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CRISIS IN ACCOUNTING: THE EMERGING IDEOLOGY, PRACTICE AND STRUCTURES WITHIN THE PROFESSION.

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CRISIS IN ACCOUNTING: THE EMERGING IDEOLOGY, PRACTICE AND STRUCTURES WITHIN THE PROFESSION.

ABSTRACT

In recent years, the accounting profession has come in for considerable criticism mainly on the grounds that it has not been successful in adapting to the changing environment, and in regulating the activities of its members. The extent and seriousness of these criticisms suggest that the accounting profession is facing a crisis. This thesis investigates the nature of the crisis, the profession's response to the crisis and the consequent fundamental changes that are taking place in terms of its ideology, practice and structure.

A review of the crisis and the changes that are taking place within the accounting profession shows the crisis and changes to be multi-dimensional. The literature on the sociology of professions indicates that the distinguishing feature of a profession is its ability to maintain occupational control and to resist the general trend of organisational control affecting most occupations. Occupational control is found to be based on a public interest ideology, leading to a technical/rational approach to practice and supported by appropriate organisational and regulatory structures. The multi-dimensional nature of the research question led to the use of an interpretive approach to carry out the study. Accordingly, the study focuses on the interactions between the profession and other individuals and institutions in society with the objective of fitting them into a purposeful set of institutional aims, structures and practices.

This investigation highlights inadequacies in the foundations of the concept of occupational control. For example, a historical analysis of the professional ideology shows it to be lacking in meaning in the current environment, and the technical/rational approach to practice is found to be incapable of coping with the multiplicity of values and beliefs in accounting practice. It is also shown that the self-regulatory structures in place are inadequate to meet the demands of changing organisational structures.

It is argued that these inadequacies have arisen mainly due to the exclusion of private interest from professional ideology; values and beliefs from professional practice; and external regulation and organisational control from professional structure. The thesis then provides suggestions for addressing the issues related to such inadequacies. For example, with respect to practice, an alternative model based on the concept of 'reflective practitioner' is suggested. Furthermore, an inquiry into the recent changes in the New Zealand Accounting profession is carried out as a case study with a view to identifying one professional body's attempt to address the inadequacies affecting professional ideology and structures. The thesis concludes by suggesting that the traditional concept of occupational control has lost its relevance to such an extent that an alternative concept, i.e., 'occupational franchise', would be a more appropriate description of the accounting profession in the context in which it operates at the present time.

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TABLE OF CONTENTS

List of Figures	viii
List of Tables	viii
CHAPTER ONE: OVERVIEW OF THE RESEARCH PROJECT	1
1.1 INTRODUCTION AND MOTIVATION	1
1.2 RESEARCH METHODOLOGY	3
1.2.1 Nature of the Problem	3
1.2.2 Methodological Approach	5
1.3 STRUCTURE OF THE STUDY	9
1.4 SCOPE OF THE STUDY	12
1.5 SUMMARY	13
CHAPTER TWO: AN INQUIRY INTO THE NATURE OF PROFESSIONS	14
2.1 INTRODUCTION	14
2.2 IDEOLOGY	18
2.3 PRACTICE	21
2.4 STRUCTURES	24
2.4.1 Regulation and The Market for Services	24
2.4.2 The Work Environment	29
2.4.3 The Professional Organisation	31
2.5 OCCUPATIONAL CONTROL	32
2.6 SUMMARY	33
CHAPTER THREE: ACCOUNTANCY: A PROFESSION IN CRISIS?	34
3.1 INTRODUCTION	34
3.2 CONCEPT OF A CRISIS	35
3.3 CRITICISMS OF THE ACCOUNTING PROFESSION	39
3.3.1 Professional Effectiveness	40
3.3.2 Neutrality of Accounting Practice	43
3.3.3 Public Interest and Monopolies	45
3.3.4 Public Interest and Self-Regulation	46
3.4 CHALLENGES FACING THE ACCOUNTING PROFESSION. . .	49
3.4.1 New Patterns of Work	50
3.4.2 From Occupational and Institutional Regulation to Product and Service Regulation	50
3.4.3 Loss of Professional Control	51
3.4.4 Divergent Interest of Professional Members	52
3.4.5 The Splintered Profession	53
3.4.6 Litigation Crisis	54
3.4.7 Bureaucratisation and Proletarianisation of the Accounting Profession	55
3.4.8 Deprofessionalisation of Accounting	56

3.5	ACCOUNTANCY: A PROFESSION IN CRISIS	57
3.6	SUMMARY	60

CHAPTER FOUR: THE HISTORICAL CONTEXT OF PROFESSIONAL IDEOLOGY AND TENSION AND STRAIN IN THE ACCOUNTING PROFESSION		62
4.1	INTRODUCTION	62
4.2	THE HISTORICAL CONTEXT OF PROFESSIONAL IDEOLOGY	64
	4.2.1 The feudal environment	64
	4.2.2 The Church and Professional Ideology	67
4.3	SECULARISATION OF THE PROFESSIONS AND THE EMERGENCE OF ACCOUNTING AS A PROFESSION	70
4.4	THE TENSION AND STRAIN	73
4.5	SUMMARY	77

CHAPTER FIVE: THE TECHNICAL/RATIONAL MODEL OF PROFESSIONAL KNOWLEDGE AND THE GAP BETWEEN ACCOUNTING RESEARCH AND PRACTICE.		79
5.1	INTRODUCTION	79
5.2	LEVELS OF THEORY DEVELOPMENT	80
5.3	THE NATURE OF ACCOUNTING THEORIES	82
	5.3.1 Substantially Descriptive	83
	5.3.2 Substantially Normative	87
5.4	THE GAP	89
5.5	SUMMARY	90

CHAPTER SIX: THE INFLUENCE OF UNDERLYING METAPHYSICAL NOTIONS ON OUR INTERPRETATION AND APPLICATION OF ACCOUNTING		92
6.1	INTRODUCTION	92
6.2	METAPHYSICS	94
6.3	METAPHYSICAL NOTIONS AND CULTURAL VALUES	99
6.4	ACCOUNTING IN ORGANISATIONS AND SOCIETY	103
	6.4.1 Nature and Purpose of Organisations	103
	6.4.2 Role of Accounting	107
6.5	SUMMARY	112

CHAPTER SEVEN: THE REFLECTIVE ACCOUNTANT: AN ALTERNATIVE MODEL FOR PROFESSIONAL DEVELOPMENT		114
7.1	INTRODUCTION	114
7.2	NEED FOR A NEW MODEL	115
	7.2.1 Reflection-in-action	118
7.3	A MODEL BASED ON THE CONCEPT OF 'THE REFLECTIVE ACCOUNTANT'	120
	7.3.1 Practice - research relationship	121
	7.3.2 Professional - client relationship	122

7.3.3	Professional Role in Organisations	123
7.4	SUMMARY	126
 CHAPTER EIGHT: CORPORATISATION OF PROFESSIONAL PRACTICE AND REGULATION IN ACCOUNTING		
8.1	INTRODUCTION	128
8.2	FEATURES OF SELF-REGULATION	130
8.3	RESPONSIBILITY AND LIABILITY FOR SERVICES.	132
8.4	THE OWNERSHIP STRUCTURE OF ACCOUNTING FIRMS IN CONTRAST TO BANKS	137
8.5	THE REGULATION OF ACCOUNTING SERVICES	140
8.6	SUMMARY	145
 CHAPTER NINE: THE NEW ZEALAND SOCIETY OF ACCOUNTANTS: A PROFESSIONAL BODY IN TRANSITION		
9.1	INTRODUCTION	147
9.2	THE EMERGENCE OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEW ZEALAND (ICANZ)	148
9.2.1	Historical Development	148
9.2.2	The Crisis	150
9.2.3	The Wheeler Campbell Report	151
9.3	FORCES CONTRIBUTING TO CHANGE	154
9.4	EMERGENCE OF AN OCCUPATIONAL FRANCHISOR	157
9.5	SUMMARY	160
 CHAPTER TEN: OCCUPATIONAL FRANCHISE: IMPLICATIONS FOR THE ACCOUNTING PROFESSION		
10.1	INTRODUCTION	162
10.2	DEVELOPMENTS IN OTHER ANGLO-AMERICAN COUNTRIES	162
10.2.1	Australia	162
10.2.2	United Kingdom	164
10.2.3	Canada	166
10.2.4	United States (USA)	167
10.3	IMPLICATIONS FOR THE STRUCTURES IN THE ACCOUNTING PROFESSION	168
10.3.1	Regulatory Structures in Accounting Services	168
10.3.2	The Market Structure in Accounting Services	169
10.3.3	The Organisational Structure of Accounting Firms	170
10.3.4	The Organisational Structure of Accounting Bodies	171
10.4	IMPLICATIONS FOR THE IDEOLOGY OF THE ACCOUNTING PROFESSION	173
10.5	SUMMARY	175
 CHAPTER ELEVEN: SUMMARY AND CONCLUSION		
11.1	INTRODUCTION	177
11.2	SUMMARY OF THE STUDY	177
11.3	CONCLUSIONS	180

11.4	IMPLICATIONS OF THE STUDY	187
11.5	CONTRIBUTION OF THE RESEARCH PROJECT	188
11.6	IDENTIFICATION OF AREAS FOR FUTURE RESEARCH . . .	190
11.7	CONCLUDING REMARKS	191

List of Figures

Figure 1.1: Structure of the Study 9

Figure 3.1: Framework for the Study of a Crisis 39

Figure 6.1: The Levels of Culture 101

Figure 11.1: Framework to Explain the Emerging Phenomenon of
Occupational Franchise within the Accounting Profession 179

List of Tables

Table 5.1: Types of Accounting Theory 84

Table 7.1: Changes to the Role of the Professional 124

Table 7.2: Changes to the Role of the Client in the Client - Professional
Contract. 124

Table 10.1: A Comparison of the Corporate Structure and the Mutual
Benefit Association Structure 172

Table 11.1: A Comparison of the Traditional and Emerging Ideology in
the Accounting Profession 181

Table 11.2: A Comparison of the Traditional and Emerging Practices in
the Accounting Profession 183

Table 11.3: A Comparison of the Traditional and Emerging Structures in
the Accounting Profession 185

Appendix 1. Review of the Literature on the Gap Between Accounting
Research and Practice 222

LIST OF ABBREVIATIONS

AAA	American Accounting Association
AARF	Australian Accounting Research Foundation
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board (US, superseded)
APB(UK)	Auditing Principles Board (U.K)
ASA	Australian Society of Accountants (superseded)
ASB	Accounting Standards Board (UK)
ASCPA	Australian Society of Certified Practising Accountants
ASOBAT	A Statement of Basic Accounting Theory
CACA	Chartered Association of Certified Accountants (UK)
CGA	Certified General Accountants' Association of Canada
CICA	Canadian Institute of Chartered Accountants
CIMA	Chartered Institute of Management Accountants (UK)
CIPFA	Chartered Institute of Public Finance and Accountancy (UK)
FASB	Financial Accounting Standards Board (US)
GAAP	Generally Accepted Accounting Principles
ICAA	Institute of Chartered Accountants in Australia
ICAEW	Institute of Chartered Accountants in England and Wales
ICANZ	Institute of Chartered Accountants of New Zealand (proposed)
ICAS	Institute of Chartered Accountants in Scotland
IIA	Institute of Internal Auditors (US)
IMA	Institute of Management Accountants (US)
NZSA	New Zealand Society of Accountants
SMAC	Society of Management Accountants of Canada

CHAPTER ONE: OVERVIEW OF THE RESEARCH PROJECT

1.1 INTRODUCTION AND MOTIVATION

The accounting profession has experienced significant growth in most Anglo-American countries (e.g., the United States, the United Kingdom, Canada, Australia and New Zealand) over the past two decades. According to the statistics from the U.S. Department of Labour (U.S. Bureau of Census, 1995), the number of civilians employed as accountants and auditors in the U.S. workforce increased from 1,105,000 in 1983 to 1,483,000 in 1994. The statistical abstracts also predict a 24-38% growth in the number of accountants between 1992 and 2005. Between 1984 and 1991, the worldwide fee income of the 'Big Six' accounting firms trebled from \$10 billion to \$30 billion (Economist, 1992, Oct 17). Student enrolments in accounting courses in Australia have been growing at an annual rate of 5-15%. In New Zealand, the New Zealand Society of Accountants, the only professional accounting body, saw a 14% increase in membership between 1991 and 1994.

Coinciding with the expansion of the profession is a rising level of criticism directed at the profession. There is also reference in the literature to an identity crisis and a credibility crisis in the accounting profession (Belkaoui, 1991a). Initially, the accounting profession came under scrutiny for its role in the failure of companies in the early twentieth century (Zeff, 1971). Attempts at standardisation of accounting practices exposed the lack of a comprehensive body of knowledge underlying the profession (Paton, 1922; Chambers, 1955). Attempts to develop a comprehensive body of knowledge on which accountants can base their decisions, however, have been elusive, leading an American Accounting Association (AAA) Committee to conclude that the development of a single universally based basic accounting theory was not possible as there existed a number of paradigms of theory development in accounting. Questions have also been raised concerning the neutrality of accounting practice with regard to interested parties (Tinker, 1985; 1988).

In recent times, criticism has extended to every facet of the accounting profession. George D. Anderson, a past chairman of the Board of the American Institute of Certified Public Accountants (AICPA), laments the "erosion of self-restraint, conservatism, and adherence to basic professional values at a pace and to an extent that is unprecedented in the profession's history. According to him, the "profession is on the brink of a crisis of confidence in its ability to serve the public interest" (in Zeff, 1987, p. 65).

More recently, the leaders of the profession also admit that the criticisms have had a major impact on the profession:

Criticism has extended beyond the role and function of auditor. The structure, content and even the basis of accounts, have also drawn fire... The criticism has been long and has been sustained... The external scene is bad (Niall O'Carroll, ICAI President, 1992, p. 1).

The problems of the profession, as reflected in these criticisms, have attracted the attention of law-makers in a number of countries. For example, Austin Mitchell (1990), a member of parliament in the United Kingdom has equated self-regulation in the profession to "inviting the poachers to act as game keepers" (p. 21). In New Zealand, Professor J.H. Farrar, Professor of Law at Canterbury University, in his submission to the Sharemarket Inquiry Ministerial Review (1988), states:

Listed companies often flout the listing requirements regarding timely and adequate disclosure; accounts are often inadequately prepared; prospectuses often disclose little and are inadequately policed; accountants often fail in their responsibilities as auditors... (p. 5).

The environment in which the accounting profession operates has also undergone considerable change. In recent times, the profession has been affected by massive levels of litigation. The Economist (Feb, 1994) reports that the Big Six accounting firms have total outstanding claims of US\$30 billion against them. Furthermore, it is reported that insurance firms are reluctant to offer cover for claims of more than \$100 million, and have increased their premiums and deductibles. T.W. Rimerman, the Chairman of the Board of the AICPA (1991), states that:

The current litigation crisis is doing more than causing some CPA firms to shut their doors. It's also preventing some firms from opening. Today more than ever before, pursuing a career in public accountancy may mean risking your savings, your home and other personal assets (p. 45).

There have also been major changes in the regulation of products and services. In most Anglo-American countries the state has shown a preference to replace regulation of occupational groups by direct regulation of the service through independent regulators; e.g., in Britain the government disbanded monopolies and created Oftel and Ofwat to regulate the telecommunication and water services. The accounting profession in many Anglo-American countries is also splintered and unable to unite. This has contributed to stiff competition among accounting bodies leading to the undermining of occupational control over accounting services (Layhe, 1993).

In reviewing the recent developments, Professor S.A. Zeff (1987) raises the question "Does the CPA belong to a Profession?" and Eli Mason (1994), a past chairman of the New York State Board for Public Accountancy and former vice president of the AICPA, raises a similar question, "Public Accounting -No Longer a Profession?".

The above comments and criticisms indicate inadequacies of the profession in addressing the problems within its jurisdiction, which are caused largely by the changes in the environment in which accounting operates. The accounting profession itself seems to be undergoing changes as a result of its attempt to adapt to the changing circumstances. Hence, the aim of this thesis is:

To investigate the nature and causes of the crisis and the resulting changes occurring within the accounting profession in terms of its ideology, practice and structures.

1.2 RESEARCH METHODOLOGY

1.2.1 Nature of the Problem

The problem addressed in this thesis is two fold; i.e., (i) what is the nature of the crisis facing the accounting profession? and (ii) what changes are occurring within the accounting profession, as a result? A review of the crisis literature highlights the criticisms of the profession as being random and, at times, contradictory; and different commentators also seem to have different views of a profession. For example, whilst

laying a lot of emphasis on ethics, accounting knowledge is seen to be value-free. Further, the criticisms also appear to indicate that the concept of a profession is multi-dimensional. The comments and criticisms focused on a particular dimension also seem to evolve over time, e.g., concerns over the quality of financial statements have shifted from a preoccupation with accounting standards to include auditing standards in recent times. The above complexities indicate that the subject of investigation is neither fixed nor structured. Therefore, the approach taken must be able to document multiple realities in a continuous process of change.

Faced with the divergent nature of criticisms, the author felt that the first step in achieving the research aim would be to clearly identify the principal dimensions and features of the concept of 'profession' and to relate them to the challenges and criticisms. A review of the literature on the concept of 'profession' indicates its distinguishing feature to be occupational control which is found to be based on a particular ideology, practice and structures. A matching of these dimensions with the criticisms and comments directed at the profession, highlighted a number of issues on which the study should focus.

First, a considerable amount of literature has identified a lack of commitment by professionals to the public interest ideology and ethics but few studies have attempted to explain what conditions have contributed to this lack of commitment. Second, a reflection of how the researcher as an accounting practitioner and educator went about his practice did not seem to fit the model of how he should go about his practice, and this view was reinforced by the literature on the gap between research and practice.

Third, the literature identifies self-regulation as a principal feature of professions. Studies on accounting regulation, however, show self-regulation of accounting services to be largely ineffective. Fourth, a reflection on why the researcher retained membership of a professional body and the general state of the accounting profession did not seem to fit the general theory of professions. The challenges faced by the profession also do not seem to provide a favourable environment for the continued maintenance of

occupational control. An application of the general theory of professions could not accommodate the above features of the accounting profession.

The need to address the above issues guided the choice of the methodology as well as the structure of the study to achieve the aim of the thesis highlighted in section 1.1.

1.2.2 Methodological Approach

The complexity of the nature of the crisis as well as the multi-dimensional nature of the institution (profession) required the adoption of a methodology that was dynamic as well as flexible. There was also the need to use different methods to look at different dimensions. As highlighted above, the subject under study is neither fixed nor clearly structured. The issues to be looked at, as pointed out earlier, are not clearly identified in the literature and emerge from an indepth examination and matching of the criticism with the major dimensions of a profession. The changes to be investigated include events that have occurred and are occurring in the contexts of organisations and societies in which they occur.

For the above reasons, this thesis adopts an interpretive approach to study the changes occurring within the accounting profession. This approach is also sometimes known as the naturalistic approach to research (Tomkins and Groves, 1983). According to this approach, social reality is seen to be emergent and socially constructed, rather than one that exists in any concrete sense. The ontological status of the social world is viewed as extremely questionable and problematic (Burrell and Morgan, 1979). This view of the world considers interpretive procedures as central to understanding the reproduction of social structures (Silverman, 1985).

Schutz (1967), a principal proponent of the interpretive approach, argues that what is primordially given to social life is an unbroken stream of lived experience. This "stream of consciousness", it is pointed out, has no meaning or discrete identity until human beings turn their attention (self-reflect) on a segment of this flow and ascribe meaning to it. Experience to which meaning has been retrospectively endowed is termed

behaviour. Actions in the above context, is "understood not as having been caused but as having emerged from the constant interplay of its (sic) shapers, all of which are themselves part of the action, indistinguishable from it, shaping and being shaped simultaneously" (Guba & Lincoln, 1983, p.321). The acquisition of knowledge then "is the sedimentation of current experiences in meaning structures, according to relevance and typicality" (Schutz and Luckmann, 1974, p. 119).

It is also pointed out that the interpretive approach "tends to be *nominalist, anti-positivist, voluntarist and idiographic*" (Burrell and Morgan, 1979, p. 28). "The guiding metaphors of this approach focus on the means by which reality is created and sustained in an organisation" (Edwards, 1986, p. 38), rather than problems of conflict and domination (Burrell and Morgan, 1979). In essence, "the interpretive scientist seeks to make sense of human actions by fitting them into a purposeful set of individual aims and a social structure of meanings" (Chua, 1986, p. 614). This represents a hermeneutic turn in the social sciences. Hermeneutics concerns the study of interpretation and originally addressed the problem of interpreting ancient religious texts (Boland, 1989). Accordingly,

theory does not stand apart from action as the objective, impersonal essence of a subjective and personal performance. Rather, theory and action are inextricably bound and emerge from a common field of language practice (Boland, 1989, p. 593).

An important feature of the interpretive approach of particular relevance here is the study of the interaction between the individual, organisation and society, frequently referred to as symbolic interactionism. The basic premises of symbolic interactionism as described by Blumer (1969) are: (1) human beings act toward things on the basis of the meanings that the things have for them; (2) these meanings are a product of social interaction in human society; and (3) these meanings are modified and handled through an interpretive process that is used by each person in dealing with the things he/she encounters. Studies using the above premises seek to make the group the focal centre and to build up from its discoveries in concrete situations, a knowledge of the whole (Eubank, 1927).

The dramaturgical method of Goffman is an example of a metaphor that has developed around this approach. Goffman (1959) using theatrical performance as a framework points out that:

Each person in everyday social intercourse presents himself and his activity to others, attempts to guide and control the impressions they form of him, and employs certain techniques in order to sustain his performance, just as an actor presents a character to an audience (p. xi).

Goffman (1959) explains that "Information about the individual helps to define the situation, enabling others to know in advance what he will expect of them and what they can expect of him" (p. 1). The techniques used also highlight the values that are pervasive in the society.

The interpretive approach also takes into account and provides for the competing images of the professional role. Morgan (1984), in assessing the potential contributions of the interpretive approach, points out that an interpretive perspective encourages us to be aware that 'reality' is more often than not a mosaic comprising multiple realities and social practice be understood as a continuous process of enactment. Prior studies that have adopted this approach within the sociology of professions includes Becker *et al* (1961) and Burcher and Strauss (1961) who analysed professional work to identify how professionals construct and maintain an occupational role.

Chua (1986) states that methods for this type of study would be similar to those of the anthropologist - emphasising observation, awareness of linguistic cues, and careful attention to detail. Feyerabend (1975) cautions that each item of information has to be interpreted in the light of other items drawn from the language and ideology of the 'tribe' under investigation (p. 25). Some authors have attempted to identify particular research methods (within interpretive studies) with particular ontological assumptions based on different levels of subjectivity (Morgan and Smircich, 1980). Morgan and Smircich (1980), however, point out that research methods cannot be considered or presented in the abstract, because the choice of a method embodies a variety of assumptions regarding the nature of knowledge and the methods through which the knowledge can be obtained.

Schutz (1962) identifies two main criteria that explanations or models of the life-world must conform to. The first is logical consistency. Schutz, states that the "system designed by the scientist has to be established with the highest degree of clarity and distinctness, and must be fully compatible with the principles of formal logic" (p. 43). The second is "subjective interpretation" which means that the scientist seeks the meaning which an action had for the actor.

Following from the methodological approach adopted this study focuses on why deeply-embedded rules that provided meaning and structure to the profession are failing, and what new structures are emerging within the profession based on new symbols and meanings. The study traces the creation of a new social reality due to the unravelling of an earlier social reality. The profession is seen as a structure created by a group of individuals to guide and control the impressions others form of the group. The interpretive approach is especially suited for investigation of complex interactions involving a number of dimensions, over a long period of time and of an emerging reality whose features are still obscured as identified in this study. These views are compatible with similar views expressed by other accounting researchers. For example Lee (1990), Burchell et al (1980) and Hopwood (1983, 1987) suggest the need to study accounting in the contexts of organisations and society.

In this research, a number of methods within the naturalistic approach are used since the object of study (professions) has multiple dimensions (ideology, practices and structure). For example, in Chapter Four a historical analysis is carried out using the approach developed by MacIntyre (1971; 1984), and in Chapter Six the philosophical concept of metaphysics is used to highlight the influence of beliefs and values in our interpretation and application of accounting. Other methods include the use of the concept of 'reflective practitioner' developed by Schon (1983) to examine professional development in accounting (Chapter Seven), and a case study of the NZSA to explain the changing role of a professional body (Chapter Nine).

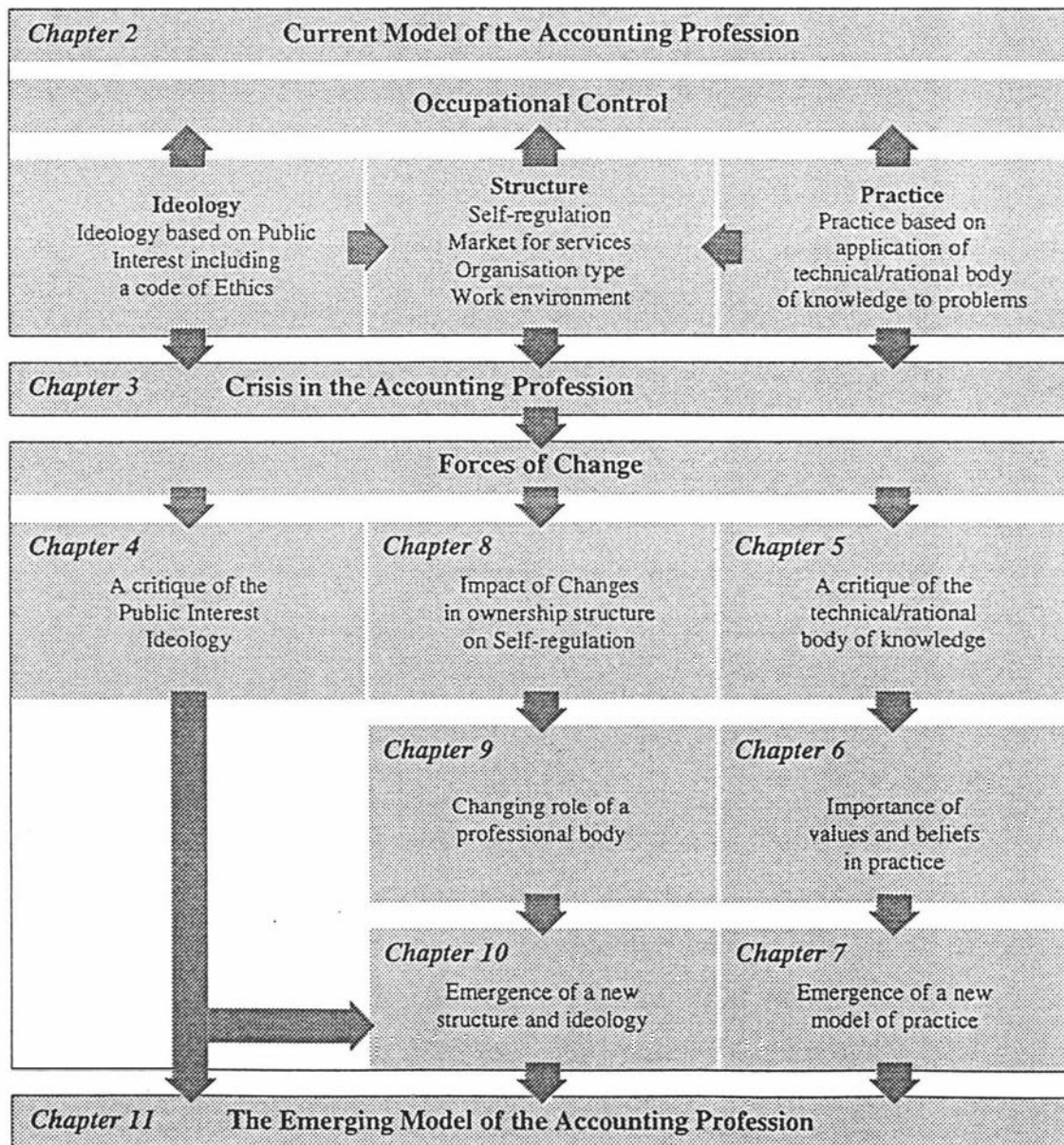
The information is mainly derived from the literature on the accounting profession including academic and professional publications, and news media as well as reports

issued by various accounting bodies. This form of information was felt to be appropriate since the object under study is the actions of the profession (a social institution) rather than a particular individual.

1.3 STRUCTURE OF THE STUDY

Based on the research process highlighted above, the structure of the study is represented in Figure 1.1. The figure provides a representation of how the chapters relate to each other and their role in realising the aims of the study. The major sections of the study are:

Figure 1.1: Structure of the Study



- Chapter Two **An Inquiry into the Nature of Professions:** A review of the literature on the sociology of professions is carried out to identify the essential characteristics of a profession. This chapter serves as a frame of reference for studying the emerging ideology, practice and structure.
- Chapter Three **Accountancy: A Profession in Crisis?** The crisis literature is analysed to identify the characteristics of a crisis, and this is used to determine if there are indications that the profession is facing a crisis. This chapter places the problems faced by the profession in context.
- Chapter Four **The Historical Context of Professional Ideology and Tension and Strain in the Accounting Profession.** This chapter examines the development of the crisis from a historical perspective using the approach developed by MacIntyre (1971; 1984) for the study of ideology. The study highlights the social and institutional reasons for the development of the crisis, and the problematic nature of traditional professional ideology.
- Chapter Five **The Technical/Rational Model of Professional Knowledge and the Gap Between Accounting Research and Practice.** Knowledge is a very important characteristic of the professions. This chapter analyses the crisis in the knowledge development and dissemination process within the profession.
- Chapter Six **The Influence of Underlying Metaphysical Notions on our Interpretation and Application of Accounting.** This chapter looks at the problems in the current concept of accounting knowledge and its application. It is shown why a value-free theory to guide accounting practice is not possible.

- Chapter Seven **The Reflective Accountant: An Alternative Model for Professional Development.** This chapter proposes an alternative model for professional development based on Schon's (1983) concept of the 'reflective practitioner'. It is shown that this model could enable the profession to overcome some of the problems identified earlier.
- Chapter Eight **Corporatisation of Professional Practice and Regulation in Accounting.** This chapter analyses the impact of corporatisation of accounting firms and admission of non-accountants to ownership of accounting practices, the ability of the accounting profession to self-regulate. It is shown, through a comparative study of three professions, that the above development could contribute to the demise of professional self-regulation.
- Chapter Nine **A Case Study of the New Zealand Accounting Profession.** This chapter analyses recent changes in The New Zealand Society of Accountants and highlights a major change in its role from that of occupational control to one that resembles occupational franchising.
- Chapter Ten **Occupational Franchise: Implications for the Accounting Profession.** This chapter looks at the possible development of similar structures in other Anglo American countries. It concludes with an analysis of the distinctive features of the emerging structure and ideology.
- Chapter Eleven **Summary and Conclusion.** This chapter summarises the emerging ideology, structure and practice in the Accounting Profession. It concludes with an assessment of the contribution of the research and suggestions for potential future research projects.

1.4 SCOPE OF THE STUDY

Whilst there is general recognition that the accounting profession is facing a crisis, most studies have only attempted to address specific areas of the crisis, e.g., regulation (Tower, 1991), structure (Schneider, 1988) and ethics (Belkaoui, 1991b). This approach fails to recognise the linkages among the different areas, and, therefore, only provides partial explanations. This study addresses the issues related to the accounting profession as an institution in a more comprehensive manner. It is concerned with the changes occurring within the accounting profession from an institutional perspective.

For this purpose, the developments in the Anglo-American countries (United States, United Kingdom, Canada, Australia and New Zealand) are used as the basis for the study. This is justified in view of the similarities between the countries in terms of: the manner in which the accounting profession is organised, the accounting environment, and the basic principles adopted. First, it is commonly pointed out that the professions until very recent times, appeared to be peculiar to the English-speaking world (Burrage and Torstendahl, 1990). Second, the origins of professions in Anglo-American countries exhibit significant differences from, for example, those in Continental European countries; in the former the professions originated outside the state apparatus, in the latter they originated within the state system (Burrage and Torstendahl, 1990).

The Anglo-American countries also share similar accounting environments. Litigation is a major problem for the profession in all the five countries (Rimerman, 1991; Economist, Feb 1994; Hagen, 1994), the legal framework which guides financial reporting shows many similarities. Furthermore, the patterns of accounting development in Anglo-American countries and Continental European Countries show significant differences (Mueller, 1967; Nobes, 1983, Perera, 1989). It is pointed out that there is a preference for flexibility, and professional judgement in the application of accounting principles and policies in Anglo-American countries, whereas there is a preference for uniformity in the application of accounting practices and compliance with prescriptive legal requirements in Continental European countries.

In light of the issues identified, the situation in New Zealand is examined as a case study. The main features of the emerging structure derived from the case study are then used to evaluate the possibility of similar developments in other Anglo-American countries. The study is limited to investigating the changes in terms of the ideology, structure and practice of the accounting profession. Inquiry into the body of knowledge is limited to a professional perspective and is not intended to address problems relating to the accounting discipline.

