A New Perspective on the Appraisal of Business Records: A Review

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The Visible Hand: The Managerial Revolution in American Business, by Alfred D. Chandler, Jr. Cambridge: The Belknap Press, Harvard University Press, 1977.

BUSINESS RECORDS have always posed particular problems for archivists, especially in the area of appraisal. Business collections are usually large and often appear to be incomprehensible. Although the prose portion, consisting of minutes, correspondence, and reports, can be read and understood easily, the major portion—the financial records—is less easily grasped. A small journal or ledger of an early nineteenth-century shoemaker is no problem. His business was strictly a one-man operation. Accounts, usually written in great detail, provide documentation not only about the shoemaker, but about the locality served by this craftsman. Thirty years of recorded transactions fill not more than two or three volumes. By mid-nineteenth century, however, with the coming of industrialization, the small craftsman yielded to mechanized factories, mass production, and mass distribution. These large-scale operations were organized into business firms generating the huge multi-box and multi-volume business collections and posing some of the most difficult appraisal problems archivists must contend with.

One rule of thumb in appraising records for research value has been to become acquainted with current research trends in particular fields so as to determine the kinds of use made of business records. In the field of business history, the bulk of research has concentrated in two areas: first, the business biography, and, second, the more sweeping studies of business in American culture. Although archivists have often made research materials available to scholars in business history, the resulting studies do not really provide any kind of general framework for analysis of business as a whole against which to assess the research value of particular record groups.

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The business biographies have been the most frequently employed framework for research in business history. Over the past fifty years a number of histories of specific firms have appeared, in some cases chronicling the development of a firm from its conception to a specific point in time, or to its death either by merger or bankruptcy. The "Harvard Studies in Business History" has been the most influential series and includes studies of the R. H. Macy Co., N. W. Ayer Co., Bigelow-Sanford Carpet Co., Massachusetts Hospital Life Insurance Co., and Reed and Barton Co. Other important histories of specific firms have appeared as well.[1]

These studies are excellent in their own right and use the papers and records of a particular firm in creative and insightful ways. If business record collections were uniform, uses of one collection might suggest similar uses of another. Business collections, however, are not uniform. Accounting practices and record procedures vary enormously from firm to firm. Also, these studies tend to stress the prose records in business collections. Through minutes and correspondence they analyze key decisions, administrative changes, and variations in products and/or services. Though financial summaries are provided, financial records as a measure of performance are usually not analyzed in great detail. These studies therefore provide a better sense of potential use of prose records than of financial data.

With few exceptions, the more general studies of business as an institution provide even less help. Business firms have been among the most influential and controversial institutions in history, particularly since the industrial revolution. Studies of these institutions have been less analytical than doctrinaire. In the 1930s, Matthew Josephson wrote extensively on the evils of big business in America. More recently the New Left has picked up the theme and argued that the merger of business interests and political interests has worked to the advantage of a privileged few at the expense of the population at large. Other general studies are less ideological but not significantly more analytical of the structure of this institution called business. Thomas Cochran's *Business in American Life*, for example, very nicely discusses the pervasive influence of business in all areas of American life and rightly suggests that American society is very much a business oriented one. Interesting and provocative as these studies are, their very general themes are of little help to the archivist confronted with the massive volume of files and minute financial detail which constitute the documentary legacy of this important and influential institution.[2]

In order to make better assessment of the research value of business col-

[1] Ralph M. Hower, *History of Macy's of New York, 1858–1939: Chapters in the History of a Department Store* (Cambridge: Harvard University Press, 1943) and *The History of An Advertising Agency: N. W. Ayer & Son at Work, 1869–1949* (Cambridge: Harvard University Press, 1949); John S. Ewing and Nancy P. Norton, *Broadloom and Businessmen: A History of the Bigelow-Sanford Carpet Company, 1825–1953* (Cambridge: Harvard University Press, 1955); Gerald T. White, *A History of the Massachusetts Hospital Life Insurance Company* (Cambridge: Harvard University Press, 1955); and George S. Gibb, *The Whitesmiths of Taunton: A History of Reed and Barton, 1824–1943* (Cambridge: Harvard University Press, 1943).

[2] Matthew Josephson, *The Robber Barons* (New York: Harcourt, Brace and Company, 1934); Gabriel Kolko, *The Triumph of Conservatism* (Glencoe, Ill.: Free Press, 1963); and Thomas Cochran, *Business in American Life* (New York: McGraw-Hill, 1972).

