



**MANAGEMENT  
ACCOUNTING AT  
THE HUDSON'S  
BAY COMPANY:  
From Quill Pen  
to Digitization**

Gary Spraakman

Studies  
in the Development  
of Accounting Thought  
Volume 17

STUDIES IN THE DEVELOPMENT OF ACCOUNTING  
THOUGHT VOLUME 17

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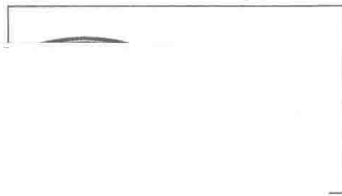
BY

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## PREFACE

In 1989 I was returning with my nine-year old son from our trip to L'Anse aux Meadows in Newfoundland, which is on the northern tip of the Northern peninsula. The Vikings were believed to have settled at L'Anse aux Meadows in about 10:50. My son was keenly interested in history, the Vikings in particular and he persuaded me to stop at many sites on the way back and particularly at a Parks Canada re-created Hudson's Bay Company fur trade post on the Mattawa River near North Bay, Ontario. There we saw the usual fur trade articles such as a canoe, paddles and beaver pelts. I was surprised to see a journal or ledger book. I wondered why the fur traders needed accounting in 1810. At the time, I was interested in how uncertainty affects the use of management accounting. The general belief was that with uncertainty, you needed flexibility and not accounting. Accounting was assumed to be restrictive. Thus, I would have expected little or no accounting, but that accounting journal or ledger implied the opposite.

The fact that my nine-year old son was not sleeping while I was driving meant I was obliged to stop which was the reason this book got written. Of course, this book is dedicated to my son Christopher Spraakman.

By the way, I was able to prove theoretically and then empirically with the HBC data that the use of management accounting increases in use with uncertainty, contrary to what had been accepted.

Financial support was generously provided by the Hudson's Bay History Foundation. Thank you. I very much appreciate the financial support provided to me by York University to present HBC-related papers at conferences and for the time made available to me to do the research and writing necessary for this book. I also thank the University of Manitoba for the term I spent there on an earlier sabbatical.

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# CHAPTER 1

## INTRODUCTION: BEGINNING THE ADVENTURE IN MANAGEMENT ACCOUNTING

When the Hudson's Bay Company (HBC) was given a charter on 2 May 1670, by Charles II, the King of England, for exclusive trade over a large part of North America, it began a centuries-long accounting project that continues to this day. The HBC – currently the oldest surviving commercial company in the world (Milgrom & Roberts, 1992, p. 6) – presents a deep and fascinating case about management accounting and, more broadly, about the relationship between Canadian and British societies and their business leaders.

This study of 335 years of HBC management accounting examines not only numbers and procedures, but it also shows the nature of, and changes in, Canadian life. Beaver hats and British fashions started it all, but this is also a story of professional accountants, York boats transporting goods over thousands of miles to markets, disagreements between London and Winnipeg, communication problems without the telephone or the computer or e-mail, and the rise of the now ubiquitous department store, the eventual centre of HBC's business. Indeed, management accounting managed, regulated and influenced these and other developments in everyday Canadian commercial life even though it existed behind the scenes. This study, then, sheds light on the extent and nature of the tentacles of management accounting at this major Canadian institution.

There was no discipline called management accounting in 1670, despite its existence. Actually, management accounting was not recognised as a part of accounting until the 20th century. In examining management accounting prior to its formal recognition, accounting historians have defined it as 'any

form of accounting which enables business to be conducted more efficiently' (Boyns & Edwards, 1997, p. 28; Hoskin & Macve, 2000, p. 119).

Management accounting consists of information for managers to efficiently and effectively operate an organisation. It differs from financial accounting, which generates accounting information for external users such as shareholders and creditors (Garrison et al., 2012, pp. 3, 8–10). The better-known financial accounting tends to be aggregate, historical, quantitative, verifiable or objective and formal. In serving managers, management accounting is different: disaggregated, forecasted, quantitative or qualitative, flexible and formal or informal. Financial accounting information is provided to shareholders and creditors for them to make decisions about the organisation. On the other hand, management accounting information is provided to help managers make decisions for the organisation. Nevertheless, without competitive management accounting information, profit-pursuing organisations would fail.

As this book examines the evolution of management accounting at the HBC, some definitions are needed to clarify exactly what is being studied. Each different type or form of management accounting, such as budgeting, is called a technique or sign. A combination of management accounting techniques, which enable a company such as the HBC to conduct its business more efficiently and effectively, is called a programme for the administration and calculation of activities (Miller & O'Leary, 1987, pp. 240–241). Boyns and Edwards (2013) use a similar definition in their recent and relevant book, *A History of Management Accounting: The British Experience*: 'management accounting is the use of accounting information for the purpose of assisting management in carrying out its numerous functions' (pp. 1–2).