1.5 SUMMARY

In this chapter, criticism of the accounting profession is briefly examined as a means of providing the background for the aim of the thesis. The aim of the thesis is to investigate the nature of the crisis and changes occurring within the accounting profession in terms of its ideology, practice and structure as a result of its attempt to adapt to a changing environment. This is achieved by utilising the interpretive methodology to identify why deeply-embedded rules governing the interactions between the profession, clients and society are failing. Based on the insights gained from a critique of the current ideology, practice and structure, an attempt is made to sketch the emerging features.

CHAPTER TWO: AN INQUIRY INTO THE NATURE OF PROFESSIONS

2.1 INTRODUCTION

An investigation of the emerging ideology, practice and structures within the accounting profession requires a clear enunciation of the main features that distinguish a profession from other occupations. This would serve as a point of reference to identify changes and to prevent replication of prior work. This chapter identifies the distinguishing features of a profession through a review of the literature on the sociology of professions and research on the professions carried out in other disciplines, e.g., economics.

Some of the earliest works to give prominence to the concept 'profession' were Tawney (1920) and Durkheim (1957). Tawney in his book "The Aquisitive Society", thought the root of social problems was acquisitiveness, and proposed the professionalisation of all occupations as a cure for it. In contrast to other organisations whose primary motive was profit, Tawney saw professions as organisations for the performance of functions with a desire for maintaining high standards. Durkheim shared similar ideas and viewed the premise of professional disinterestedness in materialism as a bold program for social reform.

The concept of 'profession' as a topic for serious sociological study, developed when sociologists found a number of occupations resisting the dominant trend in the workplace, which was referred to as bureaucratisation. The industrial revolution changed the means and methods of production. Jobs were broken down into small steps, which, in turn, led to the division of labour. Division of labour contributed to a shift from occupational control (the ability of the members of an occupation or trade to preserve unique authority in the definition, conduct and evaluation of their work, and also to determine the conditions of entry into and exit from the occupation), a principal characteristic of medieval guilds and professions, to organisational control (the definition and conduct of a job is organisationally determined, and performance is evaluated by

management who also control the process of selection and removal from employment) a principal characteristic of bureaucracies.

The resistance by a number of occupations, to the dominant trend (organisational control) in the workplace presented a significant difficulty for Weber's (1964) account of the bureaucratisation of society. The resistance to organisational control by a number of occupations represented an alternative trend which Foote (1953) termed "The professionalisation of labour".

A review of the literature indicates three major approaches to the study of professions (Abbott, 1988). The first starts from the properties which are thought to characterise professions (taxonomic or functionalist approach), and the second starts from the types of collective action which professionals use (critical/power approach). The third approach focuses on the competing interests within professional associations.

The taxonomic or functionalist approach (the earlier approach) is based on the tenet that professions possess both unique characteristics which set them apart from other occupations and play a positive and important role in the division of labour in society (Saks, 1983). This approach for studying the accounting profession was very popular until the late 1960's (Carey, 1969; Buckley and Buckley, 1974). Sociologists working within this approach have been criticised firstly for taking professional ideologies on trust, and thus legitimising professional privileges in advance of careful appraisals of the function and behaviour of professions in society (Elliot, 1972; Daniels, 1975) and secondly for the ahistoric nature of the approach (Johnson, 1972; McKinlay, 1973).

The power/critical approach based on Marxist and Weberian literature characterises professions as groups which have been able to gain control of an occupation or the provision of a particular service (Johnson, 1972), or occupations which have been able to create market shelter for its members (Freidson, 1982). In recent times, the traditional (taxonomic) approach seems to have lost a lot of its attractiveness as a framework for studying the professions. The critical approach has in fact become the dominant

approach as identified by Hall (1983) in the survey of articles in the sociology of professions:

it should be mentioned that when manuscripts attempting to deal with variations on the traditional model are submitted to *Work and Occupations*, they routinely suffer negative reactions on the part of reviewers. In the minds of the experts on the field, the power approach to the professions is itself now in power (p. 12).

The study of the accounting profession in recent times also seems to follow the above trend. Armstrong (1985), following a Marxist perspective, identifies the use of the accounting profession's characteristic strategy for controlling labour in organisations as crucial to the ascendancy of the accounting profession. The rise of accounting controls (Armstrong, 1987), common interest (Kedslie, 1990), the patronage of the upper class, and the involvement of accountants in legal work (Macdonald, 1984) have also been identified as crucial to professionalisation. Walker (1991), in his study of the defence of professional monopoly by the Scottish Chartered Accountants, highlights the use of a 'functionalist' interpretation of the role of professions, and access to superior resources and linkages with the legal profession as critical in the defence. Chua and Poullaos (1993) argue that professions are the dynamic outcome of the mutual interaction of state and profession.

Criticism of the critical approach is scarce in the literature. From a moral perspective, Halmos (1973) argues that the contemporary researchers who are "radically and bitterly anti-professional" (p. 7) deny:

.....the moral significance of the distinction between people who include in their occupational commitments the duty of caring for persons, and those who do not include in their occupational commitments such duties as these, is to write of the social effects of people's conscious and deliberate resolve to better the condition of man. An upward thrusting effort, even if it is only a make-believe at the start, and even if it is a mere self-consoling 'as if' initially, is a substantial social fact (p. 8).

Halmos (1973) and Saks (1983) point out that much of the work is based more on assertion than rigorous argument. Saks (1983) further argues that the powerful position of the critical approach, as identified by Hall (1983), has tended to close off *a priori*

sociologically interesting and socially worthwhile issues from systematic empirical scrutiny.

These two approaches in fact seem to illuminate the social phenomenon from opposite directions (Gyarmati, 1975). The first identifies the attributes of professional services, and on that basis, argues the need for autonomy and monopoly in the provision of professional services (Greenwood, 1957). The second emphasises occupational control as the principal feature of professions, and then attempts to identify the attributes that facilitate the achievement of occupational control (Larson, 1977). Torstendahl (1990) correctly points out that each approach requires a preconceived view of a profession:

It is impossible to find out empirically which are the characteristics of professions without having a stipulation or enumeration of which are the professions. And it is equally impossible to identify which groups act in a professional manner without deciding first which kind of action is to be considered professional (p. 45).

The interactionists, instead of assuming the distinctiveness and authority of the attributes of professionals, analyse professional work as a process of constructing and maintaining an occupational role which enables them to 'get by' and 'make out' in their dealings with clients and colleagues (Becker *et al*, 1961). This approach exposes the presence of competing interests within professional associations and their respective strategies and responses to perceived opportunities and threats. "In this light, a professional body is regarded as a basic organisational instrument for defining and securing a respectable and valued social identity" (Willmott, 1986, p. 557).

The principal features that support the continued maintenance of occupational control included in all three approaches, that are identified in the literature (Parsons, 1949; Greenwood, 1957; Moore, 1970; Larson, 1977; Forsyth and Danisiewicz, 1985) are broadly grouped under: ideology, practice and structures. The rest of the chapter focuses on each of the broad features from the above perspectives.

2.2 IDEOLOGY

The concept of ideology has been defined in the literature in a number of different ways. It has been used in reference to "ideas", "beliefs", "doctrines", "values" and "myths" (Carlsnaes, 1981). The Concise Oxford Dictionary defines it as "manner of thinking characteristic of a class or individual, ideas at the basis of some economic or political theory". The early form of professional ideology seems to be derived from the adjective 'professed'. According to the Oxford Dictionary, professed means "That has taken the vows of the religious order". After the word was secularised it has been used to mean: "The occupation which one professes to be skilled at and to follow" (Hughes, 1963, p. 650). Drawing on the above meaning, the professions claim that its members are in the occupation due to a 'calling' and are working in the public interest. The above was emphasised by Tawney (1920), who argued that professions characteristically subordinate self-interest to higher ends - the truth, the public interest, the welfare of individual clients, and the quality of work itself.

The concept of working in 'public interest' is frequently related to altruism. Parsons (1949) argues that this does not deal with altruism versus egoism, but rather the institutional setting of the professional (that differs from the business), not necessarily an individual's private motivation. Greenwood (1957) interprets working in 'public interest' to imply that the professional assumes an emotional neutrality towards the client: "He must provide service to whoever requests it, irrespective of the requesting client's age, income, kinship, politics, race, religion and social status" (p. 50). The claim that scientific knowledge is value-free or neutral with respect to different interest groups in society also helps to reinforce the claim that professionals work in public interest.

To support the above claim, professions also usually develop a code of ethics to regulate the conduct of professionals in their relationships with clients as well as with other members of the profession. The importance of the ethical code is stressed by Greenwood (1957):

Through its ethical code the profession's commitment to social welfare becomes a matter of public record, thereby insuring for itself the continued confidence of the community (p. 50).

The professional is also always required to maintain an objective and detached relationship with the client preferably limiting intercourse to the professional setting, while showing compassion and understanding to gain adequate knowledge of the problem. Kadushin (1962) found that stable interaction between the client and the professional is most likely when common expectations and norms exist between the parties. Goode (1957) points out that the ideology contributes to the development of a common sense of identity, shared values and a common language only understood partially by outsiders.

The profession usually has in place, formal and informal disciplinary procedures to support the above claim. Informal discipline consists of subtle and not-so-subtle pressures that colleagues exert upon one another. In the medical profession for example, this is achieved through the phenomenon of consultation and referral (Hall, 1948) which fosters mutual interdependence. The formal disciplinary system is usually implemented by the professional association. In addition, the training programme of professionals usually emphasises the service orientation (the professional is supposed to serve the interest of the clients and the community and not, in the first instance his/her own interests) of the professions.

The critics, however, argue that there are seldom clearly defined standards for establishing which action complies with, and which action violates, the above ideology (Gyarmati, 1975). In addition, it has been found that, when clear standards do exist, a significant number of them focused upon protecting the profession rather than society (Parker, 1987). Freidson and Rhea (1965) found the process of control existing in the medical profession to be weak and ineffective. Millerson (1964) also found a vast difference between the rates of ethical violations and the rates of prosecution in a wide variety of professions.

Roth (1974) argues that there is little or no evidence to show that professionals are more public-service oriented than others in society, nor that ethical codes have substantial influence over their actions. On the contrary, he argues that these codes have been used to curb competition among colleagues, and that they have almost no protective value for either the clientele or the public. Neu (1991) and Allen (1991) argue that formal prosecution under professional ethical codes serves mainly for public visibility. Gyarmati (1975) further argues that self-policing is seen as a 'deviation' from normal professional practices and is sometimes dubbed in the professions to be 'socially dangerous'.

The above evidence has contributed to a rethink on the nature and use of ideology in the literature. Following Marx's use of the term ideology to represent "distorted or selected ideas in defense of the status quo" (Cited in Johnson, 1968, p. 76), Thompson (1984) argues that ideology provides an appropriate system of classification, entails a process of legitimation, and provides an aura of permanence and universality to particular processes. In accounting, for example, Robson *et al* (1994) state that ideology is used to establish accounting as a distinctive kind of activity, to mobilise understanding about the appropriate way of regulating the activity and to equate the regulation of accounting with its self-regulation. In conclusion, Robson *et al* (1994) argue that ideology naturalises the "unnatural".

Burcher and Strauss (1961) criticise functionalists for viewing a profession as a relatively homogeneous community whose members share identity, values, definitions of role, and interests. Instead, they argue that professions consist of loose amalgamations of segments pursuing different objectives in different manners, delicately held together under a common name.

Parker (1994) argues that the development of a code of ethics is in the private rather than public interest of the profession and professional, because ethical codes help to insulate the profession from external observability and evaluation and, hence, enhance its perceived authority over clients. It is also argued that the code of ethics helps minimise interference in the profession's domain (Kitner, 1980) and helps to preserve

the socio-economic status of the profession and the professional (Portwood and Fielding, 1981).

The above review indicates a fundamental change in the way ideologies are viewed. The taxonomists relate ideology to the beliefs and values that provide a basis for professional action. The gap between ideology and action has contributed, however, to a different view of ideology. On this view it is seen to be representative of tools for the defense of the status quo. The above review provides a platform for relating the problems faced by the profession to the current ideology and the way in which it is changing.

2.3 PRACTICE

Professional practice requires the extensive use of both skills and knowledge in solving professional problems (Greenwood, 1957). Non-professional occupations (e.g., die-making), requires knowledge and skills as well, but not the type possessed by professionals (Greenwood, 1957). The knowledge and skills possessed by professionals is referred to as formal knowledge by Freidson (1986). This type of knowledge is usually based on a theory (a system of abstract propositions that describe in general terms the classes of phenomena comprising the professions focus of interest). The body of theory is usually developed through a rationalisation process (Parsons, 1949) using two main approaches: deduction (predominant in the legal profession) and induction (predominant in the medical profession). The spirit of rationality in a profession encourages a critical rather than a reverential attitude towards the theoretical system (Greenwood, 1957).

Schon (1983) identifies four essential properties for the systematic knowledge base of a profession. It should be specialised, firmly bounded, scientific and standardised. The last point is especially emphasised by Moore (1970), who argues that there should be "sufficient uniformities in problems and in devices for solving them to qualify the solvers as professionals" (p. 54). From the above discussion professional knowledge can be seen as consisting of three main elements arranged in a hierarchy: (a) an underlying discipline or basic science component upon which the practice rests or from which it

develops; (b) an applied science or 'engineering' component from which many of the day-to-day diagnostic procedures and problem solutions are derived; and (c) a skills and attitudinal component that concerns the actual performance of services to the client, using the underlying basic and applied knowledge (Schein, 1972).

The above criteria, are in fact frequently used to evaluate the professional status of an occupation. In the case of librarians, Goode (1966) states that:

the central gap is of course the failure to develop a general body of scientific knowledge bearing precisely on this problem, in the way that the medical profession with its auxiliary scientific fields has developed.....(p. 39).

Wilensky (1963) in his study of barriers to professionalisation argued that the knowledge base of an aspiring occupation should be neither too broad and vague nor too narrowly restricted and precise.

The existence of a 'scientific knowledge' base contributes to another important professional activity (not normally encountered in non-professions) - research. Based on the above hierarchical model of professional knowledge, researchers are supposed to provide the basic and applied science from which techniques for diagnosing and solving the problems of practice are derived. In the above relationship, practitioners are supposed to furnish the researchers with problems for study and with tests of the utility of research results (Schon, 1983). Child and Fulk (1982) point out that research, to produce new non-codified knowledge or technique, is essential for the maintenance of occupational control.

Since professional knowledge is characterised by scientific knowledge and skill, preparation for a profession must be intellectual and a practical one. The intellectual component has led to the formation of professional schools in many cases affiliated to universities. An individual, intending to enter a profession, is usually required to complete a period of study in the professional school followed by a period of apprenticeship in the work environment. The affiliation of professional schools has also led to the development of academic professionals who are more interested in the

development and teaching of the knowledge base rather than the application of that knowledge base to problems (Schon, 1983).

The above model of professional knowledge, however, has come in for a great deal of criticism. Jamous and Peloille (1970) and Nilson (1979) have shown that professional knowledge is characterised by 'indetermination' and 'uncertainty'. Nilson continues that knowledge uncertainties preclude fully rational standards of competence and effectiveness by which professionals can evaluate themselves. Blau (1979) argues that it is uncertainty that distinguishes the expert from the laity. Child and Fulk (1982) also argue that the sustainment of indeterminacy is essential for occupational control. Hill (1973) states that shared meaning systems, and accreditation systems in the professions, promotes conservatism and resistance to change. He uses Kuhn's (1970) thesis on the development of science to point out that a profession operates within a "normal science" paradigm until crisis forces it to accept revolutionary change. Professional practice is characterised, therefore, by a mixture of skill, scientific knowledge and tacit or esoteric knowledge.

Proponents of the critical approach highlight the role of knowledge in the attainment of occupational control. Freidson (1970) argues that the content and length in the training of an occupation, including abstract knowledge or theory, is frequently a product of a deliberate action by those who are trying to show that their occupation is a profession and, therefore, should be given autonomy: "If there is no systematic body of theory, it is created for the purpose of being able to say there is" (p. 80). In another article, Freidson (1973) suggests that the difference between crafts and professions depends on the source of the knowledge. Thus he argues:

The contemporary professions might be regarded as an educated middle class variant of the occupational principle of organisation already represented by the working class crafts. The difference between the two being that the claim for autonomy and self-control among professions is usually based on formal 'higher' education rather than on trade school or long apprenticeship in practising some manual skill said to require complex judgement (p. 22).

Klegon (1978) suggests that the granting of professional status to an occupation is partially a class issue. The mixture of skill, scientific knowledge and esoteric knowledge also seems to be a problem for those wanting a clear criterion to distinguish a profession (Klegon, 1978).

The importance of knowledge to the existence of professions is highlighted by Freidson as follows: "Knowledge becomes power, and profession stands as the human link between the two" (Freidson, 1986, p. ix). The role of certification and credentialing in the rise of professions is also well documented in the literature (O'Malley, 1970; Johnson, 1978). Gyarmati (1975) identifies the university with its process of elimination and qualification as the key institution in the maintenance of the elite status of professions and the legitimation of professional knowledge.

This section indicates a fundamental shift in the view of professional knowledge from one that is seen to represent the meritocratic and scientific values of advanced industrialised countries to one that is characterised by uncertainty and indeterminacy, used to further the economic value of professions. The above indicates a gap between how professionals like to view professional knowledge and how professional knowledge is used in practice. The review provides a platform for studying the relationship between how the accounting profession views accounting knowledge and how it is used in practice, and to identify means of enhancing the impact of accounting knowledge on practice.

2.4 STRUCTURES

The ideology and mode of practice identified above are frequently used by the profession to develop particular structures to maintain occupational control. The main structures identified in the literature as critical to the maintenance of occupational control are in the areas of regulation and the market for services, work environment and professional organisation.

2.4.1 Regulation and The Market for Services

The interaction of the professional with the community can be grouped into two major types, the first is the direct relationship with a client and the second, the relationship of the profession to the community, in general. Greenwood (1957) characterises the relationship of the professional and the client as follows: "a non-professional occupation has customers, while a professional occupation has clients" (p. 47). The difference is that a customer determines the specification of the service or commodity required and shops around for a provider who can satisfy his/her needs at the best price. A client, in contrast, usually knows s/he has a problem (e.g., sickness) but is unable to define the problem. The inability forces the client to seek the services of a professional (e.g., doctor) who defines the problem and prescribes a solution. In cases where the client has a definite problem (e.g., statutory audit), the client could shop around for a price, but cannot tell the professional how to do the job.

In cases where the client is unhappy with the services, the client's recourse is to make a complaint to the profession, who would evaluate the conduct and quality of the services provided. This form of evaluation is referred to as self-regulation. The evaluation by peers rather than outsiders follows from community recognition that the professional possesses knowledge and skills whose application the client is unable to evaluate (Gyarmati, 1975).

Community recognition also allows the profession to decide who will be allowed to practice, the type of training required of new recruits, appropriate quality of service, and the penalty for unprofessional conduct. One other privilege of community recognition that is seldom mentioned but which accrues to a few professions is confidentiality. Information provided to lawyers and doctors by clients is usually confidential and the professional cannot be forced to divulge this information even by the courts.

Community recognition can be either formal or informal. Formal recognition is usually reinforced by the community's police power. Formal community recognition is usually granted by the state in the form of licensing. Individuals intending to use a particular occupational title (e.g., accountant), have to obtain a license from the state which stipulates membership of the professional association as a precondition (Freidson, 1986).

Informal community recognition includes the conferment of royal charters to particular professional associations. From this perspective, professions such as accountancy are privileged because they are assumed to fulfil important social functions (Cooper *et al*, 1989).

The granting of community recognition is dependent on a number of factors. One of the most important factors is professional solidarity. The professions usually adopt a number of strategies to maintain professional solidarity. These include the discouragement of price competition in the provision of services by individual members, strict guidelines on advertising by individual members and non-cooperation with competing occupations. Goode (1969) argues that occupations seeking professional status are engaged in transactions involving three markets - prestige, power and income. Transactions here do not refer to an explicit and specifically determined exchange at a particular point of time, but rather to an implicit and ongoing bargain:

An occupation can command more prestige only if the society, applying its evaluative criteria, perceives the performances of the occupation to be better than before or higher than those of similar occupations. An occupation can enjoy more power if it can exchange some of its friendly relations, income, prestige or political influence for legal privileges or controls (p. 169).

More recently, Forsyth and Danisiewicz (1985) have identified three important characteristics in the service task of an aspiring occupation: (1) essential (service must be of serious importance to clients), (2) exclusive (the occupational practitioners have a monopoly on the service task) and (3) complex (the service task is non-routine, and typically involves the individual and discretionary application of a specialised body of knowledge).

Burcher and Strauss (1961), adopting an interactionist approach in their study of the medical profession, found different segments competing for recruits, utilising different public relations strategies, and the fate of individual careers closely tied up with the fate of segments. They also found that the leadership was frequently associated to a greater extent with the segments rather than the entire profession. More recently, Underhill

(1992) highlights the struggle in the medical profession, between the elite physicians and the general practitioners in the 1700's, using different conceptions of essential knowledge to gain greater status and prestige.

The interactionist, whilst highlighting the political skills of aspiring professionals and segments within a profession in attaining and maintaining power and status, omits considerations of the structural conditions of relative success or failure (Saks, 1983; Boreham, 1983). The critical theorist seeks to further extend the interactionist analysis by applying neo-Weberian and Marxist views on social structure. Studies within the Marxist approach (Larson, 1977) have concentrated on locating professions in the class structure under conditions of monopoly capitalism. Research based on the neo-Weberian approach (Parkin, 1979; Parry and Parry, 1974; 1976) have attempted directly or indirectly to apply the Weberian concept of social closure - "the process by which given social collectivities seek to regulate market conditions in their favour, in the face of actual or potential competition from outsiders, by restricting access to specific opportunities to a limited group of eligibles" (Saks, 1983, p. 5).

The Marxists view professionalisation as a process in which a particular segment of society possessing particular skills gain recognition by promoting and monopolising any scarcities in the labour market through affiliation to the state. Professionalism is viewed as a replay of the old capitalist class utilising social power to exploit the proletariat. Marxists argue that state intervention is designed to assist capital accumulation, to maintain political domination or to act as a palliative to working class agitation (Walker and Shackleton, 1995)

The neo-Weberians perceive professionalisation as a strategy developed by skilled workers for consolidating and increasing the social distance between themselves and their 'clients', by invoking the argument that the client is unable to evaluate the services of the professional: "Professionalism arises where the tensions inherent in the producer - consumer relationship are controlled by means of an institutional framework based upon occupational authority" (Johnson, 1972, p. 51). The success of this strategy is then evaluated, not solely in terms of the professional expertise or its functional contribution

to social progress, but rather in terms of their relationship to influential agents of the state, and their capacity to regulate the provision of their services (Johnson, 1972).

The Neo-Weberian view of professionalisation is also supported by the corporatist view of power relations in the modern industrialist state (Walker and Shackleton, 1995). According to this view, various interest organisations may be 'recognised' or licensed by the state and "granted a deliberate representation of monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and support" (Schmitter, 1977, p.9). Cawson (1985) further points out that the exchange involves those organisations in a role that combines interest representation and policy implementation through delegated self-enforcement" (p.8). Middlemas (1980) observes that, in this form of arrangement, employer associations, trade unions and other groups assume the status of 'governing institutions' as opposed to mere pressure groups.

Governing institutions enter into independent and co-operative relationships with government. They have functional relationships bestowed upon them, are rewarded with preferential access to policy makers and, thereby, become an integral part of the extended state. The creation of governing institutions is encouraged as the state is "avid to admit representative bodies to its orbit rather than face a free-for-all with a host of individual claimants" (Middlemas, 1980, p.20).

The above review indicates a fundamental shift in the rationale for state recognition of professional organisations. The early rationale was the provision of privilege in recognition of the important social functions which professions performed. The neo-Marxist and neo-Weberian approaches show that a profession is a form of occupational control leading to power, status and wealth. The two approaches also identify the self-interest of the state in the granting of privilege to professional organisations. The review of the current mode of regulation in the market for accounting services is related to recent criticisms of the regulation of accounting services and the options open to the profession, to make accounting regulation more effective.

2.4.2 The Work Environment

The work environment is an important variable in the professionalisation of an occupation and the continued maintenance of occupational control. The specification of a full time occupation might be of minor significance, but this characteristic is, however, an important reflection of a professional's commitment. Moore (1970) points out that competition from part-timers threatens both the claim to exceptional competence and occupational commitment. In fact, for many, the entry into a profession can be viewed as a terminal occupation (Goldner and Ritti, 1967). A full time occupation is also an incentive for young people to make the sacrifice of undergoing extensive education and training.

Implicit in the early discussions of a profession is the conception of professional work as typically entrepreneurial and individualistic. The professional is viewed as servicing clients in a one-to-one relationship, on the basis of his/her own individual knowledge and skill, with little or no assistance from members of other occupations or professions (Engel and Hall, 1971). The growing number of professionals employed in non-professional organisations and the growing size of professional firms (bureaucracy) was seen, therefore, as a threat to the continued development of professions (Whyte, 1957; Lewis and Maude, 1953) and contributed to the tension, strain and conflict in organisations (Kornhauser, 1962; Scott, 1965).

The above vision of a threat is firstly based on the view that administrative aspects tend to restrict the professional's freedom and make the professional dependent upon the organisation which controls the utilisation of his/her knowledge and skills. This, it is argued, would prevent the professional from serving the best interest of his/her client. Secondly, professions and bureaucracies are viewed as opposing institutional forms: a professional carries out a complete task based on professional knowledge and training, whilst a bureaucrat carries out a limited set of tasks in co-ordination with others based on organisational rules; a professional usually works unsupervised and is only answerable to his/her peers, whilst a bureaucrat is supervised by a hierarchical supervisor (Scott, 1966). Based on the above, it is hypothesised that a professional

would resist bureaucratic rules, bureaucratic standards, supervision and unconditional loyalty to the organisation (Scott, 1966).

Findings of empirical studies, however, have been mixed. For example, Hall (1968) finds the assumption of inherent conflict to be unwarranted and points out that the emphasis on technical competence in bureaucracies is compatible with professional standards. Engel (1970) found professionals in medium sized bureaucracies expressing greatest satisfaction, and concluded that the scientific and technological innovations since World War II had made professional service, by necessity, a collective enterprise. Engel and Hall (1971) further argue that professional service delivered by teams would increase the visibility of professional performance and open the way for greater peer and public evaluation.

More recently, interest has been centred on the impact of the work environment, on the professionalisation of occupations. Larson (1977) identifies three work characteristics as essential to professionalisation: (a) the occupational group controls a functionally homogeneous area of the social division of labour; (b) the buyer and the consumer of the professional's service must be the same person; and (c) a majority of the occupational group's members must be in independent consultation as the typical mode of practice (p. 26-27).

Abbott (1991) looked at 'professionalisation events' at local, state and national level, in one particular profession (medicine) in the United States, and identified the most important event as the control or domination of a particular area of work, followed by the formation of a professional association, a rising concern for scientific knowledge and the domination of work sites. Child and Fulk (1982) identify four major employment context conditions that have a major impact on the maintenance of occupational control: (a) degree of heteronomy in employment organisations; (b) extent to which occupation depends upon employment in organisations over which they do not exert strategic control; (c) extent to which employment in organisations generates hierarchical differentiation among occupational members; and (d) the extent of state employment.

The form of organisations adopted by professionals for their practice is also frequently different from organisational structures adopted in other areas of economic activity. The dominant form of organisation in established professions is the partnership, with the partners being jointly and severally liable for the debts of the practice. Whilst, the literature indicates that the work environment has a significant impact on the profession, the evidence on the impact is mixed.

2.4.3 The Professional Organisation

Professional bodies were usually formed by members of a particular occupation to develop their shared interest and later to differentiate themselves from what they considered to be non-competent practitioners (Carr-Saunders and Wilson, 1933). The professional body plays a very important part in the occupation attaining a professional status. The statement of purpose of most professional associations usually includes an affirmation of working for the welfare of the community and the protection and development of its members (Merton, 1958). The two parts in the mission statement usually lead professional bodies to play multiple roles which at times leads to conflict and exposes the professions to criticisms from various directions.

From a functionalist perspective, Millerson (1964) identifies five primary and six secondary functions of a professional body. The primary functions identified are: (a) to organise, (b) to qualify, (c) to further study of a subject and communicate the information obtained, (d) to register competent professionals, and (e) to promote and preserve a high standard of professional conduct. The secondary functions identified are: (a) to raise professional status, (b) to control entry into the profession, (to protect the profession and the public, (d) to act as an interest, or pressure group on behalf of its members, (e) to encourage social activity and co-operation between professionals, and (f) to provide welfare benefits. In addition to the above, the professional body also provides the profession with a common voice on issues relating to the profession, and contributes in image building exercises (Forsyth and Danisiewicz, 1985).

From a critical perspective, the principal role of the professional body is that of maintaining occupational control. The functions identified above are seen to be crucial in insulating the profession from evaluation and criticism as well as legitimising the knowledge base and professional service. For example, when the self-regulatory powers of the accounting profession in the United Kingdom was threatened the association sought to mobilise public opinion on the benefits of self-regulation (Sikka and Willmott, 1995).

Professional bodies also usually adopted a mutual association structure rather than a corporate structure to maximise participation of members in the decision making process. The association structure is also characterised by no clear separation of membership from the executive, and helps project a not-for-profit image of the body.

The above indicates a major shift in the study of professional organisations from one focusing on functions to one focusing on strategy. Recent changes in the environment, however, is requiring professional bodies to re-examine old aims and objectives for their existence.

2.5 OCCUPATIONAL CONTROL

The review provides the basic features of the ideology, practice and structure used to achieve and maintain occupational control by the professions. Whilst there is considerable debate as to whether the professions exhibit commitment to the ideology based on public interest and the role of a code of ethics, there is little doubt as to its importance in achieving occupational control (section 3.3).

Whilst, considerable doubt has been raised as to the existence of a technical/rational body of knowledge in many professions (section 3.4), there is little uncertainty as to the importance of projecting an image that the occupation possesses a technical/rational body of knowledge to achieve and maintain occupational control. The professions frequently emphasise the neutrality of the knowledge base and the non-partisan nature of professional practice. It is also shown that the above conception of professional

knowledge leads to a mode of practice that emphasises the authority of the professional in the relationship with the client.

The principal structure that facilitates the achievement and continued maintenance of occupational control includes the regulatory structures, the market for services, the organisational structure of professional practices and the structure of professional bodies. The reluctance and inability of government to directly regulate professional services and its aversion to face a free-for-all in the market for professional services, provided the professions with the opportunity to negotiate a monopoly in the provision of certain services. Self-regulation facilitated the development of a monopolistic market in accounting service. The partnership structure of professional practices also helped the professions to project a responsible image.

Although, the review shows the importance of the traditional ideology, practice and structure to the maintenance of occupational control, there is little doubt that the concerns expressed from a critical perspective have had an impact on the professions (Freidson, 1984; Light and Levine, 1988; Hafferty, 1988).

2.6 SUMMARY

This chapter reviews the literature on professions to develop a framework for the study of the changes in the accounting profession. Occupational control is identified as the principal feature that distinguishes the professions from other occupations. The review of the literature highlights that the attainment and continued maintenance of occupational control is facilitated by invoking the commitment of the occupation to a public interest ideology, a mode of practice based on specialised knowledge and training, and the establishment of appropriate regulatory, market, work and organisational structures.

The next chapter reviews recent criticisms directed at, and challenges faced by the profession, and highlights a crisis in the profession. The chapter also shows that considerable amount of the criticism can be attributed to the current ideology, practice and structures that support occupational control.

CHAPTER THREE: ACCOUNTANCY: A PROFESSION IN CRISIS?

3.1 INTRODUCTION

In recent times, a substantial amount of literature has alluded to a crisis in accountancy. The accounting profession has acknowledged that these concerns, if not responded to adequately, could threaten the survival of accounting as a profession (O'Carroll, 1992; Rimerman, 1991). The crises commonly referred to in the literature include questions of professional effectiveness (Briloff, 1972; Johnson and Kaplan, 1987) and commitment to professional ideology (Zeff, 1987), and evidence of bureaucratisation, proletarianisation and deprofessionalisation of the accounting profession (Belkaoui, 1991a).

There has however, been little discussion on what is meant by a crisis and what characterises a crisis. A general review of the literature on crisis shows that what is commonly referred to as a crisis in accounting can be termed criticism and challenges. The terms crisis and criticism, however, are closely related, and as pointed out by Kosellek (1988), crisis is frequently concealed in criticism. This chapter reviews the criticisms and challenges to the accounting profession to highlight the areas in the current ideology, practice and structures that require further investigation. The literature on the characteristics of a crisis is also examined to identify if the accounting profession's response to the criticisms and challenge provides any indication of a crisis.

The rest of the chapter is organised into four sections. The first section consists of a review of the literature on the characteristics of a crisis to develop a framework for the study of a crisis (Figure 3.1). Sections two and three consist of a review and examination of the criticism directed at, and challenges facing, the profession for indications of a crisis and to identify the areas in the current ideology, practice and structure requiring further attention.