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lections, archivists have needed a thorough analysis of the evolution of the corporate structure over time. Such an analysis might provide a sense of the various structural forms corporations might have adopted, depending on their product line, size, or other consideration. Most important, such a study might ask why so many records of various kinds are required in the modern business firm and how the simple small ledgers of the nineteenth-century shoemaker could evolve into the multi-volume, multi-drawer record collections of modern industrial firms. In short, such a study could suggest the nature of business activity that generated these large collections. It is easy to say that business has grown over the years. It is quite another matter to determine how and why.

Alfred D. Chandler's recent study, *The Visible Hand: The Managerial Revolution in American Business,* addresses precisely these questions and as a result will help archivists facing appraisal decisions about large business collections, particularly those consisting largely of financial records.[3] The book is addressed primarily to historians of business in America, and not to archivists or corporate records managers. Therefore archivists will not find any neat system for the appraisal of business records. Rather, a careful reading will provide archivists with a plausible explanation of how and why organized business activity has changed over time and, more important, how record keeping relates to this change.

Before outlining in detail the sweeping but complex theses of this book, and explaining the relationship of Chandler's theme to the evolution of record-keeping practice, it seems worthwhile to discuss some of the author's previous work. Chandler, Straus Professor of Business History at the Harvard Business School, has spent the better part of his career studying the changing administrative structure of the business firm. In 1959 he published a seminal article entitled "The Beginnings of 'Big Business' in American Industry," suggesting that the entrepreneurs of late nineteenth century big businesses were essentially responding to new developments,[4] not in technology as usually assumed, but rather in organization and marketing. The coming of big business marked the arrival of a new structural form: the vertically integrated firm. Chandler described the growth of companies such as Swift, Duke, Armour, McCormick, and other giants, as firms seeking to gain control over all phases of manufacture and distribution of their products. These new firms were thus characterized by consolidation and departmentalization of activities, and organized through a hierarchy of professional management. This structural form for a business operation was quite unlike any previously tried. Though very detailed about this new structural form, Chandler only vaguely suggested why this form emerged in the particular decade of the 1880s.

Through the 1960s and early 1970s, Chandler remained preoccupied with the evolution of structure and less with the question of why it occurred. In 1962 he published *Strategy and Structure: Chapters in the History of the American Industrial Enterprise,* a hefty study of General Motors, DuPont, Standard

[3] Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: The Belknap Press, Harvard University Press, 1977).

[4] Alfred D. Chandler, Jr., "The Beginnings of 'Big Business' in American Industry," *Business History Review* 33 (Spring 1959): 1–30.

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Oil of New Jersey, and Sears Roebuck. He examined the relationship between strategic planning and structural change.[5] Corporate planning was of course required to respond effectively to market changes, growth, and new product lines. The chief means of responding to these changes was through structural change and reorganization. Thus Chandler analyzed the changing organizational structure of the four companies in relation to their planning objectives.

The Visible Hand goes significantly beyond the previous structural studies, particularly in dealing with the question of why structural change occurred in the late nineteenth century. Chandler argues that in the latter half of the nineteenth century, conditions evolved to the point where goods could be produced and distributed on a mass scale. This integration of mass production and mass distribution was achieved in certain sectors of the economy not through the machinations of the invisible hand of the market place as Adam Smith would have suggested, but rather through the very visible hand or activity of management. Prior to this managerial revolution, small, labor-intensive, owner operated firms were specialized and usually produced goods for local or regional markets. The distribution of goods was managed by small, specialized, merchant houses or independent jobbers. The organization was simple, usually owner managed.

The question then arises of how and to what extent this economy of small, specialized, largely owner-managed firms was transformed into an economy dominated by large, vertically integrated firms distributing goods on a national and even global scale. Chandler holds that the change took place during the period between 1850 and 1900. He describes a number of contributory changes that took place during that period: (1) the revolution in transportation and communication, (2) the revolution of distribution and production, and (3) the integration of mass production with mass distribution.

