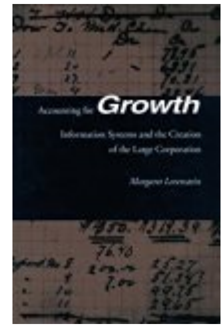
H-Net Reviews
in the Humanities & Social Sciences

Margaret Levenstein. *Accounting for Growth: Information Systems and the Creation of the Large Corporation.* Stanford, Ca: Stanford University Press, 1998. ix + 277 pp. $49.50, cloth, ISBN 978-0-8047-3003-7.



Reviewed by Paul Miranti

Published on H-Business (September, 1999)

Margaret Levenstein has written an important book that should have a major impact on the history of accounting and information systems and its connections to the theory of the growth of the firm. Dr. Levenstein argues that changes in corporate organization, strategy, market structure andtechnology serve as the drivers of modifications in the design and structure of accounting systems. This is a significant departure from the traditional approach followed by accounting historians who often focus more narrowly on the details of methodological evolution per se, placing little emphasis on other contextual factors. Central to her study is an asynchronous, three-stage categorization of accounting system development for the purposes of: (1) operational control; (2) short-term decision making; and (3) long-term capital allocations. These classifications enrich the analysis of firm practice by highlighting how changing priorities influenced information function, flows and content. They also help to avoid the rigidities inherent in such shop-worn constructs as the entity or proprietary theories that permeate many method studies in this field. The explanatory power of Margaret Levenstein's propositions are tested by analyzing the experience of the Dow Chemical Company and its predecessor, the Midland Chemical Company during the period 1894-1914. She persuasively argues that Dow's accounting systems underwent an important transformation during this era as the firm made the transition from an adaptive strategy appropriate for an uncompetitive, cartelized market to an innovative strategy involving product diversification and competitive market settings. Midland Chemical, the precursor adaptive firm, only required a rudimentary accounting system to satisfy the limited information requirements necessary to operate successfully in the cartlelized market for its primary product, potassium bromide. The Dow Chemical Company, the innovative successor, on the other hand, needed a more elaborate accounting system to capture the wider array of information needed to exploit the market potential of electrochemical technology after it abandoned the bromide cartel in 1900.

Some of Margaret Levenstein's findings are at a variance with earlier studies that dealt with the nature of the relationship between accounting information and corporate growth. She notes, for example, that capital allocation decisions at Dow were informed largely by marginal profit data rather than return on investment analysis which Alfred Chandler has identified as a major evaluative mechanism in modern corporations. This difference is probably more a function of the lack of sophistication in accounting and finance in an emergent enterprise whose management was dominated by chemists. Some AT&T subsidiaries were using return on investment as early as 1911. Moreover, it is not clear when Donaldson Brown actually developed the more elaborate Du Pont ROI calculation which included three components: profit margin, sales turnover and financial leverage. It may have been perfected after the 1914 cut-off date for the Dow study. And it did not become central to planning at General Motors until after 1921 when Brown joined the management team organized to resurrect that firm's depleted finances. Second, Dr. Levenstein's findings also do not support the conclusion of Johnson and Kaplan that corporate accounting practice was shaped strongly by professional accountants who were primarily concerned with the questions relating to financial reporting. At Dow professional accountants were consulted after the process of system evolution was well advanced (1900) and that their recommendations were only embraced selectively by management. Moreover, audits by independent public accountants were only performed occasionally (1900, 1905, 1910) with regular annual audits not beginning until 1911 which suggests that the linkage between the requirements of financial reporting and corporate accounting policy may have been weak. What is more surprising is that such a marginal enterprise actually engaged as advisors leading representatives of what then was a small and poorly understood profession. Professional accounting had only been licensed in New York since 1897 and was just beginning to be organized in Michigan and Ohio when Dow employed Haskins & Sells. The choice of a firm which had played a leading role in Progressive reform in Chicago and New York may imply that there is a question concerning the sociology of knowledge here that goes beyond the confines the current study. Perhaps, Dr. Levenstein's next work on the Cleveland Trust, which provided important financial support to Dow, will shed more light on how professional accounting won acceptance among business and political elites as a means for strengthening social and economic ordering.

One dimension of Margaret Levenstein's study which might have been expanded more is a generally excellent discussion of Dow's haphazard capital costing policies. Initially, the firm only recorded repairs and betterment expenses. Later, seemingly arbitrary depreciation charges were recorded apparently in order to maintain surplus accounts at some desired level, perhaps conditioned by the amount of dividends management wished to pay out. The study, however, does not find any connections with contemporary developments in regulated public service enterprises where the debate over depreciation raged because of its impact on rate bases. The accounting sections of the Hepburn Act of 1907, for example, were intended in part to require greater uniformity in depreciation practice among the nation's railroads. More surprising was lack of discussion of the significance of the depreciation policies under the federal corporate income tax which became operative at the end of the period under survey.

Margaret Levenstein's unique model which blends history and theory represents an important contribution to the accounting literature on a par, I believe, with the well known paradigms of such scholarly duos as Johnson and Kaplan, Meckling and Jensen and Watts and Zimmerman. Her ideas about the drivers of accounting evolution invites further confirmatory case studies to test her conclusions which were predicated on the experience of a single great firm in its formative stages of development. Dr. Levenstein's study serves as an exemplar of the potential richness of case studies in accounting history-a genre that too often in the past has neither amplified theory nor major interpretative themes.

Copyright (c) 1999 by EH.NET and H-Net. All rights reserved. This work may be copied for non-profit educational uses if proper credit is given to the author and the list. For other permission, please contact the EH.NET Administrator (administrator@eh.net; Telephone: 513-529-2850; Fax: 513-529-3308).

If there is additional discussion of this review, you may access it through the network, at https://networks.h-net.org/h-business

Citation: Paul Miranti. Review of Levenstein, Margaret. *Accounting for Growth: Information Systems and the Creation of the Large Corporation.* H-Business, H-Net Reviews. September, 1999.

URL: https://www.h-net.org/reviews/showrev.php?id=3437

This work is licensed under a Creative Commons Attribution-Noncommercial-No Derivative Works 3.0 United States License.