3.2 CONCEPT OF A CRISIS

Crisis is a term whose usage is not limited to a particular discipline but rather cuts across various disciplines, and therefore has multiple representations. It has also been treated synonymously with other terms such as stress, panic, catastrophe, disaster, violence and emergency. Those adhering to the medical connotation, regard it as a "turning point" between a fortunate and an unfortunate change in the state of an organism.

The term crisis was found to have originated from the Greek word '*krisis*' which also means critique or criticism in modern usage (Brunkhorst, 1993). The modern relationship of crisis to criticism has been explained as follows:

Although criticism can make people aware of a crisis, and a crisis can provoke criticism or turn criticism itself into crisis, the crisis decides other questions than those of criticisms. Whereas the crisis concerns whether a form of social life is to be or not to be, the critique is concerned only with the validity of arguments; whether they are 'true or false', 'accurate or inaccurate' (Brunkhorst, 1993, p. 127).

The above distinction is, however, commonly ignored and 'crisis' is often used for critical and polemical writings, e.g., Nietzsche and Foucault, conceive argumentation and criticism as war, a struggle for existence and power (Brunkhorst, 1993). Kosellek (1988) in his study of critique and crisis points out that the polarisation of all concepts is given meaning and inner cohesion by the critical function and that criticism is inherent in all dualism. Sampson (1962) in his study of the reform of Britain from a Victorian society to a modern society, identifies three phases in the change: first a period of scathing criticism and satire, then a period of development of new ideologies for social and political change, and finally the introduction and implementation of change.

Essential features of the term crisis can be discerned by a review of a few definitions of the concept:

No circumstance, however unusual, is a crisis unless it is so defined by human beings. The individual involved must be aware of the danger

which is present or he must believe that danger is present (La Pierre, *Collective Behaviour*, cited in Hetzler, 1940, p. 159).

A stage in any given interactional process where a person or a group is involved in a problem which has proved insoluble by whatever habits, customs or routine practices have been depended upon, and attention is suddenly focused upon the impasse (Elliot, 1948, p. 617).

In every crisis those concerned are confronted with Hamlet's question: to be or not to be....Crises occur when conflicting experiences accumulate and can in the end no longer be integrated, as occurs with the "anomalies" suffered by Kuhn's "normal scientist" (Brunkhorst, 1993, p. 129).

A crisis is a threat, a challenge, a strain on the attention, a call to new action. Yet it need not always be acute or extreme...whether the behaviour is organising or disorganising depends upon the point of view; that which is disorganising from the standpoint of traditional norms may have the germs of a new type of organisation, a new definition of the situation which in turn may be accepted and become a part of the culture (Thomas, 1909, p. 18).

The above definitions have emphasised different elements of any crisis. They are the need for the admission of a crisis, the failure of the normal problem solving mechanism in a situation, the existence of anomalies between what is expected and actual experiences which cannot be reconciled, the usual causal reason of a crisis and the development of a new system.

From a philosophical perspective, MacIntyre (1980) states that an important sign of a crisis is when the accustomed ways for relating '*seems* and *is*' begin to breakdown. This happens when one discovers a problem about the rational justification of inferences from premises and about the behaviour of other people to conclusions about their thoughts, feelings and attitudes. He concludes that "to be unable to render oneself intelligible is to risk being taken to be mad" (p. 56).

Kuhn (1970) identifies a crisis in scientific paradigms to be characterised by a period of pronounced professional insecurity, which "is generated by the persistent failure of the puzzles of normal science to come out as they should" (p. 68). This period, Kuhn (1970) states, will be characterised by criticisms which would contribute to the

formalisation of rules underlying a framework, followed by the proliferation of versions of a theory.

The substantive definitions and philosophical perspectives have been expanded into procedural definitions consisting of elements that occur in any crisis. Wiener and Kahn (1962) enumerate 12 generic dimensions of a crisis. The dimensions are: (1) crisis is often a turning point in an unfolding sequence of events and actions; (2) crisis is a situation in which the requirement for action is high among participants; (3) crisis threatens the goals and objectives of those involved; (4) crisis is followed by an important outcome whose consequences shape the future of the participants; (5) crisis produces uncertainties in assessing a situation and in formulating alternatives for dealing with it; (6) crisis consists of a convergence of events that results in a new set of circumstances; (7) crisis reduces control over events and their effects; (8) crisis heightens urgency, which often produces stress and anxiety among participants; (9) crisis is a circumstance in which information available to participants is unusually inadequate; (10) crisis increases the time pressure for those involved; (11) crisis is marked by changes in the relations of participants; (12) crisis raises tension among participants. Another element of a crisis that has been identified is a situation that is unanticipated or unexpected (Herman, 1965).

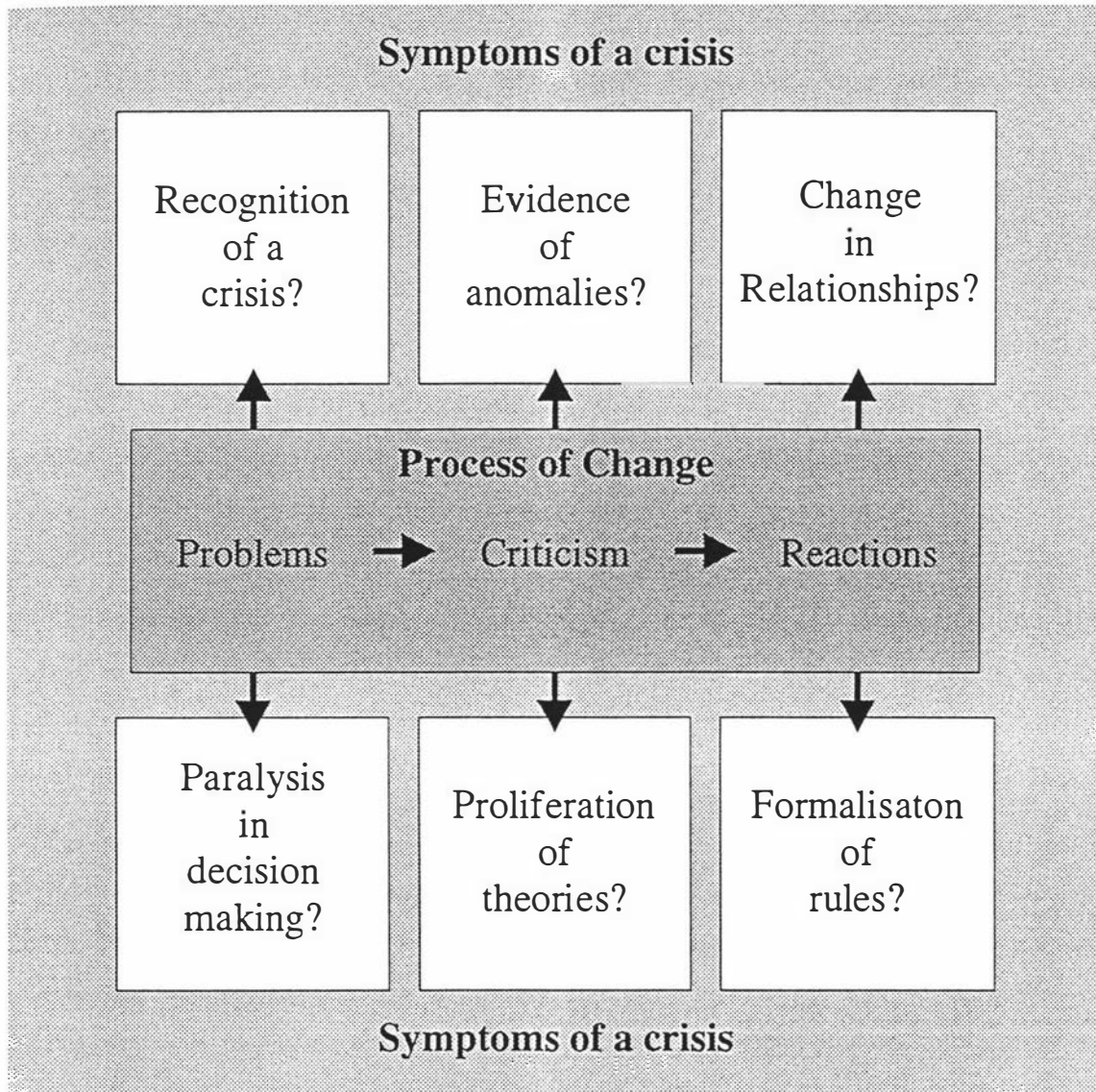
Herman (1965) studying the effects of crisis on organisational behaviour highlighted a number of common consequences which limit the viability of organisations. The consequences include (a) withdrawal behaviour by members of an organisation or institution, (b) intensification of any conflicts existing prior to the crisis, (c) a reduction in the number of communication channels used for the collection and distribution of information, and (d) a tendency towards contraction of authority in an organisation and institution.

Based on the above discussion, the rest of the chapter is focused on examining the literature and recent developments in the accounting profession, to identify if the profession is in a state of crisis. Following from the view that crisis is frequently concealed in criticism, the next section summarises the various lines of criticism directed

at the profession. In the last section the summary of criticism as well as other developments are examined to see if they reflect the following features of a crisis (Figure 3.1):

1. A recognition of the existence of a crisis by the profession. This is a feature highlighted by Wiener and Kahn (1962) and Hetzler (1940). The recognition contributes to other behavioral changes in the profession.
2. Evidence of anomalies in the claims of the profession. Anomalies indicate lack of commitment to claims, and contributes to confusion (Kuhn, 1970).
3. Evidence of a re-examination of the relationship of major participants involved in this case, client-professional relationship, state-profession relationship, and professional body-member relationship. The re-examination is usually an indication of lack of trust as a consequence of long term tension in the relationship.
4. Formalisation of the rules underlying a relationship. Formalisation of rules usually occurs when accepted procedures come under attack and is an attempt to limit the nature of acceptable solutions.
5. Proliferation of theories concerning the nature and direction of the profession. Proliferation of theories is usually a result of professional insecurity (Kuhn, 1970), and an indication of the failure of routine practices to solving problems (Elliot, 1948).
6. Indications of a paralysis in the decision making process. Paralysis usually occurs due to lack of information, reduced control over events and their effects and increased tension among participants. The normal reaction is to postpone decision on problems, hoping the problem will go away.

Figure 3.1: Framework for the Study of a Crisis



3.3 CRITICISMS OF THE ACCOUNTING PROFESSION

In recent times, the accountancy profession has come in for a great deal of criticism concerning, among other things, professional effectiveness (e.g., Elliot and Jacobson, 1991), neutrality of accounting practice (e.g., Tinker, 1985; 1988) and self-regulation (e.g., Mitchell, 1990). The past and present leaders of professional accounting bodies in Anglo-American countries (George D. Anderson, AICPA (Zeff, 1987); T.W. Rimmerman, AICPA (Rimmerman, 1991); Niall O'Carroll, ICAI (O'Carroll, 1992); P.Hays, NZSA

(Hays, 1991); I. Plaistowe, ICAEW (Plaistowe, 1993) have also expressed the urgent need for the accounting profession to address the criticism. These criticisms have made people aware of a crisis affecting the profession, as well as contributed to the development of a crisis.

3.3.1 Professional Effectiveness

Professional effectiveness refers to the profession's ability to meet its service provision objective as claimed. Criticisms concerning professional effectiveness can be divided into two major types: ability to solve a particular problem and quality of service. Criticisms of professional effectiveness extends to all areas of accounting. The criticisms have mainly been concerned with the usefulness of the audit function in corporate governance, and the usefulness of accounting information in the resource allocation process within (management accounting) and outside (financial accounting) the individual corporation.

The early development of the accounting profession in the U.S. highlighted the issues mentioned above. The accounting profession initially faced criticism in the late 1920's in the U.S., as a consequence of the stock market crash, leading some to cite inferior accounting and reporting practices as a cause. This criticism provided the impetus for the establishment in 1936 of a permanent Committee on Accounting Procedure (CAP) by the AICPA with the objective of achieving a greater degree of uniformity in corporate reports (Zeff, 1971). The criticism also highlighted the absence of an accounting theory to guide decision making and the future development of accounting. This led the American Accounting Association (AAA, 1966) to appoint a committee to develop *A Statement of Basic Accounting Theory* (ASOBAT).

The usefulness of historic financial accounting information was initially questioned in the 1960's by accounting academics such as Chambers (1966), Edwards and Bell (1961) and Sterling (1970). The questions raised were based on a rationalisation process of assumed purposes of accounting information. Others such as Ball and Brown (1968) and Dyckman, Downes and Magee (1975) whilst critical of the approach used by early

researchers, supported the view that accounting information played only a small or marginal role in resource allocation decisions.

The ad-hoc approach of the CAP and its lack of authority led to its demise and the formation of the Accounting Principles Board (APB) in 1959. Questions were also voiced with regard to the quality of communication of the corporate report. Smith and Smith (1971) raised questions concerning the readability of corporate annual reports and Lee and Tweedie (1975, 1981) found that British user groups did not appear to understand the information provided in financial statements. The criticism directed at Generally Accepted Accounting Principles (GAAP) and standards (Briloff, 1972; 1976; 1978) however did not abate, contributing to another re-organisation of the standard setting process in the U.S., leading to the establishment of the Financial Accounting Standards Board (FASB) in 1974.

ASOBAT developed by a committee of the AAA also had little impact on the development of accounting principles, and the accounting discipline was also faced with a proliferation of accounting theories with little consensus. This led the AAA (1977) to appoint another committee to develop a basic accounting theory. This committee in its report entitled *A Statement of Accounting Theory and Theory Acceptance* (SATT), however concluded that the development of a single universally accepted basic accounting theory was not possible as there existed a number of paradigms of theory development in accounting.

Questions concerning the usefulness of accounting information in the resource allocation process led Gambling (1977), to equate an accountant to a Shaman performing rituals in modern organisations. Old concerns regarding the lack of a theoretical base to guide the development of accounting standards continued to be voiced. In response to the above criticisms the standard setting bodies in the U.S. (FASB) and Australia (AARF) attempted the development of a conceptual framework to guide the development of accounting standards.

The conceptual framework development projects however, remain unfinished with problematic areas like measurement which are yet to be addressed. This has led some to assert that accountants rather than representing the financial affairs of a firm, create their own fictitious firm (Hines, 1988). More recently, the profession itself has publicly recognised the need for major reforms in the financial reporting process. For example, Elliot and Jacobson (1991), a partner in KPMG Peat Marwick, argues that the present financial accounting model used in the United States is outdated.

Accountants have also been criticised for creative accounting (Griffiths, 1986). From a negative perspective creative accounting is defined "as the process of adjusting the accounts of a business so that they present the most acceptable and favourable view of its operations to shareholders, investors and other interested parties" (Mathews and Perera, 1993, p. 239). The statement by the Chairman of Coopers & Lybrand that "there is an industry developing, and we are part of it, in [accounting] standards avoidance" (Accountancy Age, 19 July, 1990, p. 1) has further fuelled criticism of the profession.

The usefulness of management accounting information has also recently been questioned. For example, Johnson and Kaplan (1987) in their much publicised book "Relevance Lost - The Rise and Fall of Management Accounting " argued that current management accounting practices based on historic cost accumulation principles were not relevant for modern day business in a "new" manufacturing environment encompassing robotics, and flexible manufacturing systems. These criticisms have led to the development and adoption of new management accounting systems such as activity based costing. Changes in management accounting practices have also been less apparent but speedy because they are not governed by legislation and are less uniform.

For a long time, the function of audit in the company law has remained unchanged and the principle laid down in *Re Kingston Cotton Mills Co.* (1896) on the duty to audit has generally been accepted. Company failures were blamed on quality standards of care and evidence (auditing standards), as well as deficiencies in accounting standards. Recently however, it is recognised that there is a gap between what the public expects or requires of the audit process and what auditors can and should reasonably expect to accomplish

(AICPA, 1978). Page and Hopwood (1986) argued that there is a growing perception of the auditor as "a guarantor not only of the financial statements but also the financial condition of the company" (p. 126).

A response to the criticism is not helped by the lack of a theory of auditing (Lee, 1993). One of the first authors to attempt to develop a theory of auditing state: "We have a strong tendency in auditing to adopt a pragmatic approach. Whatever works well is adopted and strongly advocated; what has not yet been found applicable has little appeal" (Mautz and Sharaf, 1961, p. 17). This expectation gap has led to a major re-examination of the purpose of the audit.

Recently a discussion paper by the U.K. Auditing Practices Board (APB, 1993) urged that the scope of the audit be expanded to include the investigation of fraud, to report on internal controls and the going concern status of the company. The profession however, seems reluctant to assume these additional responsibilities (Bruce, 1993a; Searjeant, 1993) in the present litigious environment. Solicitors specialising in professional negligence also warn that proposals to increase auditors responsibilities must be accompanied by clear definitions of legal liability, if auditors are to stay in business (Davidson, 1993).

The criticism of the major areas of accounting indicates the adoption of the technical/rational model of practice to accounting to be problematic. The problematic relationship highlights the need for further investigation to identify the reasons for the problem as well as evaluate other models of knowledge development and application for possible adoption in accounting.

3.3.2 Neutrality of Accounting Practice

It is generally accepted that for accounting to play a vital role in the efficient allocation of resources within an economic system, accounting information must be unbiased with regard to interested parties (Solomons, 1991). The Financial Accounting Standards Board (1980) in one of its concepts statement (SFAC 2) defines neutrality as "absence in

reported information of bias intended to attain a predetermined result or to induce a particular mode of behaviour" (p. xvi). This assumption has been responsible for the general acceptance of accounting as a useful tool of accountability and resource allocation. It is also necessary to provide credence to the accounting profession's claim to work in public interest. Recently serious doubts have been raised about this view of accounting (Tinker, 1985, 1988; Tinker, Merino and Neimark 1982). In the book "Paper Prophets: A Social Critique of Accounting", Tinker (1985) argues that:

Accounting theory, like any social belief, is not merely a passive representation of reality, it is an agent in changing (or penetrating) a reality. Marginalism provides accounting with a slanted picture of reality that affects both how the latter misperceives, and how it acts on reality. (p. 28).

Richardson (1987) has shown that accounting legitimises the current social, economic and political arrangements, and Bailey (1990) argues that accounting is more a tool of business than society. These views have seriously undermined the possibility of developing a neutral theory of accounting which would be acceptable to all parties. It has also brought accounting into the arena of class struggle, equality and environmental conservation. Daley and Tranter (1990) further argue that accounting cannot be neutral, and point out that there is an inherent contradiction between the requirements of the conceptual framework and the environment in which accounting standards are developed, and that this is the major shortcoming of conceptual framework projects.

The neutralist view of accounting has received some support recently from the work of McBarnet, Weston and Whelan (1993) who show that accounting techniques are not necessarily "capitalist tools" and that in many situations labour has successfully used accounting information strategically to its advantage. Solomons (1991) in defense of current practices, argues that it is the radicals and activists who want to make accounting partisan.

Whilst the debate on the neutrality of accounting information continues there seems little doubt that accounting policy has an impact on income and wealth distribution as can be seen by the politicisation of the standard setting process. The impact of accounting

policy on income and wealth distribution undermines the accounting professions attempt to develop accounting policy purely on technical considerations. This in the long run contributes to reduced autonomy for the profession.

3.3.3 Public Interest and Monopolies

Critics of the accounting profession point to an inherent anomaly in the accounting profession's claim to work in public interest and at the same time maintain a monopoly in the provision of accounting services. Briston (1979), Macdonald (1984, 1985), Kedsle (1990) and Walker (1991) sought to establish monopoly or social closure through credentials and/or licensing as the main purpose of professionalisation of accounting. The profession has always held that the purpose of professionalisation was to safeguard the public. Conventional economic literature holds that monopolies are not in the public interest because their intention is to gain monopoly profits for their members.

There is however, a counter argument, that open markets with asymmetric information, e.g., market for professional services, will underprovide quality relative to that which is socially optimal (Leland, 1979). Leland (1979) also showed that licensing will tend to be more advantageous in markets with greater sensitivity to quality variations and low elasticity of demand. Whilst the debate on advantages and disadvantages of monopoly in professional service markets through licensing and credentials might be inconclusive, evidence seems to indicate that professions who seek to achieve monopoly profits are seldom successful.

Shaked and Sutton (1981) whilst arguing that the granting of monopolistic powers to self regulating professions is likely to be welfare reducing due to the incentive to shrink and raise the income of its members also found that shrinkage beyond a point would encourage the entry of rivals and para professionals. In a later paper, Shaked and Sutton (1982) also showed that the price of professional services is determined more by the quality of communication with its clients than by shrinkage, i.e., a big profession with improved communications with the public may earn a higher price for its services compared to a small profession.

The oligopolistic nature of the audit industry (the monopoly of major audits by the Big Six audit firms) has also come in for criticism (U.S. House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce, 1985). The governments in the U.S., U.K. and Australia have however, been reluctant to take action to break up the oligopoly, possibly for reasons provided by Hermanson, Dykes and Turner (1987); that is, the disaggregation of the large multinational accounting firms would leave few firms with the capability of auditing the large multinational companies. Recently a study by the Australian Trade Practices Commission (1992) found that the regulation of the accounting profession did not impede competitive activity. More recently however, the Hilmer Committee in Australia has called for the removal of anti-competitive policies in all areas of economic activity (Pascoe, 1994).

The above review seems to provide little support for the view that a monopoly is in the public interest. There however seems to be substantial support for the view that in markets with asymmetric information there is a need for quality signals.

3.3.4 Public Interest and Self-Regulation

Self-regulation is a form of regulation in which both the regulator and regulatee are from the private sector. Mitnick (1980) points out that in the above situation, "some component of the private sector area is distinguished as the 'regulator', and is then not directly party to, or involved in the performance of the activity" (p. 15). Austin Mitchell (1990), U.K. Member of Parliament, equated the self-regulation of the accounting profession to "the mafia policing itself" or "inviting the poachers to act as gamekeepers" (p. 21). The effectiveness of professional regulation has always been in doubt, because of the conflict between the delivery of a tangible product, through the economic contract with a client, and the delivery of social value, through the social contract with government and society; that the auditor has to manage (Baker, 1977).

The self-regulation of the accounting profession can be separated into three main areas, a) the regulation of accounting information presented and disclosed by companies (accounting standards), b) the regulation of the quality of audit work (auditing

standards), and c) other areas including ethics. Initially, the regulation of accounting information presented and disclosed was the premier target for criticism when companies failed. These criticisms led to the shift from no regulation to professional regulation by the profession in the U.S. in the 1930's and in the U.K. in the late 1960's (Zeff, 1972).

The regulations were however loose and therefore not effective (Briloff, 1972, 1976, 1978) as well as poorly enforced (Zeff, 1988; Gray, 1988a): "As far as I have been able to determine, no accounting body anywhere in the world has expelled a member for flouting an approved accounting standard" (Zeff, 1988, p. 21). Continued criticism of these shortcomings in professional regulation led to the formation of independent regulatory authorities, e.g., the FASB in the U.S. and ASB in the U.K..

The continued prevalence of company failures subsequent to the reform of accounting information regulation has shifted the attention to the regulation of audit work (Mitchell *et al*, 1991). The accounting profession has partly been blamed for the recent Savings and Loan Industry scandal in the United States because the auditors failed to report lax controls in lending operations, and to identify non-performing loans (Briloff, 1990b). The Staff Study of the U.S. Senate Subcommittee on Reports, Accounting and Management (1976), recommended the federal establishment of auditing standards for independent auditors, and strict standards of auditors responsibilities and conduct, with enforcement and periodic inspection of auditors by the government. The subcommittee after its hearings, however, did not recommend new legislation, but rather suggested a series of behavioral reforms instead. These threats to self-regulation led the AICPA to appoint a commission under former SEC Chairman M.F.Cohen, to look into auditors responsibilities. Its recommendation led to the formation of a semi-autonomous Auditing Standards Board in 1978.

Similar criticism has also been voiced in the U.K. after the collapse of such companies as Polly Peck, Coloroll and Sound Diffusion which had received a 'true and fair' audit report prior to the collapse has placed new pressures on the profession. This has led to public calls for external regulation of professional activity (Mitchell *et al*, 1991), and appeals to the courts for recourse against professional incompetence which has caused

a steady loss of professional autonomy. The above criticism has led to the formation of the Auditing Practices Board in 1991.

The area that has come in for a great deal of criticism recently is the enforcement of auditing standards by the profession. Mitchell and Cousins (1993) point out that in the U.K., the effectiveness of the Joint Disciplinary Scheme of the profession is poor:

No partner criticised in DTI (Department of Trade and Investigation) reports has ever been debarred from practising. There has been no investigation into the overall standards of any of the firms criticised in them (p. 32).

Calls for the external regulation of auditors has also been supported by certain segments of the profession. The Chartered Institute of Management Accountants urged the separation of auditors from the rest of the profession, and the formation of an audit commission to regulate the registration of auditors and the setting and enforcing of auditing standards (Layhe, 1993). The conflict due to the multiple roles undertaken by the profession led Ian Hay Davidson, the Chairman of The Independent newspaper and a Council member of the ICAEW, to state: "the inherent conflict which we continually refuse to face - are we a regulator or a trade union?" (Quoted in Bruce, 1993b, p. 31).

Questions concerning the commitment of the accounting profession to work in the public interest have also been raised in relation to the secretive way in which the professional organisation functions (Sikka, Willmott and Lowe, 1989), and low formal prosecution under professional ethical codes (Allen, 1991; Neu, 1991). Neu (1991) argues that formal prosecution serves mainly for public visibility rather than to punish the unethical practitioners. Armstrong (1987a) found that accountants scored lower on a test of moral maturity than other professionals with comparable educational levels.

Parker (1987) in an historical analysis of Ethical Pronouncements in the Australian Accounting Profession, found that early pronouncement focused upon protecting the profession rather than society. The extension of audit firms into the provision of non-auditing services is also seen as a major threat to independence (Willmott, Sikka and

Puxty, 1995). Zeff (1987) sees ethical failure as the biggest threat to professionalism in accountancy.

Criticism is not limited to the accounting profession. Many professions have been criticised for their failure to live up to society's expectations which require them to play an important part in the smooth functioning of modern society. For example, Schon (1983) states:

...not only have we witnessed well publicized scandals in which highly esteemed professionals have misused their autonomy - where doctors and lawyers for example have used their position illegitimately for private gain - but we also encounter visible failures of professional action (p. 4).

Merton, Reader and Kendall (1957) and Eron (1955) found that medical students became more cynical about their profession as they progressed through professional education. Bloom (1963) and Harris (1964) indicated that many medical students entered the profession with the primary goal of making money and acquiring prestige rather than that of offering service. Millerson (1964), Carlin (1966) and Arthurs (1970) found a vast difference between the rates of ethical violations and the rates of prosecution in a wide variety of professions.

In recent times the accounting firms have also challenged the regulatory powers of the accounting bodies. Touche Ross (U.K.) for example, threatened to take the ICAEW to court if it took any disciplinary action against firms, as distinct from individuals (Accountancy Age, 6 June 1991, p.3). The reluctance of the accounting bodies to punish its members as well as its inability to discipline the accounting firms highlights the weakness of the public interest argument as well as self-regulation. This also indicates the lack of commitment by accountants to the principle of public interest. The above indicates a need to reexamine the continued inclusion of public interest in the professional ideology.

3.4 CHALLENGES FACING THE ACCOUNTING PROFESSION.

In addition to the criticisms there have also been major changes in the environment in which the accounting profession operates. Some of these changes can be seen to pose

major challenges to the ideology, practice and structures of the accounting profession identified in chapter two. These include changing patterns of work, changing modes of regulation and the continued inability of the profession in many Anglo-American countries to consolidate.

3.4.1 New Patterns of Work

Whilst the study of work in the eighteenth and nineteenth century was characterised by increasing levels of specialisation and division of labour, the study of work in the late twentieth century is characterised by functional flexibility and the blurring of boundaries among different occupations (Clutterbuck, 1985). The advent of mass production and Taylor's scientific management, contributed to the division of labour, specialisation with clear delineation of functions, and the development of trade unions based on technical skills. The automation of work has contributed to smaller batch production, requiring functional flexibility from workers. Functional flexibility has led to the demise of skill based unions and the development of house unions or unions based on employees in specific industries (Corrigan, Hayes and Joyce, 1991).

In the area of professional work, the accountant is involved in a vast array of activities, from pure accounting to taxation, business advisory services and management. This development can be traced to the blurring of work boundaries, enabling the profession to expand its territory to new developing areas, e.g., information systems, and to prevent competitors from adjacent territory interested in moving into the accounting area. This change in the characteristic of work whilst providing accounting firms with a lot of opportunities, has presented the profession with the threat that the concept of occupational control could be obsolete. The only area of service that is unique to the accounting profession in many Anglo-American countries is the auditing service.

3.4.2 From Occupational and Institutional Regulation to Product and Service Regulation

In the late nineteenth century and early twentieth century, the dominant approach to the regulation of products and services by the state, was through the regulation of occupations and institutions that provided the products and services. This was usually done through either the licensing of manufacturers and service institutions (banks were licensed to borrow and lend money), as well as occupational groups that provided a particular service, or by state ownership of the institution providing the service. In recent times the state has been more interested in the deregulation of institutions providing a particular service (banks can in addition to borrowing and lending money, sell insurance and securities). In many Anglo-American countries the state has privatised state owned service providers enjoying a monopoly and exposed them to competition (e.g., telecommunication services in New Zealand).

Self (1993) refers to this phenomenon as government by the market. According to this view public responsibilities should be reduced and public policies adjusted to the pressure of economic markets. It is also argued that government itself should be remodelled and transformed according to market concepts of competition and efficiency.

The state in its place has created independent agencies to regulate directly the services provided, e.g., in Britain Oftel, Ofwat and Ofgas have been created to regulate the telecommunication, water and gas supplies which were previously provided by state owned bodies and in the United States, the Financial Accounting Standards Board (FASB) regulates accounting information not the accountants.

3.4.3 Loss of Professional Control

When the state attempted to regulate the provision of services in society through occupational and institutional licensing the professional associations took the opportunity of providing a service to the state by acting as a licensing agency and the regulator of service quality. In the new environment, however, the role of licensing is disappearing and the state does not seem to trust the professions to regulate the service quality; instead independent bodies have been created to regulate the quality of service. In many situations, licensing is ineffective due to blurring of boundaries as highlighted in the

recent submission by the New Zealand Society of Accountants to the government stating its willingness to sacrifice its licensing role:

Despite the provision in the principal Act (restriction on the use of the term accountant), it is possible for people to resign from membership of the Society and practice as financial consultants or similar designations, and virtually continue to carry out the same activities they previously engaged in as 'chartered accountants' (NZSA, Oct, 1992, p. 21).

Whilst the accounting profession's initial attempt to affiliate itself to universities contributed to prestige and status, in recent times it has led to the loss of control over professional knowledge. The universities have become alternatives or even dominant suppliers of personnel with particular competence. In contrast to the medical and legal professional schools, the accounting profession has little control over accounting education in universities, other than through accreditation. The universities also have their own interest in accounting education in comparison with that of the profession's and therefore do not necessarily pursue common policies with regard to the production of professionals.

3.4.4 Divergent Interest of Professional Members

Initially, members of professional accounting bodies consisted mainly of sole practitioners or practitioners in small partnerships and were self-employed and therefore shared a common interest. The membership of modern professional accounting bodies consists of employers as well as employees; members are in public practice as well as in the employment of non-accounting enterprises; and they also carry out divergent activities e.g auditing, taxation, business consultancy and management.

Members with divergent interest have, however, remained in a common body due to cross influence and benefits. Public practitioners have a great deal of influence in non-accounting enterprises, due to association members in the enterprise controlling certain activities, and in many cases, accountants in non-accounting enterprises have worked in public practice. Accountants in non-accounting enterprises have an incentive to belong in the same body as accountants in public practice, because of the status and the external

pressures from auditors on enterprises to provide autonomy to accountants within the non-accounting organization. The partners and owners of public practices also have different interest to that of employees in the firm (Tricker, 1983). This divergent interest has, however, not led to the break-up of professional bodies because the separation of ownership and control in a partnership is not significant as in companies, and the opportunity of senior employees to become partners and thereby owners reduces conflict and tension (Prandy, 1965). It is reciprocal benefits rather than common interest that bind the members of professional accounting bodies. This was identified by Wheeler Campbell (1993) as a major reason for reorganising the New Zealand Society of Accountants.

3.4.5 The Splintered Profession

In most Anglo-American countries there were several professional bodies initially. This was followed by a period of consolidation of the accounting bodies with the aim of achieving one accounting body in each country, as in other professions, e.g., medicine and law. Since the 1970's however there has been little progress in this trend leaving six major bodies in the United Kingdom, two in Australia and three in Canada.

In the past, the smaller and less prestigious accounting bodies have played second fiddle to the major bodies because rocking the boat could cost them the combined monopoly they had over the occupation. However, they now see differentiation in the quality of service offered by their members as a useful strategy to pursue. They see this strategy as most beneficial to their members in comparison to a unified profession with little differentiation in quality, especially when a monopoly over accounting services seems more elusive.