The railroad was important for the obvious reason that a nationwide transportation network was required for the mass distribution of goods. But Chandler stresses that the importance of the railroad lay in the areas of structural innovation. Earlier owner-manager structures were ineffective. The railroads required "a set of managers to supervise these functional activities over an extensive geographical area; and the appointment of an administrative command of middle and top executives to monitor, evaluate, and coordinate the work of managers responsible for day to day operations. . . . Hence, the operational requirements of the railroads demanded the creation of the first administrative hierarchies in American business."[6] The railroads, Chandler contends, were the first example of a big business structure in America. The sheer size and demands of the railroad industry had an impact on the structure of firms in other areas of economic activity.

As the railroad network was revolutionizing transportation, the telegraph, telephone, and changes in the postal system were revolutionizing the flow of information. No longer would a seller in Chicago have to wait three

[5] Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge: M.I.T. Press, 1962).

[6] Chandler, *Visible Hand*, p. 87.

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days to learn what prices were in New York. Chandler argues that this revolution in communication, and the emergence of an efficient transportation network, provided the infrastructure necessary for the emergence of distribution and production on a mass scale; and as a result, business could think of product distribution on a vast scale.[7] By the 1880s, firms such as Diamond Match, Pillsbury-Washburn Flour, American Can, Procter and Gamble, and American Tobacco not only could produce their products on a large scale and cheaply, but they also began to organize distribution networks. They emphasized advertising and packaging. They hired salesmen to sell their product directly to retail outlets, rendering the services of independent middlemen unnecessary. With an army of salesmen taking orders for goods, the firms needed assurance that they could maintain continuous production to meet the demand. Therefore they organized a large network of buyers to assure continuous sources of supply.[8] Many of the firms began to absorb the production of necesssary raw materials. The profits reaped by these new corporations were, of course, largely based on volume. Their products sold at a low price because unit costs were extremely low. Thus expansion was financed internally through favorable cash flows.

The effects of this dramatic change on the structure of firms that managed certain sectors of the economy were numerous. These new firms were able to distribute quality goods nationally at prices much lower than those of smaller or labor-intensive firms. These structural innovations led to the rise of the professional manager; these managers at various levels were responsible for the operation of big business. As a result, ownership became increasingly removed from day to day operations. If owners exerted any influence at all it had to do with top level decisions, with no involvement in mid-level decisions. Corporate needs as perceived by owners and those perceived by management were often very much at odds.

Chandler provides an important synthesis of the literature on American business history, and a unique and fresh perspective on the role of this institution in American history. Rather than viewing business enterprise as an abstract economic force or as an instrument of moral or amoral suasion, *The Visible Hand* studies the structural evolution of a key American institution. Rather than assessing the influence of big business in various aspects of American life, the book offers a persuasive explanation of how and in what sectors of the American economy small business became big business.

In the process of developing his thesis, Chandler often refers to the changing purpose of record keeping as evidence of this structural transformation. Not only does he describe various record types in use, but, more important, he suggests why and how records were used and why and how record keeping changed to serve and facilitate the growth of the large, vertically integrated firm. Further, he analyzes the reasons for creating the records in the first place and the purpose they were designed to serve. For the process of appraisal, this sub-theme of the book suggests new ways of categorizing and understanding business records.

In the traditional, small manufacturing enterprise, record keeping was simply the process of recording transactions. Records of supplies pur-

[7] Ibid., p. 207. [8] Ibid., pp. 290–93.

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chased, goods sold, even credit extended could be kept in a small blank book. Periodically, profits could be determined by simply adding expenses against sales, and money extended on credit could be accounted for. In the urban commercial firms, record keeping was similarly streamlined. A nineteenth century American merchant office, Chandler notes, was organized in much the same manner as one in fourteenth-century Florence. "There were two or three copiers, a bookkeeper, a cash keeper and a confidential clerk who handled the business when the partners were not in the office."[9] These clerks simply recorded the firm's daily transactions, facilitating calculations of profit and loss or the status of accounts at points in time. The actual work of the merchant house was done outside the office. Commercial publications and word of mouth provided the raw data needed for business decisions. "The business information the merchants wanted came from external sources not internal records."[10] Record keeping was thus basically descriptive.

With the development of modern, vertically integrated business firms, the purpose and use of record keeping began to change. Naturally, Chandler finds early evidence of this in the record keeping practices of the railroads. He discusses in great detail the railroads as the first example of modern, large, integrated corporations. The building and operation of the railroads required employees located throughout the system. These varied from maintenance crews to ticket takers, from mechanics to management. The large railroads did a volume of business, both passenger and freight, considerably greater than any firms had experienced previously. Thus three important factors influence record keeping: (1) the size of capital investment, (2) the volume of business, and (3) the number and diversity of employees.

