963, pp. 94-97) found, restrictive practices were rarely of a voluntary nature; indeed, exclusive dealing, where approved dealerships exclude competition, and discriminatory trade terms, were often imposed on businesses by producers or trade associations. In other areas restrictive practices reinforced the ideals of "mateship": price agreements (operating in industries such as tobacco, automotive parts, petroleum products, paper products to name a few), market sharing, collusive tendering and regulation of entry of new firms into associations were generally agreed upon by colluding firms. In New Zealand, a loose application of anti-monopoly legislation permitted the continuation of trusts and combinations into the 1970s (Jones 1999). We are yet to understand how these regulatory structures influence firms' MAS.

**3. Has the evidence survived?**

Adopting a broad interdisciplinary approach which integrates business history as part of an understanding of long term changes in MAS requires that appropriate evidence has survived. A recent study has shown that a wealth of extant material on Australian big business in the twentieth century can be found in public institutions and corporate archives. Evidence survives for all categories of corporate administration including Board Minutes, correspondence, accounts, and reports. Of the 262 companies which have featured among Australia's top 100 non-financial companies at four spot years this century (1910, 1930, 1952, 1964), 162 (62 per cent) have surviving archives (Terwiel, Ville and Fleming 1998, p. 3).[6] The records of many leading New Zealand companies have also survived (Jones and Wishart 1993; *Select List* 1997). In each country primary records are complemented by the large number of published company histories (Ville 1992).

## 4. Conclusions

In responding to the recent call for interdisciplinary research where synergies can be gained and institutional knowledge broadened, we have argued that a particularly strong case exists for aligning work on business and accounting history. The greater breadth and context about the structure of firms and their operating environment provided by business history facilitates an enhanced understanding of the forces that have driven the changing provision of management accounting services. In turn, it might be argued that historians analysing the success or failure of firms can learn much by studying more closely the appropriateness of the accounting systems which they have adopted. While integrated studies of business and accounting history have been undertaken in other countries, we warn of the dangers of applying their conclusions to Australasia because of the distinctive aspects of local experience. The importance of primary industries, high levels of concentration, a close state-big business relationship and the influence of multinationals differentiates Australasian experience from contemporaneous experience in other Western economies. Such distinctiveness also provides us with opportunities to look at central research questions from a different empirical perspective.

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## NOTES

[1] We advocate here that an ideal opportunity exists to integrate the study of business and accounting history in Australasia. Such a study can learn from and build on the mistakes of the previous work in Britain and America. Until recently little was known about the business history of Australia and New Zealand. Unique elements in our historical corporate experience and the extensive archival base provide ideal conditions to yield these interdisciplinary synergies.

[2] Measured by assets and excluding financial institutions. The evidence from this and the two following paragraphs is largely taken from Ville and Merrett (2000). Data on the largest New Zealand firms has yet to be constructed.

[3] Calculations of large scale enterprise in Australia, Canada and elsewhere generally exclude financial institutions and insurance companies whose asset risk nature distorts the economy-wide results.

[4] *Dalgety Annual Wool Review*.

[5] Competition policy and collusion is but one example. Clarke, Dean and Oliver (1997) provide examples of the resources allocated by firms in order to take advantage of Australia's rather lax accounting standards.

[6] Records also survive for many financial institutions.