In Australia, where the two major accounting bodies (ICAA and ASCPA) never enjoyed a legal monopoly, the competition for membership and influence over the occupation has been strong. In the United Kingdom, the CIMA which is excluded from the right to audit public companies has been undermining the monopoly and influence enjoyed by the ICAEW and CACA, by calling for the establishment of an audit commission to

register and regulate auditors (Layhe, 1993, p. 33). The above changes in the professional accounting environment indicate the need to reassess the nature and the role of accounting bodies.

3.4.6 Litigation Crisis

In recent times, professional civil liability suits against accountants for negligence have increased considerably, particularly in the United States. The Economist (Feb, 1994) reported that accounting firms face around 4000 lawsuits that claim a total of US\$30 billion a year, and that in 1991 the Big Six accounting firms spent nearly 10% of their revenues on litigation. In early 1992, Price Waterhouse was ordered by an Arizona jury to pay \$338m to Standard Chartered which purchased a bank with a clean audit report but subsequently failed. The increase in liability suits has been further compounded by the rising cost and decreasing availability of professional indemnity insurance.

In the United States, Rimmerman (1991) points out that the above crisis is causing some CPA firms to liquidate and prevent others from opening. In the United Kingdom, the Secretary of State for Trade and Industry appointed three fact-finding study teams to look into the impact of the crisis on three professions (auditors, those involved in the construction industry and surveyors) (Likierman, 1990). These study teams proposed a number of approaches to limiting the professional's liability. The approaches include: (a) capping the maximum limit the professional will be liable for, for each distinct piece of work, (b) allowing professional partnerships to convert into limited liability companies, (c) placing contractual limits on individual pieces of work, (d) limiting the time gap between a negligent act and a claim arising from it, and (e) amending the law on joint and several liability to limit the professional's liability to a proportion of damages that is just and equitable (Likierman, 1990).

In 1992, the members of the AICPA voted to reverse the rule on unlimited liability, a long cherished approach to accepting public responsibility for negligence. The professional bodies in other countries have also relaxed their requirements on the organisational structure of professional practices. Whilst the limited liability company

structure has been the easiest option to implement, it is pointed out that corporate insolvency is not a better remedy, or any more tempting than personal bankruptcy. Furthermore, the claim for limited liability, seriously undermines the professional claim to work in the public interest and there has been little research on the impact limited liability would have on other areas of the profession, e.g., self-regulation. It has also been noted that the litigation crisis is symptomatic of problems in professional effectiveness (Page and Hopwood, 1986).

3.4.7 Bureaucratisation and Proletarianisation of the Accounting Profession

The increasing proportion of professionals working in bureaucratic organisational environments is seen as a threat to the continued growth and development of the professions (Scott, 1966; Hall, 1968). Scott (1966) sees the two as opposing institutional forms. In contrast to a professional, a bureaucrat carries out a limited set of tasks which must be coordinated with others, his/her training is usually short and accomplished within the organisation, s/he is supervised by a hierarchical superior and whose authority is based on position rather than knowledge (Scott, 1966).

Complementing the above, it is argued that there is also a proletarianisation of professional work (Oppenheimer, 1973; 1975; Derber, 1982). Proletarianisation as a social phenomenon was developed by Marx to explain the degradation of industrial skills and the economic, organisational and technical alienation of labour. It is pointed out that modern bureaucratic organisations produce a levelling and deskilling of professional work leading to the economic, organisational and technical alienation of professionals.

The increase in the size of public accounting firms, overwhelming use of machine technology in the form of computer work, and the pursuit of organisational goals in contrast to professional goals are also identified as contributing to the proletarianisation of accounting work (Belkaoui, 1991a). In addition, he argues that dissatisfaction with accounting work and increasing staff turnover in accounting firms, provide indications of organisational and technical alienation.

Murphy (1990) argues that the proponents of proletarianisation seem to have "mistaken specialisation in the intensifying division of labour for deskilling" (p. 73); and equated the development of technology with loss of control over work. Professionals including accountants have generally controlled the development of technology in their area and have been encouraged, for reasons of efficiency, to remove routine work.

The explosion of knowledge and specialisation, and the complexity of service required by clients has resulted in the need for professionals to work in bureaucratic organisational environments. This requires the traditional image of the professions to change. This is however, not all bad as pointed out by Engel and Hall (1971). They highlight studies that have shown professional bureaucracies to be more flexible and informal with more autonomy for the professional to redefine his/her role. They also point out that "the replacement of individualistic service with a hierarchically organised team approach increases visibility of professional performance and opens the way for greater peer and public evaluation" (p. 80).

3.4.8 Deprofessionalisation of Accounting

Whilst the proletarianisation thesis emphasises the circumstances of professional work in large organisations, the deprofessionalisation thesis emphasises the relationship of the professional to the consumer. Deprofessionalisation is defined as a "loss to professional occupations of their unique qualities, particularly their monopoly over knowledge, public belief in their service ethos, and expectations of work autonomy and authority over the client" (Haug, 1973, p. 197). The above trends, Haug (1977) argues would replace the patient or client model (this model assumes that the professional knows what is best for the client and the client is unable to evaluate the service received) with a consumer model (the consumer knows what is best).

Symptoms identified as characterising this phenomenon are specialisations within professions, the growth of para professionals, bureaucratic work environments, the growth of computer technology, expert systems allowing para-professionals to make

decisions and demands for accountability of professional action, and the growth of self-help groups (Haug, 1973).

In addition to the criticism and threats described earlier, Belkaoui (1991) offers additional arguments to support deprofessionalisation as a social phenomenon affecting accounting: a) the provision of both auditing and management advisory services to the client by the same accounting firm, has reduced the auditors independence (Mitchell and Sikka, 1993) the narrowing of the competence gap in the field of accounting and the codification of expert knowledge, and c) the loss of privilege to withhold confidential client information.

Freidson (1984) contests the above thesis claiming that the evidence does not support it. First, he argues that whilst, a series of legal and legislative events have weakened the profession's capacity to minimise competition, there has been no perceptible movement to eliminate the quasi-monopolies or cartels. Secondly, he points out that continual new advances in non-coded knowledge and techniques, have enabled the professions to maintain their advantage and even expand their position in society. The movement of audit firms from being reliant for their revenue on the traditional audit, to management consultancy, is an example of the above.

This section highlights major challenges to the current ideology, practice and structures suggesting that there is an urgent need to reassess the relevance of the above features of a profession in the current environment. In the next section the current response of the profession is analysed to see if there is sufficient evidence to conclude that the accounting profession is facing a crisis.

3.5 ACCOUNTANCY: A PROFESSION IN CRISIS

An analysis of the response of the accounting profession to the criticism and the changes in the environment seems to exhibit the features of a crisis identified in Figure 3.1. First, there is considerable evidence that there is recognition by the profession of a danger. Rimmerman (1991) highlights the rising cost of litigation as reaching a crisis state.

O'Carroll (1992) points to every area of accounting requiring urgent action, and Macdonald (1994), the president of the Institute of Chartered Accountants in Scotland, acknowledges the impact of continuous criticism directed at the profession.

Second, there is increasing evidence of anomalies in the claims of a professional association. The claim to work in public interest, the enforcement of ethical standards, the usefulness of accounting information has all been challenged, as illustrated earlier. The public finds that its accustomed ways of relating to professionals and vice-versa cannot be taken for granted, with each blaming the other. The public feels the professions to work in public interest is an empty promise, and the profession feels the lack of trust shown by the public and the litigious environment makes the provision of professional services within the current framework problematic. The challenges confront the profession with the question: "to be or not to be".

Third, there is every indication that a re-examination in the relations of participants is taking place. Criticisms of the monopolistic position enjoyed by members of the profession and the conflict between public interest and self-regulation are contributing to changes in the relationships between the government and profession, society and profession, client and professional as well as members of the profession and the professional association. The government's stance towards regulation of the profession has changed a great deal, and is still changing. The change in the attitude of government and public towards the profession has placed enormous strain on the relationship of members of the profession and the professional associations. The strain also threatens the goals and objectives of those involved. This situation is especially clear in the McFarlane Report (Auditing Practices Board (U.K.), 1993) on the future of auditing which calls on the accounting profession to expand the scope of the current audit.

Fourth, Kuhn's (1970) identification of the formalisation of rules underlying a framework as a feature of crisis can be seen to be occurring in the accounting profession. The development of detailed codes of ethics and professional conduct, and the detailed interpretation of the term 'true and fair' (Lee, 1994) is an example of the above. These detailed rules however, do not seem to eliminate all the contradictions and

conflicts that plague the accounting profession. Wells (1976) points out that during a period of professional insecurity, the rules will be subject to increasing scrutiny and occasional amendment, but the framework would not be abandoned. Examples of the increasing scrutiny of the profession's code of ethics is abundant in the literature as pointed out earlier, and an example of the occasional amendment is the provision to allow advertising by accounting firms and the corporatisation of accounting firms.

The review of the criticism of and challenges facing the profession also shows that some lines of criticism directed at the accounting profession such as professional effectiveness began quite some time ago, and because of a lack of attention these criticisms have persisted. At times, the force of inertia in the profession was so great, that some of the alternatives, e.g., financial statements based on market value, floated at the time were either ignored or were shelved. The convergence of events, e.g., litigation, threat to self regulation, has contributed to a re-examination of past alternatives that have been floated.

Wells (1976) points out that "the ad-hoc solutions which emerge during a period of crisis have a far reaching consequence; they make it possible to contemplate rules which previously would have been unacceptable. The results of the implementation of some alternatives have at times dispelled earlier fears and surprised the profession:

One of the most interesting lessons of the United Kingdom "litigation crisis" is that our main problem does not stem from this predictive activity (the provision of future oriented predictive information) but from our involvement with conventional historic accounting (Nigel Macdonald, President - Institute of Chartered Accountants in Scotland, 1994, p. 1).

Fifth, one can also observe a proliferation of theories concerning the nature and direction of the accounting profession, e.g., the deprofessionalisation thesis and proletarianisation thesis. Kuhn (1970) points out that debates and evaluations of the theories tend to define schools of thought rather than produce agreement.

Lastly, one can observe a paralysis in the decision making process within the accounting bodies. Whilst the profession has made changes in a few areas, e.g., making regulation

a more open process, there is every indication that there is a paralysis in other areas such as the scope of auditing and financial reporting. In these situations, the appointment of special committees becomes a frequent event. Special Committees are often used to postpone a decision to some time in the future. Parkinson (1957) in his critique of committees states: "a committee is organic rather than mechanistic in nature: it is not a structure but a plant. It takes root and grows, it flowers, wilts and dies, scattering the seeds from which other committees will bloom" (p. 167). The appointment of Bob Tricker in 1981 by the ICAEW to undertake a study of the long-term aspects of the Institute's machinery of government (Tricker, 1983) resembles the plant described by Parkinson (1957). The Tricker report, delivered in 1983, became the subject of another study by an Institute working party under the chairmanship of F.E. Worsley (ICAEW, 1985). The Worsley committee found Tricker's analysis inadequate. The Worsley report presented in 1985 has been the subject of two further reports on the constitution (ICAEW, 1991) and on the size, composition and effectiveness of Council (ICAEW, Nov 1993).

The appointment of special committees also indicates that the problems of the professional association cannot be solved by the routine practices and norms of the association. In addition to the above committees, the Institute has also appointed special committees to suggest changes to the code of professional conduct and a report on means of enhancing the value of the "Chartered Accountant" qualification (ICAEW, Oct 1993). Similar developments are observable in the American Institute of Certified Public Accountants (AICPA). In recent times the AICPA has also appointed special committees on standards of professional conduct, on governance and structure of the Institute (AICPA, 1990), on non-CPA ownership in public accounting firms (AICPA, 1993).

3.6 SUMMARY

This chapter, shows that what is commonly referred to as a crisis could more appropriately be termed criticism. It is clear, however, that criticism and crisis are closely related concepts, i.e., one precedes and contributes to the other. A review of the criticisms directed at the profession, the challenges faced by the profession and the

profession's response to the criticisms and challenge provides every indication of a crisis in the profession.

Symptoms of the crisis faced by the accounting profession are reflected in, (a) the tension and strain that seem to exist both within the accounting profession, and in its relationship with the rest of the community (addressed in Chapter Four), (b) the gap between accounting research and practice (addressed in Chapter Five, Six and Seven), and (c) and the problems of regulating the provision of accounting services (addressed in Chapter Eight and Nine).

CHAPTER FOUR: THE HISTORICAL CONTEXT OF PROFESSIONAL IDEOLOGY AND TENSION AND STRAIN IN THE ACCOUNTING PROFESSION

4.1 INTRODUCTION

In Chapter Three it was established that there was considerable tension and strain in the self-regulation of accounting services by the accounting profession. In this chapter the tension and strain experienced by the accounting profession is analysed in the context of the public interest ideology that provides the justification for professional self-regulation (Section 2.2).

A profession is like a community within a community (Goode, 1957). The inability of the accounting profession to inculcate professional values and to discipline members for deviant behaviour (3.3.4) indicates intra-community tension and strain (conflicts and resistance among members within a community) whereas the erosion of trust in the accounting profession (3.3.1 and 3.3.4) indicates inter-community tension and strain (conflicts between the professional communities and the larger community in which they exist).

Professional activity over the years has been characterised by two features. On the one hand, the professions have continued to experience tension and strain, and on the other hand, they have continued to emphasise the necessity and universality of the traditional professional ideology, whilst modifying it sometimes (O'Leary and Boland, 1987). Professional ideology with its associated ethical conduct through selflessness and trustworthiness has been highlighted in claiming professional autonomy. Shills (1968) in his review of the concept and function of ideology states that "every ideology - however great the originality of its creators - arises in the midst of an ongoing culture" (p. 67). He further points out that "ideologies are responses to insufficient regard for some particular element in the dominant outlook and are attempts to place that neglected element in a more central position and to bring it into fulfilment" (p. 67).

Accordingly, any ideology prevailing within a community cannot be fully understood in isolation of the conditions and ideas in society. This is highlighted in MacIntyre's work on the crisis faced by the Christian ideology (MacIntyre, 1971) and ethics (MacIntyre, 1984), where he contrasts the historical and social sources of current ideology with contemporary social conditions to show the vacuous nature of the ideology. MacIntyre (1971) argues that the tendency to confer necessity and universality on ideology whilst experiencing a high level of tension and strain is due to lack of attention paid to its historical and social sources. Commenting on the appearance of Christian ideology in contemporary society, MacIntyre (1971) states:

.. it is important to stress that it is not just the character of Christianity or just the character of contemporary society, but rather the coincidence of certain features of these two changing characters that has rendered Christianity ideologically vacuous. The attempt to maintain the values and the credibility of Christianity in the intellectual and moral climate of, for example, contemporary Britain has led to a vacuity...(p. 7).

MacIntyre's (1984) ideas have been used to explain accounting phenomena (e.g. Francis, 1990 and Nelson, 1993). Francis (1990) laments the dominance of external rewards and the decline of virtues in accounting practice. Nelson (1993) argues that accounting in modern times has been reduced to representation and control, which could lead to the degeneration of accounting into a mere technology.

Adapting MacIntyre's approach the chapter takes the view that the tension and strain in the accounting profession is related to problems associated with traditional professional ideology which is characterised by "public interest". This chapter identifies the factors that contributed to the development of the traditional professional ideology in an attempt to explain how the changing character of the profession in conjunction with changing character of society has contributed to tension and strain in the accounting profession¹. It is argued that the coincidence of the changing features of both the accounting profession and contemporary society has rendered the traditional professional ideology

¹. The importance of studying accounting thought or in this case professional ideology in the historical, social and institutional contexts has also been emphasised by Previts et al (1990) in what they term interpretive historiography.

irrelevant to a considerable extent, a condition that was not present in the formative years of the profession.

The rest of the chapter is organised into four sections. The first section consists of a brief discussion on professional ideology, the feudal environment in which the concept of professional ideology emerged and the influence of the church in its development. The second section considers the changing social and political environment, and the resulting secularisation of the modern professions and modifications introduced to the professional ideology in later years. The third section analyses the development of tension and strain within the professions, and uses the analysis to explain the situation that exists in the accounting profession at the present time leading to some concluding remarks in the final section.

4.2 THE HISTORICAL CONTEXT OF PROFESSIONAL IDEOLOGY

In this section, the term professional ideology refers to the ideas underlying what a profession is, as identified by sociologists working within the trait and functionalist approaches (e.g. Parsons, 1949; Greenwood, 1957; Goode, 1960; Barber, 1963; Millerson, 1964). These ideas include "public interest", "rationality" in the development of a body of knowledge, "universalism" in application, "functional specificity" and "autonomy" in practice.

4.2.1 The feudal environment

Carr-Saunders and Wilson (1933) trace the beginning of professions to the eleventh century during which the great movement towards association began to sweep like a wave over the cities of Europe. Whilst the guilds exhibited certain characteristics of professions, e.g., division of labour, there is evidence to suggest that the ideology exhibited by the professions today originated in the church (Carr-Saunders and Wilson, 1933), with divinity as the earliest profession. The church had a significant influence on the development of the concepts of "profession" and "professional ideology".

The eleventh century saw the maturity of the middle ages (also known as the feudal or medieval period). The middle ages was the outcome of a violent and disorderly period: "Feudalism was born in the midst of an infinitely troubled epoch, and in some measure it was the child of those troubles themselves" (Bloch, 1961, p. 3). The violence in Europe, a result of invasion from the south by Muslims, from the east by Hungarians and north by Scandinavians contributed to the collapse of the Roman Empire and the breakdown of control in many monarchies. Land and people were divided and controlled by manorial lords and barons. The insecurity was due not only to external aggression but also to internal unrest partly caused by economic conditions, customary law, and manners of the time. As Bloch (1961) explains,

...at a time when trade was scarce and difficult, what surer means of becoming rich than plunder or oppression...the principle of customary law in the long run resulted in the legalization of almost every usurpation, and the firmly rooted tradition which recognised the right, or even made it the duty, of the individual or the small group to execute justice on its own account (p. 411).

The concepts cherished in society were aimed at bringing about social order. The duty of the individuals in medieval society was to live according to their station and to perform their traditional tasks. This is indicative of the concept of freedom existed in feudal society. The Christian view was that all people by sin have lost the dignity of freedom and have made themselves, in varying degrees, slaves of their passions; the way to freedom then lies through a new subjection, the humiliation of self negation (Southern, 1953, p. 101). This view is reflected in a letter written by St. Anselm, one of the most influential medieval philosophers, to a monk who proposed to make a journey to his native land in order to save his sister from a state of serfdom:

What concern is it of monks - men who have resolved to flee the world - what does it matter to them, who serves whom in the world, or under what name? Is not every man born to labour as a bird to flight? Does not almost every man serve under the name of lord or serf? (quoted in Southern, 1953, p. 102)

Southern (1953) also observed that when serfdom was feared or resented, it was not the subordination but its arbitrariness that caused concern. In medieval society the emphasis was on obligations and dependence, not on rights. Bloch (1961) explains:

To be the "man" of another man: in the vocabulary of feudalism, no combination of words was more widely used or more comprehensive in

meaning. In both Romanic and Germanic tongues it was used to express personal dependence per se and applied to persons of all social classes regardless of the precise legal nature of the bondthe emphasis was on the fundamental element in common, the subordination of one individual to another (p. 145).

This concept also extended to the family, Powers (1924) writes of the book, the *Menagier de Paris* wrote, which was meant to provide instructions for his young wife on her duties. She also writes of the obligations of the peasant Bodo to his master. The ties of blood relationship was also very strong during the period as pointed out by Bloch (1961): "The general assumption seems to have been that there was no real friendship save between persons united by blood" (p. 124). These ties also extended to economics, because even though individual possession was recognised the main emphasis was on community goods.

In summary the middle ages with its feudalism was an outcome of a violent and unstable period leading to a society in which the concept of rights was non-existent, and a society which was willing to give anything for stability. It was also an unequal society but not an hierarchical one because there was too much uncertainty to develop a stable social classification. It was a society which had far-reaching restrictions on social intercourse to bring about social order.

The manorial lords did not have consistent laws nor did they make great attempts to maintain order. Due to these conditions the medieval persons' passionate desire was for unity and certainty. Coulton (1946) states, "... the mainspring of power was men's passionate desire after unity; after any escape from mere anarchy" (p. 21). Under these circumstances, he argues, the well organised and bureaucratic church was able to provide the stability that no other institution was able to provide (p. 125). The church also had a better image, for example, "The watchwords of the state were oppression, coercion and persecution, the maxims of the church were love, compassion and consolation" (Rostozef quoted in Coulton, 1946, p. 15). The church took on the responsibility for education and poor relief. Although the church imposed on society the same rigid and undemocratic structure that it practised itself, people were content because of its contribution towards establishing a sense of stability.

The arbitration of the Pope in many conflicts further enhanced his stature, and the stability he provided enabled the flourishing of philosophy, arts and education within the church. The growth of these disciplines in turn raised the profile of the church. Coulton (1946) argues the church was one of the constructive things which emerged from the welter of anarchy.

4.2.2 The Church and Professional Ideology

Most of the valued attributes of a profession e.g. a body of knowledge, a set of values based on the concept of a "calling" in public service, a code of ethics, education and training were developed by the clergy in a feudal environment. The church had a theoretical body of knowledge which was based on the Bible. The concept of knowledge and means of acquiring knowledge in medieval times can be summed up by the Latin phrase 'Credo ut intelligam' - "I believe in order to understand" (quoted in Copleston, 1952, p. 11). This can be related to the Christian belief that not only people search for wisdom, but wisdom also searches for people (Freemantle, 1954). St. Augustine, an eminent medieval philosopher, argued that necessary and immutable truths depend on the eternal ground, namely God. He also argued that this truth was perceived by people through 'divine illumination'.

The argument that truth was perceived by people through 'divine illumination' provided the church with a monopoly over knowledge. All intellectual disciplines during this period were adjuncts of theology, "the queen of the sciences" (Ergang, 1967, p. 14). Medieval intellectuals were mainly concerned with the relationship of reason to faith and vice versa, the relation of God to the world, and the nature of human beings and immortality.

The church's code of ethics was based on the Bible. The Christian claim was that this code of ethics was derived from a doctrine of "natural law" (Barclay, 1978). It was claimed that Christian ethics was firstly "natural" to man (or corresponds to man's true nature), and secondly it can be shown to be so by a process of natural reason. Later on the doctrine of "natural law" was replaced by creation ethics in justifying christian

ethics. "Creation ethics starts with God and his will for living in his creation" (Barclay, 1978). It is asserted that to break these commandments is to offend against a created order (Barclay, 1978). This assertion reflects on Coulton's (1946) earlier point that the major deficiency in medieval society was order. Further evidence suggesting the influence of the lack of order within the community at the time on the development of christian ethics is also provided by Meeks (1986).

The concept of public interest or altruistic service motive also developed in a feudal environment, an environment in which obligation was emphasised, independence was unknown and justice was arbitrary. The church had a very clear concept of what was in public interest (even if some might feel that it is a misplaced belief), that is saving "man" from "his" sins. Berlant (1975) argues that there is always a certain degree of imperfect internalisation of morals by professionals and this could lead to misplaced trust. In a relationship of dependence and trust there is always an opportunity for exploitation, but in a society based on obligation, dependence and arbitrary justice, public interest and ethics became a very important form of regulation, social control and protection for the common person, in the absence of external control. The client or public had no recourse to justice when exploited by the clergy other than to complain to the clergy since "papal policy was so consistent, in comparison with that of the lay rulers, that the balance tended more and more in favour of the church" (Coulton, 1946, p. 125). The greatest crime was heresy or infidelity to the church. In many cases the church also assumed the task of enforcing the laws (Ergang, 1967). Furthermore, the church encouraged the strongly personal type of social relation and self-discipline rather than external control (Parsons, 1968).

In an environment where self-discipline was looked on with admiration and the church played the roles of executive, legislature and judiciary in society, professional autonomy or the autonomy of the church was not questioned. The church had an elaborate mechanism to ensure that its members worked in public interest. Training was rigorous and long, in which negation of self interest was an important part. The church also put in place various other controls as elaborated by Powers (1924):

In the middle ages the nunneries of England and a great many of the monasteries, used to be visited at intervals by the Bishop of their diocese in order to see whether they were behaving properly. It was rather like the periodical visitation of a school by one of His Majesty's inspectors, only what happened was very different. When His Majesty's inspector comes he does not sit in state in the hall, and call all of the inmates in front of him one after another, from the headmistress to the smallest child in the first form, and invite them to say in what way they think the school is not being properly run, and what complaints they have to make against their mistress and which girl habitually breaks the rules - all breathed softly and privately into his ear, with no one to overhear them. But when a Bishop came to visit a nunnery, that is precisely what happened (p. 76).

The church made a great effort to ensure that priests received proper education and training. The importance of education was recognised by the medieval church leaders. For example, Archbishop Pecham in 1287 issued a statute in council which begins:

The ignorance of priest casteth the people into the ditch of error; and the folly or the unlearning of the clergy, who come bidden to instruct the faithful in the catholic faith, doth sometimes tend rather to error than sound doctrine" (Quoted in Coulton, 1946).

The concern for education greatly raised the stature and influence of the church because the nobility sent their children to the church for education. Rashdall (1895) states,

Nearly all the civil servants of the Crown, the diplomatists, the secretaries or advisers of the great nobles, the physicians, the architects, at one time the secular lawyers, all through the Middle Ages the then large tribe of ecclesiastical lawyers, were ecclesiastics... the average student at Oxford or Paris - however little he might be looking forward to priestly duties as the real work of his life - generally contemplated holy orders as his eventual destination (p. 697).

The monopoly over knowledge and education by the church is also reflected in the development of accounting as evidenced by the earliest systematic exposition of the double entry system which was produced by a monk (Luca Pacioli). The clergy acted as both "interpreters of the ideas of the great and as the depositaries of political traditions" (Bloch, 1961, p. 80). In fact the whole area of education was exclusively under the control of the church until the mid 17th century (Coulton, 1946).

4.3 SECULARISATION OF THE PROFESSIONS AND THE EMERGENCE OF ACCOUNTING AS A PROFESSION

The greatest contribution of the church to the middle ages also led to the demise of its influence. The social order and stability the church contributed to, enabled the flourishing of commerce and industry as well as the development of a secular spirit in society. Dirks (1954) describes the situation as follows:

Despite the many centuries that the generation of men had professed the faith, despite the length of time their 'religion' in the narrower sense had been Christian and Catholic, their thinking and their everyday actions were beginning to become emancipated (p. 169).

The middle class gave expression to the growing secularist spirit by trying to extract more pleasure and greater enjoyment from "this" life (Ergang, 1967). The rising merchant and banking class asserted their desire to divorce the sphere of economic affairs from religious life, to be governed by its own principles usually based on Roman law. This class also allied with rulers of national states in their struggle with feudal barons and later with the church.

The secular spirit also asserted itself in intellectual circles. Doubts about the unity of ethics and knowledge were raised. William of Ockham reversed the traditional method of inquiry (followed by St. Augustine to St. Thomas Aquinas) from asking how the individual derives from a universal nature, to explain how in a universe of individuals the intellect comes to conceptions that are not individual. For Ockham, knowledge of existence alone constituted evident knowledge and since all existence was individual, individual existence was the source of all proper knowledge. This assertion of Ockham did not only have great implication for the development of knowledge but also social structure. Ockham however made all attempts to retain God in his scheme of philosophy when he says,

God can do somethings by his ordained power and some by his absolute power. This distinction is not to be taken to mean that there are really two powers in god, because God's power is the same in god as outside him (quoted in Leff, 1976, p. 33).

The secular spirit demolished the traditional concept of obligation and freedom. For example, Hobbes (1968) pointed out that freedom is the right to any course of action to satisfy one's desires. Hobbes argued that reason is essentially a servant of the passions, and is the faculty of devising ways and means to secure what one desires. He felt that people introduced restraints upon themselves to prevent the miserable condition of perpetual war in a commonwealth, and they were only obliged to follow those laws. Philosophers following Ockham also sought to separate ethics from the Bible and base it on some conception of human nature (Hobbes and Spinoza) or feelings (Hume) or sympathy (Smith).

The secular spirit also led to the reintroduction of Greek science into the west. The works of Aristotle stimulated a wider interest in the natural sciences. The popular reception by intellectuals of the works of Copernicus and Vesalius, and the growth of nation states placed pressure on established professions, such as the medical and legal profession, to break away from the church. This was not an easy task, as pointed out by Underhill (1992), in the medical profession the elite physicians resisted it strongly while the general practitioners adopted it faster in their effort to gain greater status and prestige. The break-up of the medieval corporations and the increase of private wealth also meant that a professional could earn an income otherwise than through the holding of the ecclesiastical benefice, and new professions based upon intellectual techniques developed along with the progress of science (Carr-Saunders and Wilson, 1933).

In the secularisation process the medical and legal professions did not discard all their old values, instead they modified the old ideology and incorporated new ones. Larson (1977) states:

The modern model of professions undoubtedly incorporates pre-industrial criteria of status and pre-industrial ideological orientations. Any concrete historical process, such as the first phase of modern professionalization, inextricably binds together elements which analytically, pertain to different and even antithetic structural complexes.... Their product however was an innovation - if nothing else, because it reorganised and transferred into a new social world parts and patterns of the old (p. 5).

The effort to retain the old ideology can be understood in the contexts of the intellectual climate of the time. Leading intellectuals of the time e.g Tawney, Durkheim and Peirce

whilst in favour of secularisation had a deep-felt revulsion against capitalist values and saw the old values in professional groups as an alternative to capitalist values (Haskell, 1984, p. 184).

The secularised professions sought to retain the traits e.g. a code of ethics, knowledge base, education and working in public interest but made major changes to the contents of these traits. The knowledge base was built on methods of acquiring knowledge developed by the seventeenth century renaissance philosophers like Bacon and Descartes. Bacon advocated the empirical, experimental method to the search for knowledge. Bacon was concerned with inductive logic, that is the rules of generalisation based on observation of particular things and events (Hampshire, 1956). Descartes advocated the deduction method of mathematics to the search for knowledge. Descartes argued that "outside mathematics, all claims to knowledge seem, when one pauses to reflect, uncertain, unsystematic and unsupported by any common method of proof" (Hampshire, 1956, p. 60). The objective was to generate a valid theory that could provide a solid base for the development of professional techniques (Schein, 1972).

With secularisation, the professions also quickly allied themselves with the secular rulers of nation states and the middle class (Larson, 1977). The secular rulers in return for the support and taking into account their inability to police the professions allowed the professions to retain considerable autonomy which they enjoyed as part of the clergy. The medical and legal professions in particular retained a code of ethics based to a large extent on the old code but changed the justification for the code from that of the Bible to one based on human nature that was advocated by seventeenth and eighteenth century philosophers like Locke, Hume and Kant. The eighteenth and nineteenth century philosophers, e.g., Hume, Kant and Smith, attempted to derive an ethical doctrine through reasoning from premises concerning human nature.

In the course of secularisation the professions also underwent a process of liberalisation (Argyris and Schon, 1974) and the organisational structure was made more democratic compared to that of the church. They became open to a wider range of participants. The

authority of organisational leaders were curtailed, a major deviation from the unquestionable authority of the Pope.

The industrial revolution saw the rise of technique, a development that was accompanied by an emphasis on specialisation and a proliferation of discrete bodies of professional expertise. The secularisation and the rise of technique changed the view of the professional from one who professed a faith to a practitioner of technique who did not admit the need for faith (Argyris and Schon, 1974). During the industrial revolution with its prominence given to industry and commerce, accounting became essential for the smooth functioning of society which was increasingly becoming business oriented.

The industrial revolution also supported the rise of the accounting occupation's characteristic strategy for controlling labour, raising the accountants status within the organisation (Armstrong, 1985; 1987). The involvement of accountants in the management and liquidation of bankruptcies also brought the accounting occupation in close contact with the legal profession providing an extra support for the claim to professional status (Brown, 1905; Kedsle, 1990). Although some form of accounting existed long before the industrial revolution (Chatfield, 1977), the renewed importance accorded to it during this period provided accountants with the opportunity to claim professional status by emulating the characteristics of the established professions at the time.

The environment in which accounting emerged as a profession already had well established attributes such as professional autonomy and public interest which were considered essential in any professional activity.

4.4 THE TENSION AND STRAIN

Professional autonomy which is an essential characteristic of the concept of professional ideology is based on three claims. First, the work of professionals entails such a high degree of skill and knowledge that only the fellow professionals can make accurate assessment of professional performance. Second, professionals are characterised by a

high degree of selflessness and responsibility, that they can be trusted to work conscientiously. Third, in the rare instance in which individual professionals do not perform with sufficient skill or conscientiousness, their colleagues may be trusted to undertake the proper regulatory action (Freidson and Rhea, 1965).