Unlike the traditional, small, labor-intensive, manufacturing enterprise, the more capital-intensive railroads required a large infusion of initial capital and subsequent borrowing for which they remained responsible to their stockholders. Chandler notes that "profit and loss were not enough. Earnings had to be related to the volume of business. A better test was the ratio between a road's operating revenues and its expenditures."[11] This was a new concept for American business and required new sorts of records to provide new sorts of information. This was not simply an accounting of money in and money out, but rather an accounting of other costs such as depreciation and obsolescence of capital. New financial and capital accounting procedures were designed to determine more precisely the financial performance of the railroad firms. To these ends record keeping was broken down to account for costs in specific areas. In the case of the railroads, Chandler discovered from examining various manuals of accounting procedure that railroad firms had to keep track of as many as sixty or seventy specific categories of expenditures including mail, passengers, rentals, fuel, telegraph expenses, repairs, advertising, and printing. From these categories accountants determined the cost per ton mile, which became the standard operating ratio for cost accounting in railroad firms. Thus business records, in this case and in all cases of subsequent large manufacturing firms,

[9] Ibid., p. 37. [10] Ibid., p. 39. [11] Ibid., p. 110.

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were used not simply to record transactions, but rather to calculate the costs and to determine the financial performance of a complex structure. All this required modern business accounting with a proliferation of the kinds of records kept.[12] The complexity of the organizational structure led to a complexity in the kinds of records required.

Similarly, the emerging, large, vertically integrated firms had to streamline accounting procedures to permit accurate assessment of costs and productivity in various specialized, separate, operating units. Further, standardized accounting procedures permitted comparison of sales unit to sales unit or factory to factory. In the traditional enterprise a small number of employees usually worked closely together; but many railroad employees were scattered across the system. Each had a specific task to perform. Thus it was not only important to measure performance at the firm level but it became important to measure performance at sub-levels of the organization. Records not only served financial departments in calculating costs of diverse activities, but served management also in assessing and analyzing productivity of sub-units of the enterprise. In the specific case of the railroad, Chandler affirms that "cost per ton mile rather than earnings, net income, or operating ratio thus became the criterion by which the railroad managers controlled and judged the work of their subordinates."[13] Cost accounting was used increasingly as an operational control. Record keeping thus shifted from serving a descriptive function to serving as an analytical tool.

Railroads required a large organization and thus a complex structure. Many of the solutions to the problems of bigness, not the least of which was disbelief that bigness could work, evolved with the growth of the railroad. As other firms evolved into large, integrated organizations, procedures of the railroad firms were adopted. Thus it seems likely that the records of such firms as Sears, Singer, Dupont, and Ford Motor would reflect record keeping practices similar to those of the railroads. The complex operations required for the mass production and distribution of automobiles, chemicals, sewing machines, cans, machinery, rubber tires, and the other products of big business changed the nature of record keeping and thus the nature of the records themselves. This change was aimed toward providing better records of transactions and, more important, toward improving the data base for analysis of performance within the firm. For other big businesses as well as for the railroads, records became a tool to assess past performance of employees, to anticipate changing market behavior based on past performance, and to satisfy other corporate needs for information.

These analytic tools were needed primarily by the professional managers who, in theory, at least, "supervised, evaluated, and coordinated the functional activities under their command and coordinated the work of their departments with others." To achieve this ideal, firms evolved specific reporting procedures. The American Tobacco Company used "cost sheets" to determine unit performance and costs. The Armour Company used a system of daily reports gathered from its six packing plants in Chicago, St. Louis, Omaha, Kansas City, Sioux City, and Fort Worth. There was a daily need to collect, dis-

[12] Ibid., p. 117. [13] Ibid., p. 147.

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tribute, and analyze data. Specific strategies varied, but for each firm, efficient and rapid flow of information was central. Essentially, this meant efficient flow of paper.[14]

For Chandler, then, the evolution of corporate structure both fosters and is dependent upon changing record-keeping practices. The central point of this subtheme of the book is that in the evolving structure of organizations, the function and character of records can, and indeed probably must, change much as the functions and roles of management, capital, and labor are likely to change.