This study is not only a study of one company. When discussing the history of management accounting at the HBC, we are really focusing on the Anglo-American evolution of double-entry bookkeeping for managing companies. Double-entry bookkeeping had originally developed during the 12th and 13th centuries in Northern Italy (Kee, 1993, pp. 193–197). Changes to property rights and contractual obligations at that time created a large and sophisticated merchant class, who traded through consignment agents and short-term partnerships. Record-keeping was needed to monitor these business ventures, and during those two centuries double-entry bookkeeping developed. Compared to earlier record-keeping practices, double-entry bookkeeping, or the Italian method, was a more effective method for representing and managing economic data.

The first book on double-entry bookkeeping, Franciscan friar Luca Pacioli's 1494 *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*, included concepts such as assets, capital and profit, and the relationships among these concepts. As implied by its name, double-entry bookkeeping recorded the two sides of each and every transaction – the debits and the credits – to minimise errors and omissions and to discourage fraud. According to Pacioli, and all accountants since him, double-entry bookkeeping allows the user to 'know all about your business and whether or not it is going well'. Pacioli's book was the birthplace of management accounting.

Double-entry bookkeeping moved from Italy slowly across Europe, to Scotland, and finally to England. When the HBC was getting its charter in 1670, double-entry bookkeeping was being used in London in various primitive forms. Not surprisingly, this method was applied to this Canadian institution; the HBC used double-entry bookkeeping from the beginning, as intended by Pacioli, to 'know all about your business and whether or not it is going well'.

## 1.1. CHANGES TO MANAGEMENT ACCOUNTING

This unprecedented study of management accounting at one company spans from 1670, when the Company was chartered by the King of England as a joint stock company, to 2005, the last full year before the American entrepreneur Jerry Zucker acquired the Company and took it private (Strauss, 2006, p. B1+). As it ceased to be a public company, and as Mr Zucker and a subsequent owner made significant changes to the Company, 2005 appeared to be a natural end for this study.<sup>1</sup>

A study of 335 years at a single company may seem daunting and even tedious until you recognise that management accounting does not change often, and when it does, those changes are exciting, dramatic and consequential. Over those many years at the HBC, four significant accounting changes occurred and the fifth was likely occurring in 2005. Each of the five changes was made or is being made for a significant strategic reason, a reason of survival. Thus, the focus of this book is on those five different programmes and their sets of management accounting techniques. To give these studies rigour and to avoid explaining how one programme led to the next, I will use Latour's (1987, 2005) actor-network theory, which enables the



focus to be on the making and remaking of management accounting programmes in their contexts. Latour's (2005, pp. 35, 55, 169) actor-network theory requires me to be rightfully concerned with recording and describing associations among HBC managers and management accounting techniques.

Latour (2005) even recommends his theory specifically for the study of management accounting; he believes scientific disciplines 'such as accounting ... provide marvellous examples because, like fruit flies for geneticists, they offer us an exaggerated version of what occurs everywhere in a less clearly, traceable way' (p. 180). (Latour would be even more impressed with management accounting if he knew that this analysis of the HBC's management accounting was being done with 335 years of management accounting archives.<sup>2</sup>) This study will be concerned with each of the five management accounting programmes, and following from Latour's actor-network theory, it is not starting with conventional hypotheses of what should exist.

This research found that the management accounting changes lag behind strategic changes, sometimes by as much as 40 years. Management accounting at the HBC changed slowly for three related reasons. First, the need for change takes time to be recognised. Second, the search for alternatives also takes time. Third, and most importantly, certain forces inhibit the recognition of a need for change and the alternatives. These forces – such as past internal HBC practices and accepted practices by the management accounting profession – are often called institutional. More will be said about institutional forces, but briefly they work in this way: management accountants, at the HBC and at all other companies, do not wake in the morning and say, 'What is the best way to do the management accounting?' Instead, management accountants, like all accountants, are inclined to do what they have been doing, the same as in previous days without seeking the best practices.

## 1.2. ABOUT ECONOMICS

At the HBC, as with all other companies, management accounting records a wide range of financial and non-financial economic transactions. Accordingly, it would be reasonable to analyse the HBC's management accounting practices from an economic perspective. The economist Roberts (2004) favourably features the HBC in his book, *The Modern Firm: Organizational Design for Performance and Growth*. Roberts provides an