From an historical point of view the environment in which professions operate has undergone rapid change over the years. While it is debatable whether the priest required a high degree of skill and knowledge to perform his duties, there is little doubt that others were unable to assess the skill and knowledge of the priest because the church had a monopoly over education and knowledge. By contrast, although the modern professions also generally exhibit a high degree of knowledge and skill, there are institutions external to the professions with the ability to assess professional performance. In the case of the accounting profession these institutions include the courts, governmental agencies such as the Securities Exchange Commission (SEC) in the United States and similar institutions in other countries, and academics. The pluralisation of the accounting standard setting process is an example of the ability of people outside the profession to define and assess professional performance. For example, in the United States, United Kingdom and Australia the standard setting and enforcement bodies include members who are not accountants.

Furthermore, in addition to the general comments made at the beginning of this paper, there are also questions about the knowledge base of the accounting profession. Hines (1989) points out that an apparent absence of a formal body of accounting knowledge has been a threat to the accountants' professionalisation quest. She further argues that accounting knowledge is a residual of a political process, and is reflected in the arbitrariness of accounting standards, as well as the expansion and diversification of accounting work. In recent times even the courts have commented on the quality standards of the profession (Lochner, 1992).

MacIntyre (1984) provides a comprehensive critique of the attempt to derive an ethical doctrine through reasoning from premises concerning human nature, and concludes that they were a major failure. He argues that their failure was due to,

an ineradicable discrepancy between their shared conception of moral rules and precepts on the one hand and what was shared despite much larger divergences - in their conception of human nature on the other. Both conceptions have a history and their relationship can only be made intelligible in the light of that history (p. 52)

The conception of moral rules and precepts of eighteenth and nineteenth century philosophers was based on their christian past which was formulated from a "comprehension of man's true end" and the conception of human nature was based on "man-as-he-happens-to-be" (MacIntyre, 1984, pp. 53-54). According to MacIntyre, the failure of the eighteenth and nineteenth century philosophers has resulted in the popular emotivists view of moral utterances (see also Ayer, 1946), as well as the separation of fact from value. The separation of fact from value, MacIntyre (1984, 1990a) argues, has contributed to intellectual enquiry becoming "fragmented into a series of independent, specialized, and professional activities whose results could, so it seemed, find no place as parts in any whole" (1990a, p. 216).

Since the medieval period there has also been no universal agreement on the meaning or measure of "public interest" (Held, 1970). The problem of defining public interest afflicts many professions, e.g., the legal profession (Moore, 1991). The absence of any consensus has prompted many commentators (for instance Schubert, 1960) to describe it as slippery, value laden and vacuous, and to call for its rejection as an analytic concept. Dahl and Lindblom (1953) argue that "often a precise examination would show that it can mean nothing more than whatever happens to be the speaker's own views as to a desirable public policy (p. 501). In many professions initially this did not cause much concern because their services were viewed as "objective and value-free" (Morgan, 1988, p. 47). This however is not the universal image of professionals at the present time, for example, accountants are seen to play a partisan role (Tinker, 1991) in society.

The church in medieval times played the roles of executive, legislature and judiciary in society, which in present times would be considered as "conflict of interest". There was no question of other institutions in society regulating the church since they were a power unto themselves. After secularisation and until the twentieth century the state in general was not interested in active regulation of social and economic life (Philips, 1965).

However, the situation changed in the twentieth century. When many other aspects of economic and social life are regulated by the state (Hurst, 1950) it seems difficult to argue that the professions should be treated differently. Hobbes' (1968) assertion that reason is a servant of the passions has exposed weaknesses of self-discipline as a form of regulation and social control, and led to the development of sophisticated forms of transparent, institutional controls. Ritti *et al* (1974) found that even the modern church has problems inculcating new recruits with its traditional belief system, and lawyers cannot relate the ideal basic product of the legal system, that is the dispensation of justice, to the far from even-handed judicial system. Previously decisions on the choice of accounting policy were left to the accountant and regulation was through peer pressure. Today as in many other areas of economic activity, regulation is by transparent institutions external to the profession like the Financial Accounting Standards Board (FASB) and the Securities Exchange Commission (SEC).

The accounting profession like the medieval church plays a host of conflicting roles, it sets the objectives of financial reporting and auditing, it develops the means to achieving the objectives, it sets the quality standards and enforces them, it also represents the interests of its members, leading a Council member of the Institute of Chartered Accountants in England and Wales (ICAEW) to question if the role of the ICAEW was that of a regulator or trade union (Bruce, 1993b, p. 31). The disappearance of medieval social and institutional conditions has made the apparent conflict of interest among the many roles played by the accounting profession very visible. The conflict of interest among the many roles played by the profession, the absence of a universal concept of public interest, separation of knowledge and ethics, and the downgrading of self-discipline as a form of social control has contributed to the development of inter and intra community tension in the accounting profession.

The problematic nature of professional ideology and its impact on the professions is evident in the current literature. The traditional view of professions as "corporate guilds that protected civic morality and social solidarity from the corrosion of modern egotism" (Metzger, 1987) has been replaced by that of a monopolist exploiting the public for a private gain (Schon, 1983). Roth (1974) argues that sociologists studying the attributes

of a profession are decoyed into becoming apologists for the professionalism ideology. The study of accounting profession has also shifted from those using a taxonomic approach (Carey, 1969; Buckley & Buckley, 1974) to that of identifying the struggle for professional dominance (Willmott, 1986; Walker, 1991), and struggles for territory among professions (Armstrong, 1985; 1987).

4.5 SUMMARY

Following MacIntyre's ideas, this chapter attempts to explain the tension and strain in the accounting profession in terms of the changing character of both professional ideology and society. Much of the ideology associated with professions have a long history. Whilst the social and institutional conditions have changed, the professions have maintained the view that the ideology is universal and essential for the continued growth and development of the profession. For accountants working in contemporary conditions that stresses competition, the professional ideology with concepts of public interest seems empty and meaningless. The mismatch between the changing social and institutional conditions and the continued emphasis on professional ideology would seem to create tension and strain within many professions including accounting.

Although there have been signs of tension and strain in the accounting profession for a long time, the situation seems to have reached a crisis point only recently. As Leff (1976) points out, due to inertia, people seem to continue with the same attitudes "often long after they have become intellectually untenable or practically inconsistent" (p. 147). For many professionals the professional ideology or the fundamental belief system in their own profession has become implausible (Ritti *et al*, 1974) and this has led some to adopt a cynical attitude towards the belief system and others to criticise the belief system.

The profession's continued attempts to maintain the current ideology with its conventional attributes would lead to increased tension and strain. The analysis in this chapter suggests that it is important for a modern profession to develop an ideology to which its members as well as society can relate. The critique of the public interest

ideology developed in this chapter is utilised in Chapter Ten to identify features of the emerging ideology as highlighted in Figure 1.1 (p.9). The next three chapters (Five, Six and Seven) focus on the reasons for the gap between accounting research and practice. Chapter Seven concludes with an identification of an alternative model for professional development.

CHAPTER FIVE: THE TECHNICAL/RATIONAL MODEL OF PROFESSIONAL KNOWLEDGE AND THE GAP BETWEEN ACCOUNTING RESEARCH AND PRACTICE.

5.1 INTRODUCTION

In Chapter Two it was highlighted that professional practice is based on the technical/rational model of professional knowledge. According to this model:

The professional makes his decision on behalf of a client in terms of general principles, theories or propositions, which he applies to the particular case under consideration i.e by universalistic standards (Schein, 1972, p. 8). [Emphasis added]

All occupations seeking professionalisation have sought to develop a systematic theory and the accounting profession is no exception (Chambers, 1955). Initially, accounting theories consisted of authoritarian principles and 'generally accepted accounting principles'. This kind of theories is however felt to be insufficient for decision making by professionals in any field as argued by Goode (1966) when commenting on the librarian as a professional. According to Goode, such theories have little reference to general scientific principles and are more like rule of thumb regulations (p. 39).

Arguments with a similar view were raised in accounting by Chambers (1955). Flint and Shaw (1981), in addition, argued that an important criterion for determining useful accounting research from the perspective of practice is authority, that is to arrive at conclusive relationships having a high degree of certainty, which can be used by practitioners as universal standards to make decisions.

Based on the above model, the group who develop knowledge (researchers) are separated from those who apply the knowledge (practitioners). As highlighted in Chapter Three the accounting profession has however been unsuccessful in developing a generally accepted basic accounting theory. Furthermore there has been a growing concern about a gap between accounting research and practice. This gap was, most recently, highlighted in a plenary session at the 1990 Annual Meeting of the American

Accounting Association by S.Sunder and R.K. Elliot. Appendix 1 provides an overview of the nature of the gap as depicted in the accounting literature. This review indicates three major reasons for the gap, namely: (1) lack of communication between researchers and practitioners, (2) inappropriate research output for practising purposes, and (3) contradictory views on research lagging behind practice or *vice versa*.

The gap between accounting research and practice is a major symptom of a crisis in the accounting profession. The gap highlights the problems of separating research from practice and the possibility of developing value-free accounting knowledge. In this chapter it is shown that a principal reason for the gap is the inability of accounting research to provide accounting practitioners with a systematic theory on which practitioners can base their work. Accounting theories are reviewed to explain why they lack the appropriateness as desired by the practitioners. Chapter Six highlights the dominance of beliefs and values in the development of application of accounting knowledge.

Section two of this chapter adopts a framework on which theories can be classified according to their level of development. In section three the accounting theories are reviewed and matched with the classification framework of Section two. Based on the understanding acquired in section three. In section four an attempt is made to identify and provide reasons for the gap between accounting theories and the desired needs of accounting practice.

5.2 LEVELS OF THEORY DEVELOPMENT

The word 'theory' is normally used as if it has a simple clear cut meaning when in fact it is a generic term with a range of meanings. Because of this, theories have been classified based on assumptions, methodology and function (For example see Rahman, 1989 pp. 2-3). These classifications however, fail to take into account the stages of development of a theory.

Smith (1968) put forward a model of theory development based on the uses of the term theory and the levels of proposition making. In his model Smith classified theory into five levels. These levels are briefly explained as follows:

Level 1:

Theories at level 1 are those that are based on commonsense, or on assumptions accepted by the society, or on personal whims. Such beliefs, ideas and preferences have rarely been examined scientifically, that is through systematic analysis or empirical experimentation.

Level 2:

Level 2 is a more scientific level, for here a hypothesis, although incorporating a narrow area of knowledge, has been tested empirically, observed and described systematically, and/or analysed logically and conclusions have confirmed the belief.

Level 3:

Level 3 comprises theories for which a hypothesis has come to be regarded as a principle or a law through its confirmation from many different sets of experimental tests. Since the principle or law is based on much confirming evidence, they can be accepted as working facts for the sake of practice.

Level 4:

Level 4 theories can be described as a series of interconnected facts, principles, laws and/or hypotheses, forming an integrated explanation of a larger area of man's knowledge - a structured body of knowledge.

Level 5:

The fifth sense of 'theory' does not grow in a systematised way from the levels before it. Many people have a more or less coherent set of personal ideas about reality. Theories at this level are a complete statement of beliefs of such people with a view

to explaining reality. In other words, these theories are speculative systems that attempt to account for the most general ideas about reality, ie., existence, knowledge, values, etc.

In Smith's scheme of theory development, level 1 is an elementary level and levels 2 to 4 grow out of the preceding levels. Level 5 theories are above other theories in terms of the scope of the phenomena they attempt to explain. Smith argued that when the term theory is used any one of the above five meanings could be intended. He also felt that when people claimed, for example, that there may never be a theory of education (eg. Snow (1977)) the meaning adopted is the fourth sense. In Smith's classification, level 3 and 4 theories are more attuned to the needs of practice than the theories in other levels.

Fleming (1990) adopted Smith's model to explain conflicting views on the usefulness of theories of education to the practice of education. He reinforced Smith's views and added that research effort directed towards the development and testing of level 3 and 4 theories in education could be counter-productive. Level 3 theories were felt to be an impossibility due to the problems associated with the validation of level 2 theories. Fleming felt that in education, appropriate instruments for measuring and validating level 2 concepts were lacking, and without the validation of level 2 concepts level 3 theories could not be established. As for level 5 theories, it is difficult to gain wide acceptance for such theories due to their very nature - personal ideas and views of reality.

5.3 THE NATURE OF ACCOUNTING THEORIES

Belkaoui (1985, p. 11) observed that no comprehensive theory of accounting exists at the present time. He noted that different theories have been and continue to be proposed in the accounting literature. Many of these theories, he felt, arise from the use of different approaches to the construction of a theory or from the attempt to develop theories of a "middle range" rather than one single comprehensive theory². Such middle range accounting theories result from differences in the way researchers perceive both

². Perhaps the Statement of Accounting Theory and Theory Acceptance (AAA, 1977) was the last aborted attempt at constructing such a theory.

the users of accounting information and the environment in which both the users and preparers of accounting information behave.

Basically there are two schools of thought in accounting research - the positive-inductive and the normative-deductive (See the Statement of Accounting Theory and Theory Acceptance, 1977). The purpose of accounting theory therefore varies according to the perspective of theory development chosen by the respective researcher. There can also be overlaps between the methodology adopted in theories. For example, inductive theories may tend to empirically test hypotheses which have been deductively derived from earlier theories of the same or related disciplines. Therefore, it may not be possible to distinctly classify theories amongst the different schools [See Rahman (1989) for the problems associated with theory classification].

Nevertheless accounting theories are analysed for the purposes of this chapter to understand the level of development of certain broad categories of accounting theories. These categories of accounting theories are listed in Table 2. In Table 2, first, the theories are classified according to the intended or underlying purpose behind each theory or class of theories. Second, the basic assumption/s and methodology adopted in each category is identified.

Based on the analysis that follows, each category of accounting theory is analysed to determine its level of development within Smith's schema (the last column of Table 2 provides a summary of this analysis).

5.3.1 Substantially Descriptive

Descriptive theories in accounting are theories that are derived from "what accounting is". Littleton (1953) reinforced this belief by explaining that accounting theorist must look to accounting to determine why accounting is what it is, and then develop theory inductively.

Table 5.1: Types of Accounting Theory

Purpose	Approaches to Theory Formulation					Underlying Assumptions						Level		
	Non-Theoretical		Theoretical											
	Practical	Authoritative	Deductive	Inductive	Ecllectic	Economic	Sociological	Ethical	Human	Behaviour	Communication	Therapy	on Smith's	Classification
I Descriptive														
1. Stewardship	X			X					X				1	
2. EMH				X		X			X				2	
3. Agency				X		X			X				2	
4. Behavioural				X			X	X	X				2	
5. Deconstruction			X								X		1	
6. Critical			X				X						5	
II Normative														
1. Decision Usefulness			X			X		X	X				5	
2. Information Economics			X			X			X				5	
3. Accountability			X				X	X					1 & 5	
4. Professional promulgations		X			X	X	X	X	X		X		1	

1. Stewardship:

Early twentieth century authors like Hatfield (1927) and Paton (1922) used an inductive approach to develop accounting theory based on the notion of stewardship. They established ideas and preferences for certain aspects of accounting, for example historical cost for quantification, by simply observing

the behaviour of accountants within their environment. Since most such early theories were based on ideas derived from practice, much of the beliefs established by them could be seen as pragmatic measures applicable to similar practices but not necessarily all embracing principles. Therefore, we can classify most stewardship based views as level 1 theories in Smith's classification scheme.

2. **Efficient Market Hypothesis:**

Efficient Market Hypothesis (EMH) generally assumes that securities market is efficient and the market price of securities always equals the underlying intrinsic values at every instant in time (Belkaoui, 1985, pp. 122-123). The function of this research is to identify the sensitivity of share price movements to the disclosure of accounting information. Belkaoui (1985, pp. 123-133) provides a few reasons, why EMH can still be regarded as at a hypothesis stage. First, there are several competing definitions of market efficiency. Second, there are anomalous evidence regarding market efficiency. Third, some studies show self-selection bias and omitted variables. Finally, the presence of confounding effects posing a serious threat to the internal validity of EMH studies. Since EMH is yet to attain the status of theory, we may classify it as a level 2 theory in Smith's schema. If proven and accepted, it may be regarded as a level 3 principle.

3. **Agency:**

The premise of agency theory is that the corporation is the locus or intersection of contractual relationships that exist among management, owners, creditors, employees and government. The theory is concerned with the various costs of monitoring and enforcing relations among these various groups. In accounting agency theory posits a conflict in interest between those groups, and that this is mitigated to some extent by financial reporting. The agency perspective, perhaps because of its infancy and also due to some methodological deficiencies, has faced severe criticisms (see Watts and Zimmerman, 1990). This indicates that, although the agency theory research has made serious inroads into understanding the nature of financial reporting, the theory is still at the hypothesis development

and testing stage. Consequently, in Smith's framework it can be classified as a level 2 theory.

4. **Behavioural:**

The behavioural approach to accounting theory development emphasises the way individuals and groups react to accounting information. Much of the research in this area have been based on controlled laboratory experiments using student subjects and some field studies (Wolk *et al*, 1989). Belkaoui (1985) found that most studies in this area have made little attempt to formulate a theoretical framework to support the problems or hypotheses to be tested. Dickhaut *et al* (1972) also found the application of studies using surrogates to the broad population of real decision makers highly suspect. Mathews and Perera (1993, p. 62) in a similar vein argued that this cannot be a complete approach for the development of accounting. Questions raised about the validity of findings and lack of a theoretical framework, therefore limits its usefulness. Therefore, it can only be classified as a level 2 theory in Smith's schema.

5. **Deconstruction:**

This approach mainly draws on the works of Jacques Derrida and its aim is to locate contradictions in a text or theory by examining the process of its production. This, its supporters argue would open the text or theory to multiple interpretations (Belsey, 1980). Macintosh (1989) argues that this would be valuable in understanding why currently accounting seems mired in controversy and disagreement about accounting practices and theory building. Wolk *et al* (1989, p. 44) point out that deconstruction calls into question the very notion of theory itself. Proponents of deconstruction research set out to develop a coherent idea of reality, and therefore in Smith's schema this approach can probably be considered as a level 1 theory.

6. **Critical:**

Critical theory was developed by a group of philosophers, known as the 'Frankfurt School' who argued that most societies are permeated with 'objective

illusion'. This they believed caused human beings to suffer from self-inflicted delusion and a fettered existence. Critical works in accounting have mainly been concerned with the determination of institutions function, and the impact of accounting on economic planning, power distribution, value clarification and political manoeuvring (Macintosh, 1990). Critical theorists seldom set out to develop principles, and their role in a democratic and capitalist society is ambiguous (Wolk *et al*, 1989, p. 45). It can only fall into level 5 of Smith's schema because it explains reality using a statement of beliefs of those who propagate it.

5.3.2 Substantially Normative

Normative theories in accounting are theories that are derived from "what should be". Normative theories are usually derived using the deductive approach. Construction of theories using this approach begins with establishing the objectives of accounting. Based on the objectives a logical structure for its accomplishment is developed (Mathew & Perera, 1993, p. 60).

1. Decision Usefulness:

This approach stresses the relevance of accounting information for particular decisions by a particular user group or groups. The main comprehensive works in this area include Chambers (1966), Edwards and Bell (1961), Sterling (1970). These works are good examples of level 5 type theory because each one of them forms a comprehensive speculative system which tends to explain reality but are difficult to be tested in the real world. Accordingly practitioners have also resisted the introduction of such models.

2. Information Economics:

Information economics research, according to Wolk *et al* (1989, p. 43 and p. 220-221), is usually analytical/deductive in nature. Information economics analyses tries to determine the value of specific information for a narrowly

defined decision. This approach provides a means for examining whether regulatory intervention is desirable for external financial reporting (See the Statement of Accounting Theory and Theory Acceptance (AAA, 1977) for a detailed review). This analytical scheme, according to Verrechia (1982, p. 17) lacks empirical evidence and appears to have no general consensus. Wolk *et al* (1989, p. 221) point out that because of its abstractness and generality, the multi-user setting of information economics has not yielded specific conclusions concerning the value of accounting information. Works in this area perhaps can be classified as speculative theories within level 5 of Smith's scheme.

3. **Accountability:**

The objective of accounting according to this view is to account for actions taken in various market places for products, services, employment and the environment. This view is based on the following thesis:

The technology of an economic system imposes a structure on its society which not only determines the economic activities but also influences its social relationships and well being (Mobley, 1970).

The impact of economic systems on society, employees and environment is generally accepted, but interest in non-economic information has however varied over time and consequently practitioner interest has also been mild. Efforts to develop a comprehensive theory in this area has been low as well as measurement of the influence of economic systems on the environment, employees and society is also primitive. Therefore theoretical output of this approach can only be categorised as level 1 or 5 type theories in Smith's schema.

4. **Professional Promulgations:**

AAA (1977) concluded that there exists in financial accounting literature not a theory of financial accounting, but a collection of theories. This situation has led to the development and use of different methods and bases of accounting. The use of different methods led to lack of comparability among financial statements and consequently criticisms of the profession. These criticisms have led to the

development of standards and conceptual frameworks. The professional promulgations are usually based on consensus and are always changing. Professional promulgations in general are not hypotheses for testing but solutions for immediate problems based on various ideas of reality and therefore can be classified as level 1 type theories.

5.4 THE GAP

The review of accounting theories using Smith's model shows that the accounting profession lacks a systematic theory that practitioners can utilise as a universal standards to make decisions. Only theories in levels 3 and 4 would have sufficient authority to replace 'generally accepted accounting principles' as guidelines for decision making. This kind of theories however, as shown by our review, is non-existent in accounting.

This then begs the question 'Would the development of level 3 and 4 type theories be ever possible in accounting?' Chambers (1972) at the peak of the normative theory period wrote:

Researchers and practitioners both entertain the expectation that research will lead to advances in practice. But there would be more disciplined research if practitioners refuse to take notice of research work unless or until the products of inquiry had been thoroughly debated by researchers themselves, were substantially supported by evidence and were in the form of tightly constructed and well defined proposals (p. 73).

Ten years later, noting the lack of impact of research on practice and the failure of the researchers to arrive at a generally acceptable coherent and consistent set of principles, one practitioner noted:

Since his statement, we have spent practically ten years with practitioners refusing to take notice of research work. Moreover, researchers are not able to reach a consensus on their research results. I believe the time has come for practitioners and researchers to get together and, at least, speak the same language (Sparrow, 1981, p. 29).

This situation raises the question of why efforts by accounting researchers to emulate their colleagues in the pure sciences to develop level 3 and 4 type theories has not been very successful. Similar records of poor success in areas such as education has led to calls for abandonment of basic research and concentration on applied research (Ebel, 1969).

The lack of well developed level 3 and 4 type theories in accounting has led to the growth of level 5 type theories. Practitioners after all require some guidelines for their decision making and all they have available are level 1 and 2 type theories often derived eclectically from common experience or level 5 type theories which lead to the development of 'schools of thought with rigid ways of viewing the world and carrying out practice.

The lack of level 3 and 4 type theories also encourages accounting academics to teach level 5 type theories which encourages dogmatism in students, and leads them to distrust their own experiences unless they are in line with the particular school of thought, and discourages self-reflection.

5.5 SUMMARY

This inquiry into the gap between accounting research and practice indicates that this situation is not unique to accounting but is also common to other disciplines in the social sciences. One of the useful explanations provided for the gap is that by Smith (1968), who argued that the level of theory development has a major impact on the gap. In this chapter we have attempted to use his model to show that the practitioners' desired objective of having a coherent set of principles to guide practice is yet to be fulfilled by the researchers.

The research indicates that the gap between what the practitioners' desire and what the researchers provide is there because of the inability of the researchers to provide a coherent set of principles which is universally acceptable for practice purposes. The failure by accounting researchers to provide a coherent set of principles which is

universally acceptable for practice, calls into question the applicability of the technical/rational model of practice to accounting. The next chapter examines the reasons for the above failure.

CHAPTER SIX: THE INFLUENCE OF UNDERLYING METAPHYSICAL NOTIONS ON OUR INTERPRETATION AND APPLICATION OF ACCOUNTING

6.1 INTRODUCTION

Chapter two highlighted two major problems in the application of the technical/rational model of professional knowledge to accounting - questions of professional effectiveness and neutrality of accounting practice. In Chapter Five it was pointed out that reference to the gap between accounting practice and research in the literature was a major symptom of the problems identified in Chapter Two. It was shown that accounting research had failed to develop a systematic theory which can be used by practitioners as universal standards to make decisions.

In this chapter this inability to develop a systematic theory and questions concerning the neutrality of accounting practice is related to the dominance of beliefs and values in the interpretation and application of accounting principles and practices. This is shown through a study of how metaphysical notions of the self and freedom, provide the basis for the development of cultural values in a particular society, such as those identified by Hofstede (1980), and influences our understanding of the nature and purpose of organisations and the role of accounting in organisations and society. A clear understanding of the influence of beliefs and values on accounting provides a basis for the development of a more relevant model for the development of accounting practice.

The influence of metaphysical beliefs on accounting is shown through an analysis of the problems in adopting western style financial systems in East-Asian countries, and Japanese management techniques in the West. This approach is adopted because the problems are well documented and current. The contrast between the metaphysical notions of the self and freedom in the east and west are also well documented.

The problems of adopting western style financial systems in the East and adopting Japanese management techniques in the west has been increasingly visible as East-Asian

countries such as Japan, South-Korea, Taiwan and Hong Kong have rapidly industrialised. Their economic success has been mainly export-led and it has contributed to the demise of many manufacturing industries in the West³. This has caused the emergence of two major phenomena not seen in the past: first, the investment by Western fund managers in locally managed companies through East-Asian stock exchanges (previously investment by the West was mainly in the form of Western companies establishing manufacturing and marketing subsidiaries); and second, the adoption of East-Asian, particularly Japanese, management techniques by Western companies.

The new East-West business relationships have however, created significant difficulties in the interpretation and application of accounting. The adoption of Anglo-American style financial systems has not resulted in efficient markets in East-Asian countries (Deakin, Norwood and Smith, 1976; Lee, Yen and Chang, 1992), nor has the adoption of Japanese management techniques yielded the expected results in the West as in Japan (Oliver and Wilkinson, 1989). It has also been found that East-Asian managers do not place the same emphasis on particular accounting numbers, nor do they respond to particular accounting information in the same manner as their Anglo-American counterparts do and *vice versa* (Stonehill *et al*, 1975; Suzuki and Wright, 1985; Hariman, 1990).

The lack of success in integrating East-West business and accounting practices has mainly been attributed to institutional and cultural differences. This view led to various publications on how Anglo-American companies could change the organisational culture (e.g. Peters and Waterman, 1982). In the initial euphoria of introducing Japanese management techniques the resistance to change in organisational culture seemed to be minimal, in recent times however, concerns about the wisdom of adopting Japanese management techniques in a non-Japanese environment have been growing (Sinclair, 1992; Berggren, 1993).

³ In this chapter, the terms "West" and "East" are used for simplicity, "West" to represent Anglo-American countries in general and the U.S. in particular; "East" to represent East-Asian countries in general and Japan in particular.

The differences that appear to exist between the East-Asian and Anglo-American management and accounting thoughts are shown to be related to differences in beliefs and values and provide a possible explanation. Accounting is viewed as a socio-technical activity in which peoples' values and patterns of thinking play an important part.

The next section reviews the place of metaphysics in philosophy and culture, and the different questions that have occupied the study of metaphysics in different philosophical and cultural contexts. The second section considers more specifically the relationship between metaphysical notions and cultural values. The third section explains the role of accounting in organisations and society in terms of the underlying metaphysical notions, with some concluding remarks in the final section.

6.2 METAPHYSICS

In philosophy, the study of the assumptions of the nature of "man" and the external world is known as metaphysics. Taylor (1974) states that "to think of metaphysics is to think without, arbitrariness and dogmatism, on the most basic problems of existence" (p. 2). The famous German philosopher, Schopenhauer (1958), defines metaphysics as follows:

By metaphysics I understand all so called knowledge that goes beyond the possibility of experience, and so beyond nature or the given phenomenal appearance of things, in order to give information about that by which, in some sense or other, this experience or nature is conditioned, or in popular language, about that which is hidden behind nature, and renders nature possible (p. 8)

The type of knowledge described above has a great impact on other areas of philosophy as well as the development of values in society. As Taylor (1974) points out, metaphysics acts as a foundation of philosophy:

Religion is not metaphysics; and yet if the metaphysical theory of materialism should be true, and it should thus be a fact that men have no souls, then much religion would founder on that fact. Again moral philosophy is not metaphysics, and yet if the metaphysical theory of determinism should be true, or if the theory of fatalism should be true, many of our traditional presuppositions of morality would stand refuted by those truths (p. 2).

The customs that go to make up a culture is never wholly random and haphazard. As Hoebel (1958) argues "Selection is made with reference to a set of deep-lying assumptions, or postulates, about the nature of the external world and the nature of man himself" (p. 26). For example, in anthropology, different cultures have been related to different concepts of responsibility (Lee, 1959), self (Shweder and Bourne, 1984), and understanding (Vendler, 1984).

For the above reasons, no reflective person can pass his/her whole life without from time to time dwelling on such questions as "Why am I here?, What am I?" (Schopenhauer, 1958). In many cases the answers to these questions are provided by particular philosophical ideas or religious beliefs in society. The main metaphysical issues that have concerned philosophers over time are the concept of the external world or reality, the concept of freedom, the existence of god, persons and bodies and space and time (Taylor, 1974).

This chapter takes the view that the metaphysical question of self is at the centre of the concept of culture. Following Shweder and Bourne (1984), two alternative conceptualisations of the self are offered, labelled "egocentric-contractual", common in Anglo-American countries, and "sociocentric-organic", common in Asia and Africa. The purpose of the distinction is to show the relationship of alternative concepts of the self to culture and organisation of society. According to the concept of egocentric-contractual relationships, a person is one who is unique with a dynamic centre of awareness, emotion, judgement, and action organised into a distinctive whole and set contrastively both against other such wholes and against a social and natural background (Geertz, 1975, p. 48). This concept of the self or person, Lee (1959) argues, rests on the law of contradiction; "The self cannot be both self and not self, both self and other, and self excludes the other" (p. 131). Following this concept, Read (1955) has pointed out that,

the moral duties of the person are greater than any of the duties which the individual possesses as a member of society. His moral responsibilities both to himself and others, transcends the given social context, are conceived to be independent of the social ties which link him to his fellows (p. 168).

MacIntyre (1990b) argues that the present characteristic of the contemporary 'American self' is a divided self, involving at least three aspects of the self. The first aspect derives from the individualism of the enlightenment, and provides the individual with a capacity "to abstract itself from the particular social role which it happens to inhabit and indeed from the whole social order of which that role is constitutive" (p. 491). The second aspect of the self is governed by answers to the questions "How do others evaluate me?" and "How shall I be thought well of?" Answers to these questions determine the relationship of the individual to society. The third and very different aspect of the self is a survival from the past and is a response to the problems and burdens inflicted by the other two aspects of the self. This aspect includes remains of inherited religious and moral norms for sustenance and restoration.

Given that MacIntyre's description captures the main features of the contemporary Anglo-American self, it represents a major shift in Western philosophy initiated by the renaissance philosopher William of Ockham [medieval Western society had a more sociocentric-organic emphasis (Bloch, 1961; Coulton, 1946)]. By replacing the question how the individual derives from a universal nature, with the question how in a universe of individuals the intellect comes to conceptions that are not individual, William of Ockham reversed the traditional method of inquiry (adopted by medieval philosophers) (Leff, 1976). The renaissance philosopher Rene Descartes took William of Ockham's idea one step further and argued the separation of mind and body in an individual (Harris, 1968). Following from the above, Hobbes (1968) conceptualised the state of nature as the war of all, against all in which "man" is guided by a plurality of passions, and the good is simply that which any "man" desires. Locke (1924) also argued of the natural rights which "men" have 'by nature', independently of civil society. Other major Western philosophers e.g., Bentham, Mill and Marx argued in a similar vein (Parsons, 1968).

It is also interesting to observe how Japanese view social relations in Anglo-American countries. Fukuzawa (1926) in his *Seiyo jijo* (conditions of the West) argues that claims to rights became claims whereby individuals fence of themselves from the threats presented by others. Yukawa (1967) observes the Western mode of living to be

characterised by confrontation with external circumstances and by individual being armed against them - "The isolation of an individual is the very origin of European individualism" (p. 59).

The sociocentric premise and organic metaphor of the second alternative conceptualisation of the individual-social relationships focuses one's attention on the context-dependent relationships of part to part and part to whole (Shweder and Bourne, 1984). This view frequently takes the human body, conceived as an interdependent system, as a metaphor for society. An example of this view is reflected in the following description of Balinese life as pointed out by Geertz (1975):

physical men come and go - mere incidents in a happen-stance history of no genuine importance, even to themselves. But the masks they wear, the stage they occupy, the parts they play, and most important, the spectacle they mount remain and constitute not the facade but the substance of things, not least the self (p. 50).

Similar observations have been made in respect of Japanese culture. Fenollosa (1959) explains that in a Japanese play "the emotion is always fixed upon idea, not upon personality" (p. 279). The above view of the self in Japan can also be observed in language. In Japanese language the singular and plural is expressed in terms of human relationships and not in terms of number (Nakamura, 1967). This concept of self follows from the three traditions which have had a major influence on Japanese society - Shinto, Confucianism and Buddhism. In Shinto there is no absolute distinction between the divine, the human and the natural, rather they form a continuum (Nitobe, 1967).