Among the insights the book offers to archivists who work with business records, Chandler's thesis presents a basic typology of business structure that will assist in determining the content, use, and relationship of record groups. Three particular structural types emerge from the study: (1) the traditional small and/or specialized firm which, though it is a persistent form, Chandler discusses only in the context of the early nineteenth century; (2) the more complex firm composed of many sub-units integrated either vertically to control all phases of production and distribution, or horizontally to control a greater share of market dominance; and (3) holding companies and multinationals, which Chandler considers only briefly. Within these categories there are significant variations and combinations.

In addition to the typology, he offers a helpful periodization for structural change. Prior to the 1880s, with a few exceptions, the traditional enterprise was the only form of enterprise. During the 1880s the new integrated structures appeared in many industries. Thus the records of the earlier firms are likely to be rather small collections of descriptive prose or financial material, generated locally and relating to a specialized activity. Only in late nineteenth-century records would an archivist expect to find evidence of more complex organizational structure. Given the growth of some firms during the 1880s and the increased combination of related activities performed by a single firm geared for a much larger national market, the size and nature of business collections undergo corresponding changes. Thus the date and size of a collection would suggest the organizational structure of the firm. The structure, in turn, would suggest whether the records were purely descriptive of firm activity or functioned as analytical management tools as well.

The periodization and typology suggested are indeed helpful, but for archivists the chief contribution of the book lies in its analytical framework wherein Chandler sees records as a function of growth and a facilitator of complex organizational structures. Technology made possible the idea of large firms; new attitudes toward the function and use of records contributed to the reality of the modern integrated firm.

In the area of records appraisal the function of records is not widely discussed. Schellenberg's distinction between informational and evidentiary criteria is valid and useful, but both criteria assume that what a record or record group describes is what determines its particular value.[15] Corporate minutes describe meetings and deci-

[14] Ibid., pp. 386, 390, 392.

[15] T. R. Schellenberg, *Modern Archives* (Chicago: University of Chicago Press, 1956), pp. 133–160. Maynard Brichford, in his manual *Archives and Manuscripts: Appraisal and Accessioning* (S.A.A., 1977) discusses functional characteristics of records as a means to classify record types.

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sions that are prime evidentiary sources. Census data describe certain conditions of the population at large at such a low level of aggregation that such data are considered an important informational source. In both cases, appraisal is clearly correct and the material should be retained. Chandler's study suggests a third category of record, the functional record. This sort of record would contain no descriptive information of either evidentiary or informational value. Rather, the record would indicate a functional relationship between one branch and another, or the record itself would indicate the requirement for a certain kind of information. In such a case, the information contained in the specific record group would be determined to have little value, but the function served by the record, as indicated by the existence of the record, would be worth noting even though the contents of the record group is likely to be routine.

All this suggests very liberal sampling of functional records but would argue against wholesale destruction. The Chandler model suggests that as organizations grow, the growth depends, among other factors, on the existence of good records. In order to understand the character of organizational super-structures that have evolved into large corporate and government bureaucracies, the functions served by records will become as important as the descriptive information in the records themselves. For archivists who see business records as essentially descriptive of activity or transactions, this functional view of records will appear strikingly different.

Through his analysis of the use and function of business records, Chandler offers archivists a framework for the analysis and appraisal of those records. Both his discussion of the types, purposes, and functions of records generated by large firms in contrast to small ones, and his explanation of the interrelationships of record groups within a firm provide a relevant context for appraisal decisions.

It is difficult, of course, to generalize from the Chandler study any hard and fast rules and categories for records appraisal. The value of the book goes beyond its relationship to business records *per se* and even beyond business itself. The study points out a clear relationship between organizational structure and record keeping. It suggests generally that big business, big government, big organizations rely upon and use records in ways different from their smaller counterparts a century ago. To understand and appraise adequately the enormous bulk of records generated by large institutions, archivists need clear understanding of how records both relate to and facilitate large-scale organization. Records are not merely descriptive of, but are a function of large-scale, organized activity. It is not sufficient simply to understand the administrative history of a firm or organization. One must probe more deeply into the nature of evolving structure. Only at that level will the purpose and significance of routine records become entirely clear. Chandler's study should make this task significantly easier for business archivists.

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