Confucianism emphasises the family as the base of a persons operation and also as an ethical unit of society. In the Chinese society where Confucianism originated, nature is viewed as an organism, an interrelated interdependent totality of many parts in which non-dialectical or reciprocal forces are at work (Bishop, 1985). At the top of the Confucian ethical system is the concept of filial piety which defines the relationship between parents and children (Wu, 1979). Mencius states, "The content of benevolence is the serving of one's parents; the content of dutifulness is the obedience to one's elder brothers; the content of wisdom is to understand these two and to hold fast to them" (quoted in Lau, 1970, p. 153).

Kahn (1979) attributes much of the success of East-Asian organisations to certain traits shared by the majority of members of the organisations that were directly related to their upbringing in the Confucian tradition (Cited in Chang, 1985, p. 145). Western researchers have been warned against inadvertently attributing the presence of the individual to societies in which the individual is not recognised (e.g., Dumont, 1960).

The two concepts of the self could possibly flow from different concepts of freedom in East and West. In the West an individual is said to be free, when s/he is free from external constraint, so that s/he can make a choice and proceed to satisfy his/her own desires. The dominant orientation in the East is that one who is merely free from external constraints is by no means really free because freedom is liberation from the internal forces e.g., desires (Burt, 1965; Bishop, 1975; Copleston, 1980).

Buddha prescribed the eight-fold middle way consisting of right views, resolve, speech, conduct, livelihood, efforts, mindfulness and concentration to attain freedom. This view of freedom is also prominent in Taoism. Lao Tze, the founder of Taoism, wrote "Let people hold on to these: Manifest plainness, embrace simplicity, reduce selfishness, have few desires" (Quoted in Bishop, 1985, p. 450).

In summary, the Anglo-American view of the individual-social relationship is based on the primacy of the individual and this becomes the focal point for all structures and institutions. The relationship between the individual and society is assumed to be based on contracts that an individual makes with other individuals or groups of individuals. It is also assumed that there is no generalisable societal interest apart from collective self-interest. To prevent abuse in the contractual process the society identifies certain non-alienable rights for contracting parties. In contrast, the East-Asian view of the individual-social relationship is derived from family and society. The actions of the individual reflect on the family and society, and therefore the family and society place certain obligations on the individual. The actions of the individual are directed at benefiting the group as much as the individual, and an individual expelled from the group does not have an identity.

6.3 METAPHYSICAL NOTIONS AND CULTURAL VALUES

D'Andrade (1984) identifies three major views about the nature of culture. First is a notion of culture as knowledge; as the accumulation of information, i.e., culture is something a society has. In this view culture is not highly integrated; the knowledge concerning how to act in a business meeting has no particular connection or relation to the knowledge needed to design offices. The second view is that culture consists of 'conceptual structures' that create the central reality of a people, so that they inhabit the world they imagine (Geertz, 1973). On this view culture is something a society is, and the whole system is interrelated but not necessarily without contradictions. The third view of the nature of culture falls between the above two views.

The different views of culture also coincide with two major approaches to the study of culture. The first is to study the wealth of detailed facts in which the nature of a living culture is manifested, the second to study the framework of basic categories through which those facts gain coherent meaning (Burt, 1965). Most of the cultural studies that have influenced accounting research have been based on the first approach, e.g., Parsons and Shils (1959); Hofstede (1980). Burt (1965) argues that the second approach is as important or more so because the basic categories or ultimate concepts

do not merely serve as principles of explanation, of truth, of reality; they express the prevailing decisions of a living culture as to what sort of thing an explanation should be, what kind of truth is worth seeking, what type of event it is wise to take as real (p. 253).

Schein (1981) explains the interrelationships between metaphysics, philosophy, culture and human behaviour in terms of three different levels of culture, i.e., artifacts and creations, values and ideologies, and basic assumptions and premises (Figure 1). Artifacts and creations are the visible manifestations of a culture, which include, among other things, art, language and technology. Though this level is highly visible, it is often not decipherable in the sense that the new comer to the culture cannot figure out "what is really going on", what values or assumptions tie together the various visible manifestations, e.g., behaviour patterns.

Values and ideology are the rules, principles, norms, morals and ethics which guide both the ends of a given society (group) and the means by which to accomplish them. They usually define, among other things, what intergroup relationships and interpersonal relationships are appropriate to strive for. It is at this level where differences are felt most strongly, because of the penalties associated with behaving inappropriately. Cross-cultural studies often focus on issues at this level.

Basic assumptions and premises represent the underlying and often taken for granted philosophical position with regard to the nature of truth and reality, the nature of human beings, "man's" relationship to nature, "man's" relationship to "man", the nature of time, and the nature of space (Kluckhohn and Stodtbeck, 1961). These assumptions create the cultural core or essence, provide the key to deciphering the values and artifacts, and create the patterning that characterises cultural phenomena. The concern at this level is with metaphysical and philosophical issues.

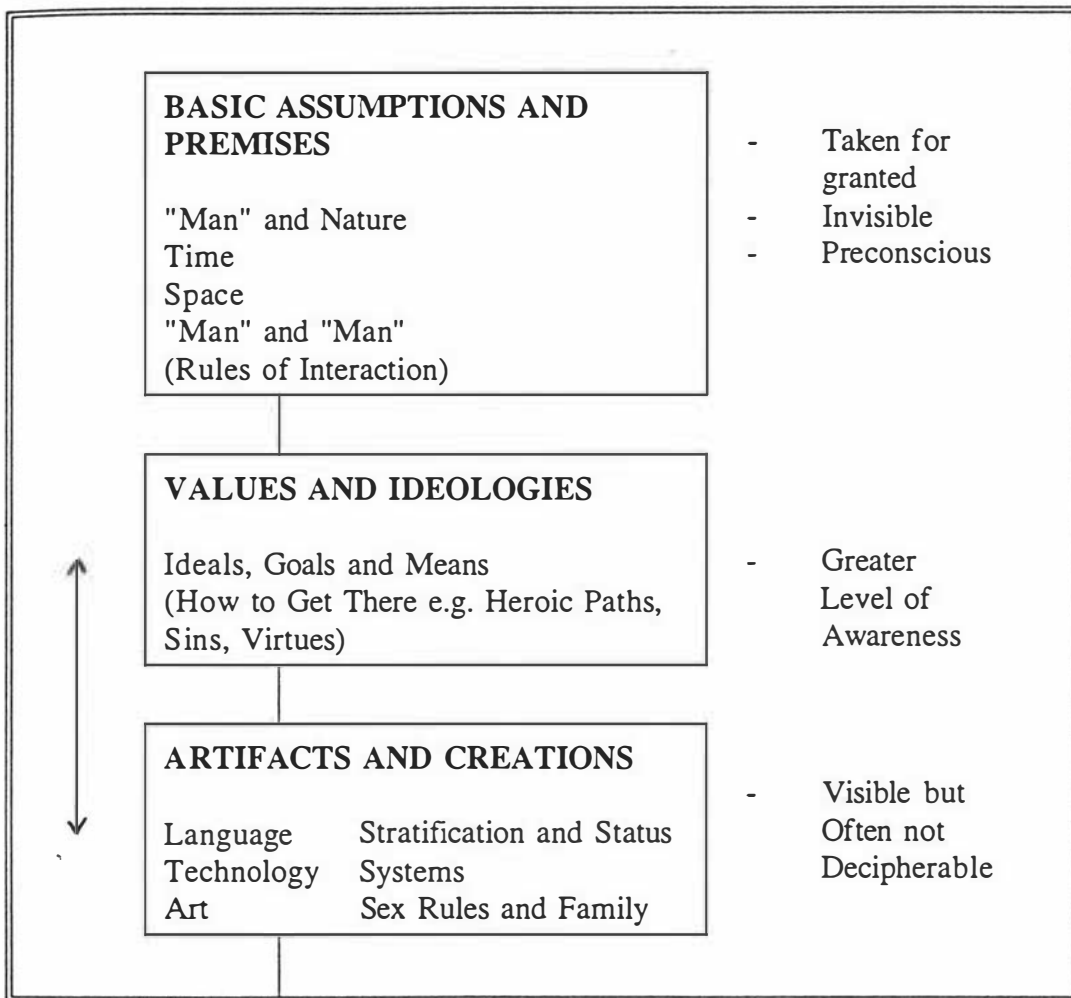
As discussed earlier, the development of societal/cultural values is influenced by the metaphysical notions. The Anglo-American concept of freedom as one concerning the right to make a choice and act, creates a culture based on the concept of rights; while the Eastern concept of freedom and the emphasis on the group contributes to the development of a culture based on obligations. Bishop (1975) explains that,

The illusion of separateness leads to a philosophy of excessive individualism. Each sees himself as undisputed master of himself and all he surveys. Persons think of themselves as self made and self dependent. Each views himself as unique and different. It stimulates a rights view of life wherein the individual sees himself in a context against which he must assert himself to protect, maintain and realize his individuality and certain supposedly 'inalienable' rights (p. 364).

This view can be related to the major philosophical works in recent times. Parsons (1968, p. 72) argues that the concept of 'individualism' was not only influential in shaping social thought in the ethical contexts but also the current positivistic social thought.

Kawashima (1967) in his review of the status of the individual in Japanese law highlights the importance of the concept of obligation and the absence of the notion of

Figure 6.1: The Levels of Culture



Source: Schein, 1981, P. 64.

rights. It is further emphasised that an individual is not considered to be an independent entity (Kawashima, 1967). In recent times although the concept of rights has been adopted in East-Asia, it is understood as secondary to more fundamental norms and relationships (MacIntyre, 1990b).

From the above analysis one can assume rights to be closely aligned with individualism and obligations to be closely aligned with collectivism. These relationships are very similar to those identified by Hofstede (1980) who found Western countries to be more individualistic and Asian countries to be more collectivistic. The individualism/collectivism dimension relates to the degree of integration a society maintains among its members, or the relationship between an individual and his/her fellow individuals. Individualism represents a preference for a loosely knit social framework wherein individuals are supposed to take care of themselves and their

immediate families only. On the other hand, collectivism represents a preference for a tightly knit social framework in which individuals can expect their relatives or other in-group to look after them in exchange for unquestioning loyalty.

In an individualistic society where rights imply some sort of freedom and power to act, its members would be in a continuous struggle to reduce the power distance among them because power distance indicates an inequality in rights. This could explain Hofstede's (1980) findings of the correlation between high individualism and small power distance. For high individualism to translate into small power distance other conditions would also be necessary, e.g., economic development and scarcity of labour. This could be the reason why many Latin American countries are highly individualistic with large power distance. On the other hand low power distance does not necessarily imply individualism. It is important to be able to appreciate the influence of metaphysical notions on societal/cultural values in understanding Hofstede's studies on cultures' consequences as well as other studies which attempt to explain the association between accounting and culture using Hofstede's work as the basis (e.g. Gray, 1988; Perera, 1989; Belkaoui, 1989).

Torrence (1984) summarises the differences between Japan and the U.S. in terms of their value orientations as follows:

Japan has, relatively speaking, a highly disciplined, closed, mono-religious, and homogeneous culture, while the United States has a heterogeneous, multi-religious, nonconforming, and litigious society. The concept of "family" and "group" in Japan appears to be paramount, while the concepts of "self" and "self-fulfilment" seem to predominate in U.S. culture (p. 32).

Torrence (1984) further explains that the limited consciousness of "rights" in Japan is due to the emphasis placed on the virtues of social and workforce harmony required for survival. This in turn is related to Japan's historical respect for hierarchical authority, its small geographic size, and its relatively limited natural resources base. In the U.S., on the other hand, the emphasis is on people's individuality and their constitutionally and statutorily guaranteed rights to quarrel about and pursue those rights and equities (p. 33).

6.4 ACCOUNTING IN ORGANISATIONS AND SOCIETY

The role of accounting in organisations and society is likely to be dependent on the perceived nature and purpose of organisations as well as the individual-social relationships within society.

6.4.1 Nature and Purpose of Organisations

The nature and purpose of organisations can be traced back to the metaphysical notions such as self. Organisations in the West can be broadly divided into non-profit organisations and profit motivated organisations. The first type of organisations which would include both state and private-community organisations exists to provide services for the general community regardless of ownership considerations, i.e., they are public property including the assets they own. Profit motivated organisations mainly exist to serve the interest of investors and creditors - private property. This distinction is most clearly emphasised in Anglo-American countries and less so in continental European countries (Sheridan, 1994).

The clear distinction between public property and private property follows from the Western concept of the self. For the self to truly abstract itself from the social context, a clear identification of ownership is essential so that the individual has freedom to act on the property. The primary function of property rights, according to Demsetz (1967) "is that of guiding incentives to achieve a greater internalisation of externalities" (p. 348). Potential externalities include all costs and benefits associated with social interdependencies (Demsetz, 1967). The view that relationships among individuals are governed by contracts is emphasised in the case of the firm by Jensen and Meckling (1976), who point out that "most organizations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals" (p. 310).

One of the major concerns in Western economic thought is the maintenance of control over private property in the current environment characterised by the growth of giant corporations (Berle and Means, 1932). The above concerns have contributed to the

development of clear principles concerning the power of shareholders and managers, mechanisms to monitor the performance of contractual obligations (Fama and Jensen, 1983), and the establishment of efficient markets in financial securities.

In many Western countries the relationship between organisations is similar to the concept of the self, and is based on the law of contradiction mentioned by Lee (1959). That is a company that is independent should not co-operate even if they are in different industries, and if a company is a subsidiary, it cannot be independent. These principles form the basis for anti-trust legislation and corporate structure in Western countries, particularly in the U.S..

Whilst the distinction between private and public organisations has been adopted in principle in most Asian countries, it is not so clear in practice. Fraser (1989) identifies that many of the private corporations formed in the late 19th century and early 20th century in Japan were headed by former feudal lords and the main purpose was the development of provincial domains. Kao (1993) argues that for most Chinese entrepreneurs (even those who are Westernised), the enterprise is a means for exerting control, and for achieving security in a disordered world. Kao (1993) also points out that most property is family property - "a business enterprise is created as a familial life raft" (p. 25), and investment is based on community considerations - "investment must be based on kinship or clan affiliations, not abstract principles" (p. 25).

Takatera and Yamamoto (1989) point out that a distinguishing feature of Japanese culture is the co-existence of conflicting or seemingly mutually exclusive tendencies, which cannot be expected in the West (pp. 238-240). For example, co-operation and competition as social values are not mutually contradictory, because the adoption of one of them does not automatically imply the rejection of the other. In fact, Dore (1986) identifies this cultural feature as the main reason for the high economic growth in Japan. It has enabled the Japanese to absorb new ideas from the West without causing disruption to the traditional social structures, because the historically structured rigidities are flexible enough to absorb structural change.

In Japan, property might be owned privately but managed in a collective manner. A major portion of investment in private organisations is by mutual life insurance companies whose major source of funds is premium income from policy holders (Nishiyama, 1982). Policy holders in contrast to owners of other financial securities cannot trade their interest in the policies easily, and therefore they have little individual control over their property. Nishiyama (1982) argues that capitalism in the sense it is understood in the West effectively ended in Japan when mutual life insurance companies came to monopolise the stocks of banks and large firms.

The relationship of organisations in the East also follows from the different concept of the self, i.e., it derives its identity from the group. This is highly visible in the corporate structures in Japan and Korea, popularly referred to as *Zaibatsu* (*horizontal keiretsu*) and *Keiretsu* (*vertical keiretsu*) in Japan, and *Chaebol* in Korea. *Zaibatsu* refers to enterprise groupings among large independent firms usually in different industries while *Keiretsu* refers to the vertical link between large firms and small to medium size enterprises usually a sub-contracting relationship (Yoshino, 1968).

The *Zaibatsu* concept originates in the pre-world war II period when powerful families exerted firm control over individual firms in a group. Yonekawa (1981) defines a *Zaibatsu* as "a diversified corporate group which is tied to the 'ieh' concept based upon family (plural members) and/or blood related plural kinfolks". Whilst American occupation authorities legally dissolved them and attempted to set up a new economic system based on the U.S. model (Bisson, 1954), after the occupation the companies regrouped, although this time not so much based on family but common interest (Johnson, 1982). In the post war period a new variant of the intermarket group emerged referred to by Clark (1979) as the 'bank group' which consists of companies dependent for funds on a major bank (e.g., Fuji and Dai-ichi). The purpose of the alliance is also quite different from those in Anglo-American countries, the emphasis is not on market share but rather on providing mutual support financially (group bank) and trading through Sogo Shosha (group trading company).

The smaller companies in a *Keiretsu* have a similar relationship as a child to a parent. The obligations and responsibilities are not contractual nor do they arise out of economic control, rather they are arrived at by consensus. The parent supports the growth of the child, and the child understands that its success is dependent on the success of the parent and others in the family. The distinctively paternalistic orientation of the behaviour of Japanese companies, compared to attitudes of American companies, has been well documented in the literature (e.g., Vogel, 1971; Marsh and Mannari, 1976; Azumi, 1978; and Lincoln, Handa and Olson, 1981). The roots of that distinction may be characteristic of the Japanese "familism" or "collectivism" that stands in contrast to American individualism (Chang, 1985, p. 146). In the U.S., paternalism by managers in their dealings with subordinates is seen as "invasion of privacy". It is feared that if an individual is taken care of by an organisation, he or she may lose the ability to fight for himself or herself. Further, dependency, security orientation and allowing others to solve one's problems are viewed as signs of failure (Kluckhohn and Stodtbeck, 1961, p. 66). The rise of the Yen against the US\$ and the collapse of the property market has placed great strain on the *Keiretsu* relationship. These developments have led the large firms to put pressure on the smaller firms to reduce cost as well as limit financial support to ensure their own survival. Miyashita and Russel (1994) argue that the small and medium size enterprises have been used as 'shock absorbers' by the parent companies.

Companies within a *Zaibatsu* or *Keiretsu* are independent enough to be entrepreneurial, but with the assurance of support from the group. Members within a group are not forced to make intergroup purchases but are rather encouraged to do so. This ensures that member companies who hope to enjoy intergroup trade have to be as efficient as companies outside the group. Competition is much stiffer in the Japanese market because the companies in a *Zaibatsu* are usually not in the same industry and each *Zaibatsu* has a representative company in most major industries (Yonekawa, 1981).

The *Chaebols* in South-Korea adopt a more narrow view of the family, it is usually limited to the immediate family or blood relatives. The economic ownership of companies within a *Chaebol* is also greater and therefore the control exercised is greater. This contributes to reduced flexibility enjoyed by group members (Hattori, 1989). In

addition, the *Chaebols* are directly managed by the state through planning agencies and fiscal controls (Hamilton and Biggart, 1988).

6.4.2 Role of Accounting

The different notions about the nature and purpose of organisations, that exist in the East and the West would seem to influence many areas of accounting including external and internal reporting.

External Financial Reporting: The general approach to the study of the role of accounting in organisations and society has been based on the view that accounting develops mainly in response to business needs at any given time, and that its growth is generally relative to economic progress (Chatfield, 1977). This view has been used to develop different objectives for accounting information in different times, e.g., to demonstrate stewardship, to aid economic decision making and to demonstrate accountability. The different types of information required for business needs have also been used to rationalise different valuation and measurement methods (e.g., Chambers, 1966, Edwards and Bell, 1961).

In recent times, however, alternative views have been put forward regarding the role of accounting in society. For example, Gambling (1977) points out that accounting information is often after the fact justification of decisions that were taken for non-logical reasons in the first place. He also argued that the main function of accounting information was for maintaining morale in the face of uncertainty. According to Hofstede (1985), "accounting systems in organisations are best understood as uncertainty reducing rituals, fulfilling a cultural need for certainty, simplicity and truth in a confusing world, regardless of whether this truth has any objective base" (p. 4). He equates the role of accountants in society to that of "purification, or the washing away of sins" (p. 9).

It has also been pointed out that accounting has other unintended effects on organisations and society, e.g., the creation of particular patterns of organisational

visibility (Becker & Neuheuser, 1975), legitimisation of current social, economic and political arrangements (Richardson, 1987), and the articulation of different forms of management structure (Chandler and Deams, 1979). These unintended effects are due to the importance placed on what is accounted.

Whilst the intended or expected role of accounting in organisations and society can be rationalised based on economic requirements, the actual use and form as well as the information contained is dependent on societal values. Based on the existence of efficient markets in financial securities the principal goal of firms, for example, in the United States is growth in earning per share (Stonehill *et al*, 1975). Following from this it is observed that unexpected increases in earnings are accompanied by positive abnormal rates of return and unexpected decreases by negative abnormal rates of return in the sale of securities - efficient market hypothesis (Ball and Brown, 1968).

Following from the above it is also asserted that accounting data might be useful in predicting bankruptcy. Numerous studies have shown this to be true in many Western countries (e.g., Altman, 1968; Ohlson, 1980). More recently, Watts and Zimmerman (1986) following from Jensen and Meckling's (1976) view that a firm serves as a nexus for a set of contracting relationships, argue that accounting numbers and auditing serve as devices for monitoring contractual terms. This argument is supported by findings that indicate accounting numbers are frequently used in contracts (debt contracts, management compensation plans, corporate charters and by-laws). Based on the above, a number of hypotheses concerning managers' actions in relation to accounting procedure have been developed and tested e.g., bonus plan hypothesis, political cost hypothesis and debt/equity hypothesis (Watts and Zimmerman, 1986).

In the East, however, the firm is viewed as an organism, the different members bound by different sets of obligations (Matsushita, 1984). This view of the firm is supported by negative results when the hypotheses described above were tested. Stonehill *et al* (1975) found the principal financial goal in Japanese firms to be growth in after tax earnings followed by return on sales. They also found that stockholders of most large Japanese firms can be classified into two categories: (1) non-related (public)

stockholders, and (2) related stockholders. The first group were usually found to own a relatively small proportion of common stock, but contributing to the major portion of trading on the Tokyo Stock Exchange.

Suzuki and Wright (1985) show that accounting numbers have little use in predicting bankruptcy in Japan. They also point out that financial structures and the nature of financial risk in Japanese companies differ substantially from those of U.S. firms and highlight the point that the individual company cannot be viewed realistically as an independent financial entity. There is evidence in the literature that suggests the existence of significant differences between U.S. and Japanese firms in terms of the financial structures based on balance sheet analysis (Sarathy and Chatterjee, 1984), e.g., the agency-debt relationship and agency-equity relationship (Dodd and Millar, 1990). Japanese stockholders and debtholders seem to rely less on accounting information to monitor and control managers. This could explain the less politicised nature of standard setting in Japan compared to the Anglo-American countries which are characterised by largely self-regulated accounting professions. The low level of compliance with the accounting standards promulgated by the professional organisations in these countries, a major problem in recent years, has been attributed partly to the absence of adequate opportunities for investors and creditors to participate in the standard setting process. The recent changes to the institutional arrangements for setting accounting standards, which have resulted in a highly complex political process, clearly reflect this concern.

In Japan, only corporations covered by the Securities and Exchange law are required to have independent audits by Certified Public Accountants (Lawrence, 1993). In addition, other forms of social control are often used e.g., the concept referred to as "loss of face for failure". This could also in part explain the lower number of accountants per million of population in Japan compared to many Western countries (Khanbanda & Stallworthy, 1991).

Internal reporting: The design of management accounting systems depends on the use of management accounting information in the organisation. Because of the constant struggle to reduce power distance in many Western countries and the emphasis on

empirical-numerical information, management accounting information systems are decision oriented, and management depend on accounting information for the legitimisation of their decisions. In contrast, larger power distances require less justifications for decisions by management. It has also been highlighted that the function of management accounting in Japan is different from that in the West, that is to influence rather than to inform (Hariman, 1990). The use of target costing and the allocation of overhead based on direct labour are examples of the above emphasis of management accounting in Japan (Hiromoto, 1988). Takatera and Yamamoto (1989) point out that management accounting also plays a role in the harmonisation of economic and financial values with social and organisational values.

In recent times, Japanese management systems such as just-in-time (JIT) production and quality control have received wide publicity in the West. The goal of JIT has been defined as "to produce instantaneously, with perfect quality and minimum waste" (Bicheno, 1987). This is achieved by organising in such a way so as to minimise inventories and stocks, and to encourage a sense of product 'ownership' (Oliver and Wilkinson, 1989). The smooth implementation of this system demands competence and commitment on the part of employees and suppliers beyond normal contractual obligations because the system is inherently vulnerable to disruption, accidental or otherwise (Newman, 1988). Dyer and Ouchi (1993) highlight that supplier relationships are critical to the success of Japanese Firms.

The *Keiretsu* system already existent in Japan was a perfect setting for the development of just-in-time production when the right computer technology was available. The bond established by top management of companies within the group facilitates staff at the technical level to work as a group as well as to share technology. There is also an understanding between the subcontractor and purchaser that the contractual agreement will not be severed for short term gains.

The individualistic atmosphere may not be suitable for the implementation of JIT. Treece (1992) explains the reasons by describing what happened at General Motors when Ignacia Lopez attempted to revamp the purchasing department. Rather than

working with suppliers to cut costs, Lopez decided to tear up existing contracts and to demand immediate price cuts from suppliers based on blueprints drawn by one supplier. During a period when suppliers are suffering from excess capacity they will sacrifice profits and provide the purchaser with low cost parts, but when they have a dominant market share the suppliers will demand premium for their products from the purchaser. It develops into a cycle of mutual exploitation by the supplier and purchaser, and in the process contributing to the demise of both.

In recent times, criticisms of JIT production have also begun to appear in the literature. Berggren (1993) challenges the view that JIT production provides better products in wider variety at lower cost, and that it provides more fulfilling work for employees. It is pointed out that JIT production eliminates all slack in inventories resulting in the removal of buffers as well. This, Berggren (1993) argues, requires employees to become the buffers in the production system resulting in unlimited performance demands, long working hours, requirements to work overtime on short notice and recurrent health and safety complaints.

There are two key elements to the success of quality control in Japan (Feigenbaum, 1983). The first is the introduction of statistical quality control techniques pioneered by Deming and second the quality control (QC) circles (Ross and Ross, 1982). The first element, principally a mechanical operation, has been adopted worldwide reasonably successfully. The success of QC circles has however been limited outside Japan. The concept of QC circles, defined in the Union of Japanese Scientist and Engineers (1980) Handbook as a "small group - to perform voluntary quality control activities - within the same workshop" (p. 1), is a human resource management tool highly dependent on the value orientation of society, e.g., individualistic or collectivistic. This has contributed to the popularisation of team work in the West (Peters and Waterman, 1982).

In the initial euphoria of introducing Japanese management techniques, the resistance to teamwork seemed to be minimal, in recent times however, evidence of resistance in practice (Economist, September 5, 1992, p. 73) as well as in academic thinking (Sinclair, 1992) seems to be more apparent. Wheelwright and Clark (1992) found that many

Western companies shy away from creating truly cross-functional teams because their ingrained corporate hierarchies put up too strong a resistance. Sinclair (1992) argues that "People at work have been tyrannised by a team ideology that camouflages coercion and conflict with the appearance of consultation and cohesion.

Willmott (1993) questions the need to strengthen 'corporate culture' in organisations and argues that 'corporate culture' has subjugating and totalitarian implications for the individual. Dassbach (1994) shows that Japanese success cannot be emulated simply through the adoption of techniques such as JIT and QC circles because it is the aggregate result of the techniques in the contexts of Japanese Society. It is argued that social control in Japanese society is a key ingredient in success, and that the most important function of team organisation is control. The continuous struggle to reduce power distance in the West would be an important factor in the strong resistance.

6.5 SUMMARY

In this chapter it is shown that beliefs and values have a major impact on our interpretation and application of accounting. This is shown through an analysis of differences in East-Asian and Anglo-American management and accounting thoughts. It has been argued that the differences can be traced back to the differences in the metaphysical notions of self and freedom prevalent in the East and West.

The mechanism by which metaphysical notions are likely to influence accounting has been identified through a series of possible relationships between metaphysics, culture and accounting. Two alternative conceptualisations of the individual-social relationships are identified and shown to be the focal point for all structures and institutions. The Anglo-American view is based on the primacy of the individual and this becomes the focal point for all structures and institutions. The relationship between the individual and society is assumed to be based on contracts that an individual makes with other individuals or groups of individuals. To prevent abuse in the contractual process the society identifies certain non-alienable rights for contracting parties. In contrast, the identity of the self in the East derives from family and society. The actions of the

individual reflects on the family and society, and therefore the family and society place certain obligations on the individual. The actions of the individual are directed at benefiting the group as much as the individual, and an individual expelled from the group does not have an identity.

It has been argued that the notions of self and freedom provide the basis for the development of cultural values within a society, which in turn determine both the nature and purpose of organisations and the role of accounting within that society.

The above analysis provides further evidence for the argument that a technical/rational model for the development of professional knowledge in accounting is bound to fail. In the next chapter an attempt is made to develop an alternative model for accounting practices that accommodates the beliefs and values that exist in everyday interpretation and application of accounting.

CHAPTER SEVEN: THE REFLECTIVE ACCOUNTANT: AN ALTERNATIVE MODEL FOR PROFESSIONAL DEVELOPMENT

7.1 INTRODUCTION

In Chapter Two it was highlighted that professional activity principally consists of incremental problem solving made rigorous by the application of scientific theory and practice. It was further pointed out that the theory and practice was arrived at through the technical/rational process (Schein, 1972). A review of the accounting theories in Chapter Five however, shows that the accounting discipline has been unsuccessful in developing a generally accepted accounting theory.

In Chapter Six it was shown that our interpretation and application of accounting knowledge is influenced by our beliefs of the self and freedom. This highlights the necessity of taking into consideration the beliefs and values of the environment (society, organisations and individuals) in which accounting is practiced. Furthermore, the environment in which accounting functions has also become increasingly dynamic, uncertain, complex and competitive. The impact of the above pressures on the professional can be summarised as follows:

the professional today lies in the fact that both ends of the gap, he is expected to bridge with his profession are changing so rapidly: the body of knowledge that he must use and expectations of the society he must serve. Both these changes have their origin in the same common factor - technological change. (Brooks, 1967, p. 89).

Hopwood *et al* (1990) argue that the profession occupies a fluid and shifting domain which has caused "accounting to repeatedly become what it was not" (p. 105). The dynamic and uncertain environment has also contributed to a fragmentation of the needs of accounting information users. The accountant in preparing accounting information has to develop new models to meet the information needs of different users. This has also made attempts to develop a single coherent theory of accounting illusive. Schon (1983) taking a similar view, argues that the uncertainty, complexity, instability, uniqueness and value conflict in professional practice have led to professional pluralism, i.e., competing

views of professional practice and competing images of the professional role. In accounting this is reflected in the works of Davis, Menon & Morgan (1982).

Schon (1983) recognised the crisis particularly in his discipline, Urban Studies and Planning, and extended his inquiry into other professions. In an attempt to explain the nature of professional crises Schon (1983) argues that the key characteristic that distinguishes successful professionals is their ability to reflect on their activities, hence the concept "reflective practitioner". He provides useful insights into the issues associated with present situation faced by professions in general. Schon's ideas have created a considerable level of debate in a number of professions, e.g., education (Furlong *et al*, 1988; Barrow, 1990) and architecture (Hunt, 1990).

This chapter proposes to consider the relevance of Schon's concept of the reflective practitioner to accounting and suggest a model for professional development based on that concept as an alternative to the technical/rational model. The rest of the chapter is organised into three sections. The first section identifies the problems with the technical/rational model and relates it to the importance of 'problem setting' as a professional activity in a rapidly changing environment. The section also introduces the concept of 'reflection-in-action' as an essential quality in a modern professional. The second section discusses the implications of this concept for accounting, with a general summary and conclusion being provided in the last section.

7.2 NEED FOR A NEW MODEL

Schon (1983) highlights that the technical/rational model is not suitable for knowledge development in the current environment. First, it is argued that the technical/rational model of professional knowledge has been largely responsible for the separation of research from practice as highlighted in Chapter Five. Researchers are expected to provide the basic and applied science to derive the techniques for diagnosing and solving the problems of practice. Practitioners in turn furnish the researchers with problems for study and a ground for testing the utility of research results. The above, it is argued has resulted in practitioners and researchers living in different worlds, working in different

institutions, pursuing different enterprises, with little to say to each other (Schon, 1983). This is reflected in the accounting discipline by the widening gap between accounting research and practice (Baxter, 1988).

Second it is argued that the dominance of the technical/rational model of professional knowledge development has also led to the 'dilemma of rigour or relevance', i.e., the exclusion of methods that are not based on rigorous controlled experiments to test hypotheses. Schon (1983) summarises the situation as follows:

In the varied topography of professional practice, there is a high hard ground where practitioners can make use of research based theory and technique, and there is a swampy lowland where situations are confusing 'messes' incapable of technical solution. The difficulty is that the problems of the high ground, however great their technical interest, are often relatively unimportant to clients or to the larger society..... Shall the practitioner stay on the high, hard ground where he can practice rigorously, as he understands rigour, but where he is constrained to deal with problems of relatively little social importance? Or shall he descend to the swamp where he can engage the most important and challenging problems if he is willing to forsake technical rigour? (p. 42).

The outcome of this development is the simplification of the problem situation to fit the knowledge available and not the knowledge fitting the problem.

Third, it is highlighted that the emphasis on objective means of evaluation and accountability in organisations by the accounting profession has contributed to increasing levels of resentment from others, e.g., public sector health professionals, to the profession. Accountants are viewed as insensitive and inflexible to the needs of others. This view has been of concern to the accounting profession as reflected by the following paragraph in a case study:

Medical Superintendent: These accountants do not understand our problems. We have patients to save and all they can talk about are cash limits and budget targets. The trouble with the National Health Service is insufficient funds and too many accountants (Wilson & Chua, 1988, p. 372).

Such views can mainly be attributed to the technical expertise model adopted by the profession in recent years, leading to the 'we know the cure for all financial problems' attitude of accountants. As highlighted in Chapter Two, the professional - client relationship is one in which the professional is considered to possess special competence

in a specific area and therefore assumed to know what is good for the client better than the clients themselves. The professional is in principle accountable to the client but his/her performance can normally only be judged by the professional's peers who develop ethical and professional standards as a basis for judgement (Schein, 1972). This relationship initially contributed to the immense prestige enjoyed by professionals but in recent times it has also contributed to general disenchantment with the professions, even prompting some to call for the demystification of professional knowledge (Illich, 1970; Larson, 1979).

Fourth, it is pointed out, that in a complex, uncertain and dynamic world problems do not present themselves to the professional as givens. They must be constructed from the materials of problematic situations which are puzzling, troubling and uncertain (Schon, 1983). This aspect of professional practice which is becoming increasingly important is explained thus:

They [professionals] are coming to recognise that although problem setting is a necessary condition for problem solving, it is not itself a technical problem. When we set the problem we select what we will treat as the 'things' of the situation, we set the boundaries of our attention to it, and we impose upon it a coherence which allows us to say what is wrong and in what direction the situation needs to be changed. Problem setting is a process in which, interactively we name the things to which we will attend and frame the context in which we will attend to them (Schon, 1987, p. 40).

Ackoff (1979), one of the founders of the field of operations research, argues that techniques and principles taught to professionals are useful for solving problems that are independent, but not for managing dynamic situations that consist of complex systems of changing problems that interact with each other, which he terms 'messes'.

Setting problems is more akin to designing. A good example to differentiate problem setting from problem solving is the difference between the functions of the systems designer and the programmer. The designer identifies the things needing attention, and the direction the situation needs to be changed. S/he also interactively names the things to which s/he will attend and the contexts in which s/he will attend to them. S/he then prepares the specification for development of the program. The programmer is responsible for writing the program, which is the problem solving part. Now there are

computer software to develop simple programs when the boundaries and requirements are specified, but there are no software to identify the boundaries and objectives. The advent of computers and increasing environmental complexity has shifted the principal activity of accountants from problem solving to problem setting. This would mean that, as Schon (1983) argues, in the working environment the successful professional, in addition to knowledge should possess intuition, vision and problem setting skills.

7.2.1 Reflection-in-action

Schon (1983) points out that in our daily life we exhibit various spontaneous skills we cannot describe. This he terms knowing-in-action, and describes it as follows:

When we go about the spontaneous, intuitive performance of the actions of everyday life, we show ourselves to be knowledgeable in a special way. Often we cannot say what it is that we know. When we try to describe it we find ourselves at a loss, or we produce descriptions that are obviously inappropriate. Our knowing is ordinarily tacit, implicit in our pattern of action and in our feel for the stuff with which we are dealing. It seems right to say that our knowing is in our action (p. 49).

The knowing-in-action described above is responsible for many of the judgements professionals make in their day to day practice and the concept that skilful action often reveals a 'knowing more than we can say' is accepted by several writers on the epistemology of practice (Barnard, 1938; Ryle, 1949; Polanyi, 1967). Psycholinguists have noted that we speak in conformity with rules of phonology and syntax which most of us cannot describe (Chomsky, 1968). This view is also supported by Feyerabend (1988) who argues that only a fraction of our 'tacit knowledge' can be articulated in speech.

Normally we as individuals do not stop to think about what we are doing because the results of our action are in line with our expectations. This however will be different when the results are better or worse than expected. This is also true of professionals in that when similar situations are encountered, the actions are repetitive and routine; they do not stop to think about what they are doing, and they usually only reflect on their actions when faced with unexpected results. The professional then analyses how the problem was framed and the skills, knowledge and past experiences used in attacking

the problem. Sometimes this process does not take place after the action but during the action itself, e.g., the bowler adapting his\her bowling style to the peculiarities of a particular batter.

Schon (1983) emphasises that the distinguishing factor between a successful and not so successful professional is not knowledge per se but the ability to manage large amounts of information, to spin out long lines of invention and inferences and the capacity to hold several ways of looking at things at once without disrupting the flow of inquiry. Reflection-in-action is then a process of continual experimentation in framing of a problem situation and application of prior knowledge and experience to achieve favourable results. The practitioner is then one who is constantly having a reflective conversation with the problem situation.

The sequence of 'moments' in the process of reflection-in-action therefore are:

1. A situation of action evokes a spontaneous, routinised response delivered without conscious deliberation.
2. An unexpected outcome, pleasant or unpleasant produces a surprise that attracts the attention.
3. The surprise leads to reflection on ones initial response to the situation.
4. This reflection could lead one to restructure strategies of action, understanding of phenomena, and ways of framing problems.
5. The new structure of action based on new understanding is experimented with and improved on.

One of the main criticisms of reflection-in-action is that reflection could inhibit action. Schon (1983) accepts that, reflection could lead to paralysis which could be dangerous in actions requiring immediate response. Schon however argues that practitioners who

do not reflect on their own inquiry, keep their intuitive understanding tacit and could become inattentive, which in turn could lead to patterns of error they cannot correct. Schon (1983) calls this overlearning. This point is also taken up by Feyerabend (1988):

Every description of observable events has what one might call an 'objective' side - we recognize that it 'fits' a particular situation - and 'subjective' ingredients: the process of fitting description to situation modifies the situation. Features lacking in the description tend to recede into the background, outlines emphasized by the description become more distinct. The changes are noticed when the description is first introduced; they disappear when using it has become routine. The apparent objectivity of familiar 'facts' is a result of training combined with forgetfulness (p. 159).

The lack of a 'reflective' professional membership contributes to dogmatism concerning particular approaches to problem solving, the development of counterprofessionals and critical faculties amongst its members. Counterprofessionals, rather than contributing to the development of a reflective membership, lead to the polarisation of society, to pendulum swings in policy making from one extreme position to its opposite and to stalemate (Schon, 1983). The lack of reflexivity can be related to the present educational emphasis on the efficient transmission of knowledge and time pressures on professionals. A good example of the above is the current debate on professionalism which is dominated by admiration and criticism rather than reflection on the origins of the current professional ideology and its relevance to the current social environment (See Chapter Four).

7.3 A MODEL BASED ON THE CONCEPT OF 'THE REFLECTIVE ACCOUNTANT'

Reflection-in-action applied to accounting leads to the concept of reflective accountant. Professional development based on this concept would have implications for many aspects of accounting. They include practice-research relationship, professional-client relationship and professional role in organisations and society.

7.3.1 Practice - research relationship

The model of professional development based on reflection-in-action would lead to a merging of research and practice. On the one hand, practitioners would become actively engaged in research, on the other hand, enhancement of the practitioner's capacity for reflection-in-action would be the main focus of research in general. The kind of research involved here would become an activity that is undertaken for a problem, on the spot and immediately linked to action; the characteristic that distinguishes the successful companies in the frontiers of technology who are able to bring the researcher closer to the consumer. As earlier pointed out the practitioner becomes a researcher in his/her practice.

Schon (1983, pp. 145-147) points out three types of experiments a reflective practitioner will be involved in his/her practice. They are:

- a. exploratory experiments - activity of probing to get a feel for things before developing the problem frame.
- b. move-testing experiment - action undertaken to see whether the objective is achievable.
- c. hypothesis testing - action undertaken to identify the conditions necessary for achievement of objective.

These experiments would differ from present scientific experiments in that the practitioner is interested in transforming the situation from what it is to something he/she likes better, and thereby violating the canon of controlled experiments which calls for objectivity and distance.

Schon (1983, pp. 307-325) also points to four types of research that could be undertaken outside the immediate contexts of practice in order to enhance the practitioners capacity for reflection-in-action. They are:

- a. frame analysis research - the study of the ways in which practitioners frame problems and roles. This type of research would serve to improve practitioners awareness of the dilemmas inherent in professional pluralism and ways in which they construct the realities of their practice.
- b. repertoire building research - the study of how knowledge of principles are related to particular problems. Development of case studies are a form of repertoire building research.
- c. research on the process of reflection-in-action.
- d. research on fundamental methods of inquiry and overarching theories. This would include research already undertaken by academic disciplines such as philosophy and mathematics, and research on situations of uniqueness, uncertainty and instability.

In the above types of research the emphasis generally is not on the outcome but the process. The agenda of reflective research is therefore one which will be generated out of dialogue between researchers researching on reflection-in-action and practitioner-researchers (Schon, 1983). These concerns have contributed to the setting up of research departments and the development of various continuing professional education programmes within the major accounting firms and professional organisations. This could ultimately help bridge the widening gap between research and practice that exist in accounting at the present time.

7.3.2 Professional - client relationship

Schon (1983) calls for a new professional-client relationship in which the client joins the practitioner in inquiring into the situation for which help is needed, and taking responsibility for the ultimate action taken. The professional in turn agrees to deliver competent performance to the limits of his/her ability and to explain the rationale for his/her actions and advice. Therefore the new relationship between the professional and

client takes the form of a literally reflective conversation. The changes envisaged in the roles of the professional and client in their new relationship are shown in Tables I and II.

The professional - client relationship in accounting has been under considerable strain (Porter, 1990). In the normal statutory audit of companies the auditor is in principle appointed by shareholders and accountable to shareholders. This responsibility is discharged through the audit report. The auditor usually does not get into any other form of communication with the shareholders. If shareholders are unhappy with the performance of the auditor they usually seek redress through the courts. This is an expensive process leading to increase in fees which are ultimately borne by the shareholder. A new relationship could be one in which the auditor is open to queries from the shareholders e.g during the annual general meeting. Taking this one step further, the company and the interested parties could be allowed to determine the type of reports to be prepared by the auditor, because of the multiplicity in the function of accounting information. This view is already gaining support from the profession. Mednick (1991) states that:

Ideally, a future auditor should be directly responsible to the stakeholders for all knowledge gained in an engagement they would find useful in their decision making.... in moving towards this ideal the auditor will need to develop close working relationships with representatives of various stakeholder groups (p. 73).

7.3.3 Professional Role in Organisations

Weber (1940), predicted that bureaucracy would require and foster the professionalisation of its members as well as demand and reinforce the technical expertise model of professional knowledge. This is reflected in the following statement:

Bureaucratization offers above all the optimum possibility for carrying through the principle of specializing administrative functions according to purely objective considerations. Individual performances are allocated to functionaries who have specialised training and who by constant practice learn more and more (Weber, 1940, p. 13).

Table 7.1: Changes to the Role of the Professional

Traditional Role	New Role
I am presumed to know, and must claim to do so, regardless of my own uncertainty.	I am presumed to know, but I am not the only one in the situation to have relevant and important knowledge. My uncertainties may be a source of learning for me and for them.
Keep my distance from the client and hold on to the expert's role. Give the client a sense of my expertise, but convey a feeling of warmth and sympathy as a sweetener.	Seek out connections to the client's thoughts and feelings. Allow his/her respect for my knowledge to emerge from his/her discovery of it in the situation.
Look for deference and status in the clients response to my professional persona.	Look for the sense of freedom and of real connection to the client, as a consequence of no longer needing to maintain a professional facade.

Adopted from Schon, 1983, p. 300.

Table 7.2: Changes to the Role of the Client in the Client - Professional Contract.

Traditional Contract	Reflective Contract
I put myself into the professional's hands and, in doing this, I gain a sense of security based on faith.	I join with the professional in making sense of my case, and in doing this I gain a sense of increased involvement and action.
I have the comfort of being in good hands. I need only comply with his/her advice and all will be well.	I can exercise some control over the situation. I am not wholly dependent on him/her; s/he is also dependent on information and action that only I can undertake.
I am pleased to be served by the best person available.	I am pleased to be able to test my judgements about his/her competence. I enjoy the excitement of discovery about his/her knowledge, about the phenomena of his/her practice, and about myself.

Adopted from Schon, 1983, p. 302.

Schon (1983) points to two opposing forces in an organisation that determines its progress. They are:

- a. The more an organisation depends for its survival on innovation and adaptation to a changing environment, the more essential its interest in organisational learning.
- b. Surprise, which is essential to learning, is inimical to smooth organisational functioning. Thus organisations evolve systems of error detection and correction whose function is to maintain the constancy of variables critical to organisational life. They are 'dynamically conservative'.

Schon (1983) describes the impact of a reflective practitioner on an organisation as follows:

The reflective practitioner who allows himself to experience confusion and uncertainty, subjecting his frames and theories to conscious criticism and change, may increase his capacity to contribute to significant organization learning, but he also becomes, by the same token, a danger to the stable system of rules and procedures within which he is expected to deliver his technical expertise (p. 328).

The reflective practitioner would change the meaning of accountability, evaluation and supervision in organisations. There would be a shift from centrally administered, objective measures to independent and flexible measures and methods suited to the situation. The reflective practitioner would be more a facilitator rather than an expert adviser and decision maker. This is already being recognised in some circles as pointed out by Hiromoto (1991) that management accounting in the West has concentrated in developing models for producing information for decision making whilst management accounting in Japan has a more behaviour influencing focus. Preston (1986) points out that in many organisations managers do not use the formal management information system to inform themselves.

It is accepted that the tension inherent in the bureaucratisation of professional work tends to amplify when professionals seek to become reflective practitioners. Schon (1983) states, "Reflection-in-action tends to surface not only the assumptions and techniques but the values and purposes embedded in organisational knowledge" (p. 388). The reflective accountant could also become more aware of the conflicting demands

made on him/her by both the profession and organisation in the process of reflection. Improved awareness could contribute to better communication, this however does not imply a simple solution to the problem.

The new role of professionals in society would be "as agents of society's reflective conversation with its situation, agents who engage in cooperative inquiry within a framework of institutionalised contention" (Schon, 1983, p. 353). Reflective practice would contribute to the demystification of professional knowledge and the recognition that professionals are neither defenders of progress and modernisation nor are they the elite who legitimise the coercive society. This also involves a recognition that the ethos of the professional is not different compared to other members of society, but rather the professional faces moral dilemmas similar to those faced by others in society, and by reflection clarifies moral assumptions of particular programmes to him/her self, the client and others.

7.4 SUMMARY

The application of the technical/rational model of knowledge development to the accounting profession is found to be unsuccessful. It is also pointed out that the continued attempt to apply the technical/rational model to the accounting profession would make research irrelevant to practice, simplification of problem situations to fit the knowledge available and conflict with other professions in organisations. Furthermore it is highlighted that the increasingly dynamic and uncertain environment, and expanding computer power has contributed to the fragmentation of the needs of accounting information users.

The above developments have changed the function of accountants from one of problem solving to problem setting. The proposed model for professional development based on the concept of reflective practitioner emphasises the role of values in practice, and the development of practitioner-researchers flexing their knowledge to fit the problems and not simplifying the problems to fit the knowledge.

It is emphasised here that a model based on the concept of reflective accountant would enable the accounting profession to link professional development with the changing circumstances on a continuing basis. For example, in the context of such a model (contrary to fears expressed by those who see the increased use of computers as a threat to the accounting profession) the computer would not be a threat to the reflective accountant because although the computer could manage large amounts of information efficiently, and even contain an element of self development, it cannot however cope with ambiguity and does not have the capacity to hold several ways of looking at things at once. As Gandhi (1976) predicts, in the post industrial society the provision of qualitative information would become increasingly important and the reflective practitioner would be more suited to providing such information since both the needs and the methodology adopted are situation specific. Finally, the concept of reflective accountant would help address the various facets of the present crisis facing the accounting profession in a positive manner.

This chapter concludes the part of the study that focuses on the problems facing accounting practice today and the suggestion for an alternative model as highlighted in Figure 1.1 (p.9). The next two chapters (Eight and Nine) focus on the structural issues concerning the profession, in particular the study shifts to a consideration of the problems of regulating the provision of accounting services, and the role of the accounting body in the current dynamic environment.

CHAPTER EIGHT: CORPORATISATION OF PROFESSIONAL PRACTICE AND REGULATION IN ACCOUNTING

8.1 INTRODUCTION

The self-regulation of accounting services has been the subject of criticism for a long time as highlighted in Chapter Three. Mitchell (1990) equates self-regulation of the accounting profession to "inviting the poachers to act as gamekeepers" (p.21). The comment by Mitchell highlights an important feature of self-regulation, that is the providers of a service forming an association to regulate their own activities.

In Chapter Three it was also pointed out that the professional practice environment of accountants is characterised by a litigation explosion and calls for limiting the liability of the auditor (Likierman, 1990). Some of the approaches identified for limiting the liability of the professional include, capping the maximum limit of liability, forming companies with limited liability, placing contractual limits on individual pieces of work, and limiting the length of time between a negligent act and the ability to make a claim arising from it (Likierman, 1990). In the United States and United Kingdom, limiting liability through the formation of limited liability companies or corporatisation has been made an available option. There has, however, been little discussion in the academic literature on the impact of corporatisation on the profession.

This can be attributed to sociologists, concern with the impact of professional autonomy on a bureaucratic organisational environment (Kornhauser, 1962; Scott, 1965; Engel and Hall, 1971), but not on the reverse effect, i.e., on the impact of the organisational form of practice on continued professional development (Chapter Two). Furthermore, few studies have examined the impact of professionalism on accounting firms (Montagna, 1974). The paucity of studies in the area has meant that the corporatisation of accounting firms has been implemented with little discussion.

This chapter examines the impact of corporatisation of professional practice on regulation in accounting. The chapter points out that the corporatisation of accounting

firms might lead to the demise of occupational control of accounting services, but contribute to improved focus in the regulation of accounting services. The chapter also challenges the view that the interests of the profession and the firms are aligned (Mitchell *et al*, 1994). In studying the regulation of accounting services the main focus is on auditing, since the majority of the other services are unregulated.

It is argued that to a considerable extent the problems of regulating accounting services is due to a lack of clear identification of the unit being regulated. It is then shown that this has contributed to a struggle for control, and the shifting of responsibility between the firm and the individual within the accounting profession.

The discussion has two parts, the first part shows that the unit responsible for the provision of accounting services is the firm rather than the professional, and therefore this is the unit that should and could be regulated, and not the professional. The second part highlights the fact that whilst the firm itself is not a member of the profession, the traditional ownership structure of accounting firms, i.e., the partnership, and at times legislation, e.g., in the United Kingdom (see Radcliffe *et al*, 1994) facilitates the regulation of firms through professionals. It is then argued that corporatisation could destroy this means of regulation, and the profession would no longer be able to rely on its members to regulate the firms.

The rest of the chapter is organised into four sections. The next section identifies the features of self-regulation, and the requirements for effective self-regulation, hence setting the scope for the rest of the chapter. The second section determines the unit responsible for service provision in the three professions (medicine, accounting and banking) and identifies this as a crucial distinguishing factor between medicine on the one hand, and accounting and banking on the other. The third section distinguishes the ownership structure of accounting firms from that of banks, and points to this as a crucial factor determining the ability to self regulate. The fourth section describes the present mode of regulation in accounting, its major weakness and the consequential impact of corporatisation on the regulation of accounting services.

8.2 FEATURES OF SELF-REGULATION

As highlighted in Chapter Two the principal distinguishing feature of professions is the ability to maintain occupational control. The concept of occupational control refers to the "collective capability of members of an occupation to preserve unique authority in the definition, conduct, and evaluation of their work and also to determine the conditions of entry to and exit from practice within occupational parameters" (Child and Fulk, 1982). This mode of work organisation contrasts with the alternative principle of organisational control, in which "occupational identity and practice are fragmented into organisationally defined jobs, and performance is evaluated by a management cadre which also controls the process of selection into and removal from employment" (Child and Fulk, 1982).

Following from the above principle, the regulation of professional services has been focused on the individual rather than the organisation or firm, regardless of whether it is self-regulation or external regulation. Research on the accounting profession has, however, concentrated on the merits of self regulation (Willmott *et al*, 1994; Baker, 1993), and the relationship between the state and profession (Willmott, 1986; Kedslie, 1990), frequently making no distinction between the individual and the firm.

When one party provides a service or product to another party for a fee, no party enjoys total autonomy. In a free-market the service and the provider are governed by terms of the contract with the consumer. This is, however, generally not considered regulation, since the definition of regulation; "intentional restriction of a subject's choice of activity, by an entity, not directly party to, or involved in that activity " (Mitnick, 1980, p. 5), implies that a third party is involved. Mitnick (1980) further points out that at the base of most regulatory instruments, is some formal rationalisation that the regulation is to proceed in the "public interest". Implicit in the above argument, is the belief that economic exchanges in a particular area would be sub-optimal, if solely left to the private market. This is usually the case when the consumer of a service is in a weak position to determine the terms of the contract due to a lack of knowledge, or is unable

to evaluate the satisfactory completion of the terms, or the service has a far wider impact than on the individual consumer alone.

Self-regulation is a form of regulation in which both the regulator and regulatee are from the private sector. Mitnick (1980) points out that in the above situation, "some component of the private sector area is distinguished as the "regulator", and is then not directly party to, or involved in the performance of, the activity" (p. 15). In practice, self-regulation is usually carried out by an association formed by members (individuals or business units) involved in a particular activity. Self-regulation is usually initiated by members involved in a particular activity when the activity is threatened by public regulation, or the members involved feel that there is some benefit to be gained from self-regulation. Furthermore, since self-regulation is based on the agreement of its members it is only applicable to members, and cannot be extended to non-members and corporate bodies.

A major threat to independent self-regulation is that it is only applicable to its members, and membership of the association is voluntary. In many professions this threat is overcome by state sanctioned regulation which makes membership of a professional association (regulator) compulsory for anyone intending to provide professional services (Moran and Wood, 1993).

A major threat currently faced by self-regulation in many professions is the separation between the unit regulated and the unit responsible for service provision. Implicit in the self-regulation argument is the assumption that the contract for service provision is between the individual professional and the client. This is a crucial assumption since self-regulation, as pointed out earlier, is a regulation of members only, and that professions consist only of individuals.

In the next section, it will be shown through a comparison of three professions, that this assumption is not always true in all professions. The issues involved are explained by examining self-regulation in three occupations: medicine - considered to be an ideal profession on which other professions are modelled; accountancy - generally accepted

as a complete profession, and banking - a semi-profession. The above three occupations are chosen because they provide examples of different approaches to regulation. The study of medicine highlights the means of maintaining individual control and responsibility, while the study of banking highlights the impact of ownership structure on the professionalisation process. Hence, the contract, responsibility and ultimate liability for the performance of activity or service to the client does not always lie with the professional. Very frequently an institution or business unit is responsible for the performance of a particular activity or service for a client.

When a professional is a sole practitioner - a concept implicit in the early discussions of a profession (Engel and Hall, 1971), the difference between the individual and the business unit might be considered to be irrelevant, and autonomy from the employing organisation is easy to understand. In modern bureaucratic organisations the relationship between autonomy and responsibility for service is a difficult issue, only scratched at the surface, although there is a great deal of literature on the conflict between professionalism and bureaucracy (Kornhauser, 1962; Scott, 1965;). In this context, it is difficult to understand how a professional association can regulate an organisation which is not a member of a professional association.

8.3 RESPONSIBILITY AND LIABILITY FOR SERVICES.

This section looks at the relationship of responsibility and liability in three professions. A comparison is made between the individual professional and the institutions in which they work. In medicine, the individual professional is always responsible and liable for services rendered in any institutional setting. In the other two, accounting and banking, the responsibility and liability for services rendered always lies with the institution or business unit - the contract for the service is between the client and institution or business unit.

Freidson (1970) identifies three main types of practice organisations in medicine. The first is the 'solo practice', in which the professional works individually and at times with some help, in an office which is secured and equipped with the professional's capital.

The modification of a 'solo practice', called an association, is an arrangement whereby a few practitioners share certain common facilities such as offices, equipment and assisting personnel, while having their own patients (the medical partnership). The second mode is termed the 'group practice'. This usually consists of practitioners with different specialities working in a group with income and expenses being pooled and shared. The third mode is the hospital which provides a whole range of medical services. There are two main types of hospitals, the first employs the doctors who work in it, whilst the second mainly provides facilities for private practitioners to carry out operations and for recuperating purposes.

Whatever the mode of practice, everyday medicine is generally practised in privacy: "The work of the doctor is characteristically conducted in the closed consulting room or the bedroom" (Freidson, 1970, p. 91). Freidson (1970) further argues that because of these characteristics, medicine is more likely than other established professions to be seen as a simple practitioner-client relationship rather than as an organisation. Even in situations where more than one practitioner is involved, e.g., surgery, the treatment is carried out under the directive of a single practitioner. For the above reasons, responsibility and liability for treatment always lies with the doctor, regardless of the institution in which medicine is practised. Whilst the negligence of a doctor could affect the reputation of the institution with which the doctor is affiliated, financial liability is, however, the responsibility of the doctor.

To ensure that the individual doctor and not the institution assumes responsibility, the medical profession has put in place certain mechanisms. One such important mechanism is a captive insurance system, which insures the professional rather than the institution. One example is the Medical Protection Society (MPS), established in 1892 as a mutual fund, with more than 130,000 members in over 40 countries. Whilst the governing body (MPS Council) of the Society is based in London, it has an advisory panel in each country where there are members. In many countries, e.g. New Zealand, its agent is the local medical association. Its objective is stated as follows: "The MPS provides professional protection to safeguard the professional reputation of members" (MPS brochure, 1994). Membership of the Society entitles a doctor to receive advice,

assistance, representation and indemnity when prosecuted by the medical council (New Zealand), coroner and police, among others. The society, in the process of protecting the reputation of the members, also protects the reputation and authority of the profession.

The above description of the autonomy enjoyed by a doctor supported by Freidson and Rhea's (1963) findings, that whilst the medical records of patients in institutionalised practice settings are detailed, they are seldom scrutinised by supervisors, and the main approach to regulation or sanctions was through peer-pressure. This is the reason why the personal boycott or colleague-group boycott has been so effectively used by the medical profession in contrast to other professions (Carr-Saunders and Wilson, 1933). It is also very frequently the case that the institution in which a doctor works cannot compel the doctor to treat a patient if the doctor feels that the facilities for treatment are not satisfactory. A study by Forsyth and Danisiewicz (1985), found that the medical profession enjoys the highest degree of autonomy from employing organisations, in comparison to seven other professions (law, education, nursing, social work, librarianship, engineering and business administration). Individual professional responsibility and liability for services reduces the internal regulation of medical professionals within institutions and contributes to a stronger professional self regulation.

A major threat to individual responsibility for the provision of medical services is the emergence of Health Maintenance Organisations (HMO's) (Kessel, 1958) and the involvement of large scale financial and industrial capital interests in the business of medicine (McKinlay, 1988). The HMO's, in contrast to cash indemnity insurers, provide medical services directly to the patient for an annual premium. These organisations take more responsibility for medical services, indirectly reducing the medical professional's responsibility to the client. This threat was recognised early in its development by the medical profession which attempted to prevent the development of these organisations in the United States (Kessel, 1958), but has largely been unsuccessful.

In Britain, Dent (1993) argues that the re-organisation of the National Health Service (NHS) has made it analogous to a national Health Maintenance Organisation. It is pointed out that the new arrangements involve the doctors more directly in the

management of the hospitals, and in the process subjecting their work to greater scrutiny. The full consequences of the above developments on the medical profession is, however, not very clear and are still being evaluated (Hafferty, 1988; Light and Levine, 1988).

In contrast to the above, the firm and the individual partner, assumes responsibility for the provision of services in accounting. Whilst anyone who claims to be competent can provide accounting and taxation services in many countries, normally auditing services can only be provided by members of the profession. The arrangement for the provision of the above services is usually in the form of a sole practitioner or partnership. In accounting firms, a partner usually assumes responsibility for services to a particular client. However, this does not imply that the partner, or a particular qualified accountant, carries out the major portion of the work, or makes the main decisions. The partner in many cases only assumes a supervisory role (Montagna, 1974).

This situation is reflected in the regulation of work within a firm. The major accounting firms have standardised the policies and procedures concerning the manner in which an auditing assignment is to be carried out. Furthermore, a professional accountant working in a firm normally cannot refuse a specific job assignment. Whilst a partner usually assumes responsibility for the services to a client, the firm and partner assume responsibility for negligence. This is reflected in the means by which accountants protect themselves against claims of negligence. It is the firm that is insured against claims, and not the individual partner. The professional bodies also recognise this as highlighted in an ICAEW (1986) proposal on self-regulation: "As regards 'reserved' work, it is realistic to acknowledge that responsibility for maintaining quality inevitably rests with the firm rather than with individuals" (ICAEW, 1986). The more impersonal and collective nature of accounting services, in contrast to the personal nature of medicine, places more responsibility on the firm rather than on the individual professional.

In commercial banking the situation is similar to accounting; the firm, not the individual professional, assumes ultimate responsibility and liability for service to the client. The major difference between accounting and banking is that the dominant form of

organisation for practice in accounting is the partnership, whilst in banking it is the limited liability company. This form of organisation in banking, and the huge client base, contributes to a more bureaucratic form of management structure. Forsyth and Danisiewicz (1985) showed that whilst business administrators felt that they had as much autonomy from clients as doctors, their autonomy from the employing organisation was considerably lower. Professions that score highly on autonomy from both employing organisation and client (law, medicine) were generally characterised by the individual practitioner taking greater responsibility for services rather than the institution.

The assumption of responsibility for services by the firm rather than the individual professional in accounting and banking implies that the two professions cannot directly regulate the provision of services in the two fields. Whilst it is identified that the direct regulation of accounting and banking services by the respective professions is not feasible, the above analysis does not explain the greater self-regulatory powers enjoyed by the accounting professional bodies, e.g., The Institute of Chartered Accountants in England and Wales (ICAEW), in comparison to the banking professional bodies, e.g., The Chartered Institute of Bankers, although they were formed around the same time in the 1880's.

In the banking sector, The Chartered Institute of Bankers which is sponsored by the banks, and has a membership consisting of people employed in the banking sector, limits itself to the area of education; and leaves the regulatory areas of monitoring legislation affecting banking and the regulation of inter-bank relations to the British Bankers' Association whose membership consists of banks. A similar structure exists in other Commonwealth countries e.g. Australia and New Zealand. This was, however, not the situation intended by the advocates of an Institute. George Ray, an early advocate of an Institute, argued for the setting up of a bankers' institute with a status and function parallel to the existing institutes for the Sciences, Arts and other professions:

I can imagine an institute of this nature, when fully developed, having within itself an honorary committee, or Court of Examiners, before whom it would be competent, at stated periods, to any officer in a bank to appear and be interrogated as to the range and accuracy of his banking knowledge,

and to obtain a testimonial or diploma.... Carry the idea a step further, and let the Institute be the natural headquarters of the Committee of Deputies and of Associated Bankers, and you will thus invest it with the high function of watching over and protecting our interest and render it the centre and focus of action when any great monetary question is to be discussed in Parliament (Quoted in Green, 1979, p. 15).

Initially, the Chartered Institute of Bankers attempted to represent the banking industry as well as those working in the banks, just like other professional associations, by getting involved in the monitoring of legislation affecting banks and other such activities (Green, 1979). These activities however, brought the Institute into conflict with the Association, and the Institute was soon told by the President of the Association of English Country Bankers, the predecessor to the British Bankers' Association, to limit its role to that of an examination body . He said,

The competition betwixt the 'Bankers Institute' and our Association increases..... The circumstance only strengthens my previous view that some agreement should be come to between the rival associations (Quoted in Green, 1979, p. 64).

Very soon after the above incident, the Institute restricted its activities to the working conditions and prospects of bank officials. In the accounting sector however, the Institute of Chartered Accountants in England and Wales (ICAEW) concerns itself with the education and training of accountants, monitoring of legislation, and the development and enforcement of quality standards. It represents both the members employed in firms, as well as the accounting firms. The next section analyses the reasons for the greater powers enjoyed by the professional accounting bodies in contrast to the professional banking bodies.

8.4 THE OWNERSHIP STRUCTURE OF ACCOUNTING FIRMS IN CONTRAST TO BANKS

The dominant form of ownership structure of accounting firms in Anglo-American countries, has been the partnership. For example, until recently, the American Institute of Certified Public Accountants (AICPA) did not allow its members to use the limited

liability company and a general corporation as a vehicle for practice. State accountancy laws in the U.S. also required that all partners and shareholders of firms intending to hold out as CPA firms be CPA's. Even now, major restrictions are placed on the inclusion of non-CPA's in the ownership ranks of CPA firms. The Australian Society of Certified Practising Accountants (ASCPA) places major restrictions on the practice of non-partnerships firms, and ownership of accounting firms by non-accountants. The ICAEW and other accounting bodies only recently allowed accounting firms to be incorporated, with a condition that not fewer than 75% of the directors are Chartered Accountants and not less than 75% of the aggregate in nominal value of voting and non-voting shares are held by Chartered Accountants (ICAEW, Members Handbook, 1993).

It is also the general practice in major accounting firms, that partners sell their stake in the firm on retirement, which ensures that the owners of the firm take an active part in the running of the firm and are aware of the operations. This also ensures that senior employees have an opportunity to purchase an ownership stake in the firm, and that authority and power is diffused within the firm. Since the partners have hands-on experience and a day-to-day awareness of the operations of the firm, it provides them with a base for a strong mutual monitoring system (Fama and Jensen, 1983). The role of the managing partner and committee of management as gate-keepers of information is also greatly diminished, in comparison to the role of a Managing Director or Chief Executive Officer (CEO) in a corporation. The diminished role leaves the managing partner and any committee of management with much less power.

Although the direct regulation of accounting services by the profession is not feasible, the above scenario facilitates the indirect regulation of accounting services by the profession. The profession regulates the unit responsible for the provision of the service (in this case the firm) via its owners. The partnership form of ownership structure ensures that the firm does not have an identity separate from its owners, and the emphasis that 75% of ownership interest remains in the hands of members of the profession ensures that the interest of the firm is closely aligned with that of the profession and its members. Furthermore, the reduced powers of the managing partners and committees of management ensures that a separate powerful group of managing

partners of major firms does not develop. Although the unit (accounting firm) that is responsible for the provision of service is not a member of the profession it is still regulated by the profession.

In banks, the situation is very different. Most banks today are organised as limited liability companies or corporations with the owners taking no part in the management of the banks. Ownership of the banks is not restricted to members of the profession who seldom own the majority stake in the bank. This contributes to a clear separation of ownership from management of the banks. The board of directors and the managing director of a bank are responsible for management and act as gate-keepers of information to shareholders with the auditors ensuring that a minimal amount of information is presented to shareholders. The interest of the shareholders is also different from that of the profession.

The above situation provides the managing directors or CEO's of the banks with a great deal of power and enables the formation of a powerful group separate from the 'profession', who do not feel bound by the 'profession'. The owners of the banks (frequently non-bankers) have little knowledge about the regulation of banks, and even if they were knowledgeable on the regulation of banks, would not support regulation by the profession, since they do not share a common interest. This has implications for the role played by the professional body. For example in the U.K. the role of the Chartered Institute of Bankers has been reduced to that of a qualifying body. The successful implementation of even this role requires the acquiescence of the Bankers Association.

The above situation can also be shown to be true of other semi-professions, e.g., education and nursing. In the case of education and nursing, the institution providing the service, and not the individual professional, is responsible for the service provision, and the quality of the service provided. This responsibility provides the institution with powers to override regulation by the profession. Furthermore, these institutions which are not usually owned by the professionals, but rather by the government or private enterprise, hold the chief executive officer (CEO) responsible for the activities of the institution, and therefore a great deal of power is centralised.

8.5 THE REGULATION OF ACCOUNTING SERVICES

The regulation of accounting services in most Anglo-American countries, frequently consists of a combination of external regulation and self-regulation. The degree of self-regulation varies between countries depending on the profession - state relationship in the different countries. For example in the United States, most accounting and financial reporting standards are established by external organisations, which include the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC); in Canada however, The Canadian Institute of Chartered Accountants controls the standard setting body (ASB). The professional bodies in most Anglo-American countries have maintained more control over the establishment of auditing standards.

The focus of regulation is also a combination of the individual and the firm in contrast to medicine and banking where the focus is either on the individual or the organisation. This can be attributed to the impersonal nature of accounting services which has shifted responsibility and liability for accounting services to a considerable extent from the individual professional to the firm, requiring joint regulation of both the individual and firm. For example, the right to audit in the form of public practice certificates is frequently granted to the individual, peer reviews frequently focus on the firm.

The partnership form of ownership of accounting firms has allowed the profession limited self-regulation of the provision of accounting services. The partnership form of ownership has contributed to this in three main ways: it has (a) ensured that ownership of accounting firms is limited to members of the profession, (b) promoted the wide distribution of ownership among members of the profession, ensuring that the interest of the profession coincides with the interest of the firm, and (c) ensured that owners are actively involved in the operation of the firm, preventing the managing partner and the management committee from becoming a gate-keeper of information to the owners. In some countries, for example in the U.K., this is supported by legislation (Financial Services Act, 1986 and Companies Act, 1989) which recognises professional bodies as Recognised Supervisory Bodies (RSBs) (Radcliffe *et al*, 1994).

The partnership structure also supports the development of the professional association in other ways. Prandy (1965) in his study of occupational associations identifies the employment situation as the major determinant of whether members of an occupational association think of the association as a trade union (with class ideology) or professional association (with status ideology). Prandy argues that status ideology is more likely where members of a given occupation already share in, or hope through promotion to share in the exercise of initiative and authority, and class ideology is more likely when the employment situation emphasises subordination. The partnership structure provides members of the accounting bodies with not only opportunities for promotion and thus to share in the exercise of initiative and authority, but also the opportunity to share in the economic growth of the firm.

The record of the above mode of regulation is poor (Mitchell *et al*, 1994; Briloff, 1993), and has contributed to continuous struggle for control, and the shifting of responsibility between the firm and the individual within the accounting profession. For example, Touche Ross (U.K.) threatened to take the ICAEW to court if it took any disciplinary action against firms, as distinct from individuals (Accountancy Age, 6 June 1991, p. 3) and Price Waterhouse (U.K.) have challenged the right of the ICAEW, in its capacity as a regulator under the U.K. Companies Act of 1989, to probe into the BCCI affair (Sikka and Willmott, 1995). The struggle for control and the shifting of responsibility is acknowledged by the ICAEW in a response, as to why the ICAEW was reluctant to investigate the overall standards of firms implicated in audit failures: "the institute has no general powers to undertake a wholesale review of a firm's practice" (Mitchell *et al*, 1994, p. 45). When Mitchell *et al* (1994) asked the Minister of Corporate Affairs to confirm the above interpretation, the response was:

the Institute has adequate powers both to investigate whether firm maintains an appropriate level of competence in the conduct of company audits and to consider any aspect of a firm's practice which is relevant to the question of whether the firm is fit and proper to audit companies (p. 45).

In a bid to shift the balance of power and control between the individual and the firm, the Auditing Practices Board (U.K.) has proposed that audit reports be signed by the audit partner responsible for the audit. There is however, some indication that this

proposal could be opposed by some firms if one were to go by the response of Roger Davis, head of audit at Coopers and Lybrand (U.K.), who states that "An audit report is not a virility symbol" (The Times, Dec 8, 1994, p. 30). This situation shows that the firms want control over accounting service provision but responsibility is shifted to the individual.

The struggle for control and the shifting of responsibility between the firm and the individual is also visible in other Anglo-American countries. Recently, Bob Lamond, the national director of auditing for KPMG Peat Marwick in Australia, unhappy over some exposure drafts issued by the Australian Accounting Standards Board, has suggested that the Big Six firms form a lobby group independent of the profession, to pursue its interests, and called for a meeting of audit directors in the Big Six firms (World Accounting Report, 1994, p. 5). Whilst the meeting was subsequently cancelled (Howard, 1994), the incident is an indication of the Big Six firms' desire to develop a separate identity from the profession.

The problems arising out of the professions' efforts to regulate the firms (Briloff, 1993) have in fact contributed to the profession shifting a substantial amount of its responsibility for regulation of firms to government regulators, e.g., the Securities and Exchange Commission in the United States. This situation indicates a need to focus on a single unit (either the firm or the individual and not both), in the regulation of accounting services i.e., the unit responsible for provision of the service. The balance of power at present between the individual and the firm is unlikely to favour the individual as the unit to be regulated.

The partnership form of ownership in professional practices has been facing a great deal of pressure, threatening its survival in recent times (Economist, 1994, July, 9, p. 60). Principal among the various pressures is the growing liability crisis: "The accountants say they face \$30 billion in liability claims in America alone" (Economist, 1994, July, 9, p. 61). Whilst the major threat to the survival of the partnership form of ownership identified by the profession is the litigation crisis, a review of the literature points to other pressures that are more important.

The first aspect of the partnership which has been under pressure for quite some time is the organisational structure and daily decision making (Economist, 1994, July, 9, p.61). The partnership which provides partners with considerable say in the management of the partnership has problems with decision making when it grows too large. In recent times accounting partnerships have assumed the size of multinational corporations, e.g., Arthur Andersen has over 49 thousand employees and over two thousand partners worldwide (Economist, 1994, July, p.61). The growth in the size of accounting partnerships can be attributed to economics of scale through the efficient use of specialised labour, to the growth in the size of the clients they serve, and the scientific and technological innovations which has made professional service, by necessity a collective enterprise (Engel, 1970). To cope with the above pressures the big accountancy firms manage themselves as if they were companies in which a small core of partners look after strategic management and take most of the decisions, with the rest of the partners playing roles similar to employees (Economists, 1994, July, p.62). As highlighted in an editorial in the Accountancy (1995): "commercial pressures over the past 20 years have driven them towards a corporate management approach, within an increasingly anomalous-looking partnership structure" (p.3)

The second aspect of the partnership that faces more problems from the environment is the ownership structure. The growth of the 'commercial' segment - tax, management services and corporate finance - and the stagnation of the 'public oriented audit segment' has contributed to the commercialisation of accountancy (Hanlon, 1994; Willmott, Sikka and Puxty, 1994; Sikka and Willmott, 1995). Hanlon (1994) points out that in a commercial environment one must give the consumer what he or she requires at the lowest possible cost. Furthermore as pointed out in the Economist (July, 1994) "the gentlemanly days in which clients would never question their bills, and would change their accountants or lawyers as rarely as they changed their church" (p.62) are gone. The above environment has contributed to the fortunes of accounting firms and its partners fluctuating considerably. To cope with the above pressures accounting firms have taken to dismissing partners which is more complicated than dismissing employees. The dismissed partners as owners of the firm also do not have an open market in which they trade their ownership rights in the firm. Another problem in the future for accounting

firms could be the need to raise additional capital. The above developments indicate that the litigation crisis provides segments of the profession with good justification to demand the corporatisation option.

To cope with the above pressures, the profession has allowed the ownership structure of accounting firms to become more flexible. The accounting firms also seem to be taking advantage of the flexibility, the Economist reports that the American branches of the Big Six firms are likely to alter their legal status to 'limited-liability partnerships' in the near future. It is also reported that some British branches of the Big Six are likely to go a step further and become limited liability companies (Economist, July, 1994, p. 61). In late 1995 KPMG incorporated its audit segment as KPMG Audit plc with a capitalisation of 50 million pounds.

The advent of limited-liability partnerships and companies initially could contribute to the concentration of ownership in the hands of a few individuals, and the strengthening of the authority of the chief executive officer. Subsequently, the majority owners would look towards selling their stake in the firm to the highest bidder, regardless of whether the highest bidder is a member of the profession. This would increase the scope of organisational control at the expense of occupational control, leading to the diminishing of the professional association's authority in the area of professional practice.

The above scenario is supported by Dye (1995) in a study of the impact incorporation would have on the audit market using an economic model. He predicts that incorporation would lead to a situation in which the least wealthy employed auditors under unlimited liability would leave the audit market, and the most wealthy employed auditors would incorporate, but not include all of their wealth in the corporation. It is also predicted that the price of an audit of a given quality will decline, and that the aggregate shareholder wealth will increase. It is also pointed out that the profits of the wealthiest employed auditors will increase, while that of the least wealthy employed auditors will decline.

The ownership of firms in many other key industries and service areas sharing structures similar to accounting firms, e.g., advertising, is not limited to members of a particular

profession. In most industries and services, whilst ownership is open to the public, management is entrusted to professionals. The opening up of ownership in accounting firms to members of the public would most definitely make self-regulation of the firms by the profession impossible as illustrated earlier. Owners not participating in the management or operation of the firm, would become more reliant on top management for information concerning the operations and results of the firm, providing the top management with greater powers, and contributing to the development of a powerful group of chief-executives. This is already quite visible in the Big Six accounting firms with their more centralised management structures. The development of a lobby group by the Big Six firms as pointed out earlier could be the start of a steady decline in the authority of professional bodies over accounting firms.

This however, would not be an unfortunate event as far as the regulation of accounting services is concerned. The focus of regulation would be clarified contributing to more effective regulation. This would require a major revision of existing regulatory structures. Whilst a system of determining entry into practice by means of exams can be applied to individuals, it is not practical as a means for regulating firms. The licensing of firms could be based on a review of a firms capacity to maintain an appropriate level of competence and quality in the performance of company audits as well as the firms ability to compensate, when negligence is committed.

8.6 SUMMARY

Whilst, it is generally assumed that a professional is responsible for service provision, in many areas of professional activity it is the firm, and not the professional concerned, that assumes responsibility for the services. This leads one to question the ability of professions to regulate professional services, since the firms that are responsible for providing them are not members of any professional association. Furthermore, it is shown that in cases where firms rather than individuals are responsible for professional services, professional self regulation is indirect, and is facilitated by restriction on ownership of the firms.

The conception of professional work as entrepreneurial and individualistic, which is implicit in the early discussion of a profession (Chapter Two), is crucial for professional self-regulation although it is considered to be obsolete in the contemporary working environment. The growth of group practices has transferred responsibility for services from the professional to the firm. The medical profession has, however, managed to resist this trend, and its superior self-regulatory mechanism is based on individual responsibility for services. As described earlier, the accounting and banking professions have been unable to resist this trend, and so organisational control has replaced occupational control as the principal regulatory mechanism.

The partnership structure of accounting firms is, however, shown to have prevented the total eclipse of professional self regulation. However, it has contributed to a lack of focus in the regulation of accounting services. This in turn has contributed to the struggle for control, and shifting of responsibility between individual and firm.

Based on the above analysis, the decision to allow the formation of limited liability companies in the accounting profession could be viewed as a major threat to professional self-regulation, but could focus regulation on the firm and contribute to more effective regulation.

The corporatisation of professional practices has implications not only for professional self-regulation, but also consumer welfare. Questions concerning capital adequacy of accounting firms did not arise when they were partnerships, because they had unlimited liability, if corporatisation of accounting firms occurs, however, this becomes an issue that needs to be more widely debated. The oligopolistic nature of accounting services also requires further examination in the new environment. The next chapter explores on accounting bodies attempt to redefine its role in the new environment characterised by external regulation focused on the firm.

CHAPTER NINE: THE NEW ZEALAND SOCIETY OF ACCOUNTANTS: A PROFESSIONAL BODY IN TRANSITION

9.1 INTRODUCTION

In Chapter Eight it was highlighted that the joint responsibility for the provision of accounting services by the firm and the individual had contributed to ineffective regulation of accounting services and pressure on the profession's ability to maintain occupational control. It was further shown that the corporatisation of accounting firms could contribute to more effective regulation but also the demise of occupational control of accounting services. It was also pointed out in Chapter Three that the profession faces a number of other pressures to the maintenance of occupational control such as the trend towards direct regulation of services, rather than through the professions; the splintered nature of the accounting profession and the intensification of competition among accounting bodies; and the emergence of new patterns of work.

In this chapter one accounting body's attempt to respond to the above pressures is analysed, in order to identify the features of the emerging structure and ideology in the accounting profession. The New Zealand Society of Accountants (NZSA) proposes to rename itself as the Institute of Chartered Accountants of New Zealand (ICANZ). The name change represents the last step in a series of major reforms to the association's role, membership structure and organisational structure.

An analysis of the recent changes to the name, role, membership structure and organisational structure of the New Zealand Society of Accountants (NZSA) shows the new role of the NZSA to be more akin to that of an occupational franchisor rather than that of a professional body. It is argued that this transformation in the role of the association can be attributed to the inability of the NZSA to maintain occupational control in the current economic and political environment.

The next section traces the historical development of the NZSA and its pursuit of occupational control, followed by the circumstances that led to the review and

restructuring of the NZSA. The third section analyses the changes in the contexts of a profession maintaining occupational control. The fourth section compares the features of a franchise with that of the new relationship between the institute and its members, and highlights the similarities. In the final section it is concluded that the concept of an occupational franchisor provides the basis for an alternative strategy for the development of accounting bodies.

9.2 THE EMERGENCE OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEW ZEALAND (ICANZ)

9.2.1 Historical Development

In 1894, the Incorporated Institute of Accountants of New Zealand was registered as a company 'working without profit' under the Companies Act 1882, with the objective of raising the standard of accountancy in the colony. Within three months the Institute had admitted 101 members. The Institute also decided that no un-examined members would be admitted after 1896. Dissatisfaction with the above decision led to the formation of the Accountants and Auditors Association in Auckland in 1898.

During this period, accountants in private practice also faced a threat in the form of private member's Bills in Parliament, which sought to transfer the audit of all companies to the Government Audit Office and entrust all liquidations to the Official Assignee. Official support for the Bills however did not materialise, but rather a reversal of fortune led to the private audit of companies being made mandatory in 1901. This contributed to a period of rapid development for the accounting occupation.

The above threat, and the rapid growth of the accounting occupation, led the Association to seek the co-operation of the Institute, in attaining legal registration in 1905. Prior to this, the Institute was toying with the idea of joint examinations and co-operation with accounting bodies in Australia. This idea however failed to materialise, and the Institute decided that co-operation with the Association provided the best means for progress. On the third attempt, the two bodies managed to get the New Zealand Society of

Accountants Bill (1908) passed by Parliament. In introducing the Bill, Sir Joseph Ward stated:

The purpose of this Bill is to establish a corporate body consisting of qualified accountants, and having power to make provision for the training and examination of members of that profession, and generally to promote in such a manner as it thinks fit the efficient practice of that profession in New Zealand. The Bill confers no monopoly and no coercive powers over persons who are not members of the Society, save that by clause 32 no person other than a member is at liberty to use in connection with his business the terms 'registered accountant' or 'public accountant' (quoted in Graham, 1960, p. 23).

Whatever the assurance of Sir Joseph Ward, the accounting bodies had effectively gained control over the provision of accounting services in New Zealand. The large number (2116) who were registered by the Board was however a surprise to the two bodies (the Institute and the Association) (Graham, 1960). Subsequent to the passing of the Bill, the NZSA set about carrying out the normal activities of a professional body. In 1912 the NZSA linked with the University of New Zealand to conduct entrance examinations and in 1922 started publishing *The Accountants' Journal*. Since the 1920's, the NZSA also made further attempts to secure legislation prohibiting non-members from public practice and from use of the term 'accountant'. In the late 1920's, the idea of obtaining a Royal Charter was also floated among the members, but this did not materialise due to the existence of two separate bodies (Institute and Association) within the NZSA.

The continued existence of the Institute and Association as well as other bodies within the Society proved to be a thorn in the NZSA's effort to project the image of a united profession. Some progress was made on this front, when in 1950, the New Zealand Accountants and Auditors Association merged with the Society and a revised Act of Incorporation was passed by Parliament in 1958, which placed restrictions on the usage of the terms 'accountant and auditor'. In 1960, The New Zealand Institute of Cost Accountants was integrated with the Society, and finally in 1972, the Incorporated Institute of Accountants was dissolved.

The New Zealand Society of Accountants Amendment Act (1963) created a fidelity fund with the objective of protecting members of the public against theft, embezzlement, or misappropriation by a public accountant or his/her servant or agent. The Accountants' Journal reported the creation of the fund as follows:

Fidelity Funds of this nature are not a common feature of the accountancy profession abroad, as the unified control and statutory recognition which is a necessary prerequisite to an effective fund is not present in most countries.... The profession may well take pride in its record in past years, and defalcation by public accountants may be few indeed. Nevertheless the public is entitled to protection against losses arising from the occasional lapses that do occur, and the Fund will play its part, however small in reinforcing public confidence in the profession. (NZSA, 1964, p. 244).

In 1969, the NZSA also decided to adopt the title 'chartered accountant' and the designation 'ACA' (associate chartered accountant) for all its members, replacing the previous titles 'public accountant' and 'registered accountant'. By the late 1960's, the Society had effectively achieved the formation of a united profession and was willing to convince its members of the benefits of a fidelity fund, although the fidelity fund was not a feature of the professional accounting bodies abroad, in the interest of maintaining restrictive usage over the terms 'accountant and auditor'.

9.2.2 The Crisis

In 1991, the Institute of Chartered Accountants in Australia threatened to withdraw reciprocal practice rights for New Zealand ACA's if the New Zealand Society of Accountants failed to raise the standard of its education and admission policy (Lothian and Marrian, 1992). This threat motivated the NZSA to take some action, and the education committee of the Society invited the Institute of Chartered Accountants of Scotland to nominate an expert or experts to carry out a review of the current admissions policy of the Society. The two reviewers (Niall Lothian and Ian Marrian) presented their report in June 1992, and proposed major changes to the admissions policy. In 1992 a proposal by the Council of the NZSA to make continuing professional development compulsory was also defeated in a ballot by members. This rejection

contributed to further differences between professional practice requirements of NZSA members and accountants in other Anglo-American countries.

While considering this report, the NZSA was also faced with another crisis. In early 1992, the criminal actions of an Auckland accountant resulted in \$10.3 million worth of claims being made on the fidelity fund (NZSA, May, 1992). To meet most of the claims, the Council of the NZSA had to impose a special levy of \$3300 on all members of the NZSA in public practice (NZSA, October, 1992). Many members in public practice saw no reason why they should be required to make good the losses incurred through theft by a member of the Society, and threatened to withdraw their membership. This placed the Council of the NZSA in a dilemma. In July 1992, the NZSA made a submission to the Associate Minister of Finance seeking the abolition of the fund in the Act, and in return, the NZSA stated it was willing to sacrifice the restrictions on the use of the term 'accountant' in Section 32 of the 1958 Act (NZSA, October, 1992).

On 28 October 1992, the Government announced the abolition of the NZSA Fidelity Fund and the removal of statutory protection over the term 'accountant' or 'auditor'. Following the above events, and a realisation that the Society over many years had expanded its operations without ever pausing to reflect on both its purpose and the appropriateness of its structure, the Council of the NZSA at its October meeting decided that a strategic and organisational review of the NZSA was required, and appointed a taskforce to carry it out. The taskforce in turn commissioned a consulting firm 'Wheeler Campbell Limited' to undertake the review to ensure objectivity. The report by Wheeler Campbell, delivered in January 1993, became the basis for the subsequent changes.

9.2.3 The Wheeler Campbell Report

This report, prepared after extensive consultation with members of the NZSA, highlights a number of issues which many professional bodies would not admit exist. The report recognises the regulatory role of a professional association, not in the context of a profession, but rather as an owner of a brand franchised to members:

We propose a conceptual framework that suggests that Society membership signals information about the quality of the services the consumer can expect. The ACA in this context can be seen as a brand, and brand reputation is the primary component of the Chartered Accountant product (Wheeler Campbell, 1993, p. 3).

The brand, they point out, provides important information about a product or service, based on perceptions of performance or reputation earned in the market, and reduces marketing cost to providers of a service: "the ACA designation is more authoritative than self-promotion" (p. 4). They also emphasise the need for the NZSA to protect and nurture the brand, to ensure that its information content is relevant to the market's needs. Furthermore, they point out a growing perception among members that statutory protection is irrelevant in a competitive market, and instead viewed statutory protection to be stifling on the management of the NZSA: "the statute has been a substitute for vision and strategy" (Wheeler Campbell, 1993, p. 5). In addition, the report identifies major divergence of interest between members in public practice and those not in public practice, and highlights public practitioners' interest in dynamic and ongoing quality control as well as standards of professional practice.

The need for a change in the consumer protection role of the Society from that of an administrator of an Act to that of assuring the consumer on the quality of the franchisees is also emphasised: "Membership of the Society could confer the status of evidence of quality of the service on offer" (Wheeler Campbell, 1993, p. 6). The rationale for the change is the need for differentiation within the occupation: "*The Society ought to offer a place and designation for those who want to differentiate themselves from all other accountants, provided they accept its membership criteria*" (Wheeler Campbell, 1993, p. 6). From the report it is clear that the primary objective of the Society is seen to be the enhancement of the value of the brand, so as to ensure that membership is valuable, and it does not aim to represent all accountants. The Society's role in the development of accounting standards is also seen in a different light, not so much from a perspective of regulating the provision of accounting information, but rather as a means to enhance "the credibility of the Society among its members and in the market. That credibility rubs off on the members" (Wheeler Campbell, 1993, p. 8)

Based on the above perspective, the report proposed the division of the Society into three colleges, each with different admission and continuing education requirements for membership, and each carrying a separate designation. The apex college was to be known as the College of Certified Practising Accountants with the designation 'CPA', the other two were the College of Associate Chartered Accountants with the designation 'ACA' (the current designation of Society members) and the College of Accounting Technicians with the designation 'AT'.

The NZSA in its "Blueprint for the Future" Document (NZSA, 1993) adopted the findings of the Wheeler Campbell Report with only minor changes. The NZSA changed the name of the apex college, from the College of Certified Practising Accountants to the College of Chartered Accountants with the designation 'CA'. The blueprint (NZSA, 1993) also proposed that the name of the association be changed to the Institute of Chartered Accountants of New Zealand, with the following mission statement: "Institute of Chartered Accountants of New Zealand: The hallmark of expertise and integrity" with its primary role to be that of providing quality assurance: "Your membership of the Institute is an assurance of quality to employers and clients" (NZSA, 1993, p. 2).

The secondary role of the Society is identified as that of service provision to members, and advocacy for and on behalf of members, and the profession. There is no mention of 'public interest' in the mission statement nor in the roles of the Society identified above. The word profession only appears once in the secondary role of the Institute. The president of the NZSA makes it clear that the efforts of the Society would be concentrated on the promotion of the title 'Chartered Accountant' (Cox, 1993).

In the division of the Society into different colleges, it is made clear that the retention of the College of Associate Chartered Accountants is for strategic and financial reasons. No new requirements were made on existing members intending to remain in the College of Associate Chartered Accountants and were allowed to retain the current designation so as to minimise opposition to the changes and to ensure their loyalty to the Society. The major reasons for retaining the ACA's within the Institute seems to be, to ensure that no new franchisor of an accounting qualification would enter the market,

and to boost subscription income. This is clear in the argument put forward for the establishment of the College of Accounting Technicians (NZSA, 1993):

Strategic: It is likely that an organisation to represent the interest of accounting technicians will be established. The Institute will have no influence regarding this organisation's values and direction unless it embraces it or is involved in its establishment.

Financial: The inclusion of accounting technicians will boost subscription income.

Monitoring: Accounting Technicians are a commercial reality. By having them as members, the Institute would be able to ensure that they work in areas within their competence. (p. 9).

Whilst making no new requirements on current members intending to retain the existing 'ACA' designation, those members intending to subscribe to the new 'CA' designation are required to complete 40 hours of professional development a year. New members intending to become CA's are required to sit extra professional examinations and undergo more rigorous training.

The changes to the structure of membership is also accompanied by changes to the management of the Institute. The president of the Institute is to be more akin to that of a board chairperson, with the Secretary of the Society replaced by a Chief Executive of the Institute. Whilst the Council of the NZSA will remain as the principal policy making body, the operation of the Institute is to be managed by an Executive Board comprising selected members of the Council and the Chief Executive Officer. The management structure is also to be divided into commercial activity and membership services with separate objectives of profit and service.

9.3 FORCES CONTRIBUTING TO CHANGE

The reforms implemented represent to a large extent an abandonment of the normal strategy adopted by professional bodies. First, the NZSA by sacrificing the reservation over the terms 'accountant and auditor' indicates that the maintenance of occupational control over the provision of accounting services is not its principal goal. Second, in the

Blueprint document (NZSA, 1993) it is made clear that the differentiation of the services provided by its members from accounting services provided by non-members will be the guiding strategy for the future. Third, the division of the NZSA into colleges represents a violation of the principle that all members of a profession are equal (Freidson and Rhea, 1963) in terms of quality, except for divisions based on speciality, e.g., as in the medical profession, and seniority, e.g., the award of a fellowship after being a member for a number of years.

The proliferation of occupations in the business sector has led to the blurring of boundaries between occupations. The only service that is unique to the accounting profession is the auditing service. The provision of auditing services alone is, however, seen to be too restrictive. Therefore, accountants expanded their range of services to improve profitability and to prevent competitors from adjacent territory from moving into the accounting area. Most other services provided by accountants are also provided by other occupational groups, e.g., management consultants, investment planners and information consultants. This is highlighted in the Submission of the Society to the minister: "Despite that provision in the principal Act (restriction on the use of the term accountant), it is possible for people to resign from membership of the Society and practice as financial consultants or similar designation, and virtually continue to carry out the same activities they previously engaged in as chartered accountants" (NZSA, October 1992).

The above situation contributed to the accounting body accepting members who are not auditors. The membership of the Society, as pointed out earlier, consists of practitioners in divergent areas and in different employment contexts with little common interest except their interest in subscribing to the 'ACA' designation. For example, members not in public practice cannot see the rationale for spending the funds of the Institute on standard setting and other such activities, and feel they do not receive a fair deal, yet they remain members because the ACA designation provides them with some advantage in the market place (Wheeler Campbell, 1993, p. 4). This view is also supported by independent studies on accounting bodies in other countries, e.g., the Institute of Chartered Accountants in England and Wales (ICAEW) (Tricker, 1983).

Whilst, the profession initially promoted the recognition of accounting as a university discipline to raise the status of the profession to that of other professions such as medicine and law, the inclusion of accounting as a university discipline contributed to the loss of monopoly by the profession over the knowledge area. In contrast to medicine, the accounting profession does not control the number of students graduating from accounting programs in New Zealand universities, the profession only accredits the accounting programs of the universities. Further, the profession cannot prevent non-members from applying codified accounting knowledge and techniques except in the area of statutory audit. The easy access to accounting knowledge in conjunction with the blurring of boundaries between occupations has been a major threat to occupational control.

Furthermore, the government has been getting more involved in the regulation of accounting information. The Financial Reporting Act 1993 created the Accounting Standards Review Board (ASRB), an independent statutory body to approve financial reporting standards. This effectively left the accounting profession with only the regulation of the quality of auditing services. Even this area is likely to be under threat from external regulation, e.g., in the United Kingdom the Auditing Practices Board is independent of the profession. The direct regulation of services, minimises the need for regulation of services through occupations and facilitates deregulation. The latter is supported by the economic view that the public interest is best served by a deregulated economic system where healthy competition is prevalent and areas reserved for professional activity are minimised (Lothian and Marian, 1992).

Whilst the efforts of the accounting profession to maintain occupational control through the restriction on the use of the term 'accountant' was becoming less effective in the current environment, there was no incentive to change anything since there was no cost involved in retaining the restriction. The fidelity fund crisis highlighted the cost of the restriction and also the declining ability of the occupation to maintain closure. The demise of the professional body's ability to maintain occupational closure required the NZSA to reexamine its purpose for existence and its role in the future. The examination highlighted the major asset the NZSA had, that is the goodwill in the designation 'ACA'

and the name 'chartered accountant'. The role of the NZSA is therefore seen to be one of maximisation of membership value by maximising goodwill attached to the 'CA' designation, rather than the maintenance of occupational control.

9.4 EMERGENCE OF AN OCCUPATIONAL FRANCHISOR

A situation where there is loss of occupational control within a profession is usually described in terms of 'deprofessionalisation' (Haug, 1973; Freidson, 1984). It is an hypothesis which implies that professional occupations are losing "their unique qualities, particularly their monopoly over knowledge, public belief in their service ethos, and expectations of work autonomy and authority over the clients" (Haug, 1973, p. 197). Belkaoui (1991a) views the recent changes in the profession to be in the above framework. This thesis is often accompanied by the 'unionisation of professional association' argument (Parry and Parry, 1974). Whilst, the deprofessionalisation hypothesis partially explains the changes, the strategy adopted by the NZSA for the future however, does not seem to reflect the unionisation of the NZSA (the principal role of the NZSA is not to bargain with employers), but rather shows similarities to strategies usually adopted by franchisors.

The concept of franchising has spread to many areas of service from fast-food to construction, and from education (Woodrow, 1993) to milk distribution (Davidson, 1994). Hoffman and Preble (1993) point out that in the past decade, franchised sales have increased by 94% and this accounts for one-third of all retail sales in the United States. Mendelsohn (1985) identifies four basic features common to all franchise transactions. The first is that the franchisor is the owner of a name, an idea, a secret process or a product and the goodwill associated with it. The second is the issuing of a franchise specified by contract, permitting the franchisee to use the name, idea, process or product and the goodwill associated with it. This would also include various sorts of management assistance the franchisor would provide the franchisee with. The third is the inclusion in the franchise contract, regulations and controls relating to the operation of the business or franchise. The last feature is the payment by the franchisee of a

royalty, or some other consideration, on a regular basis for the rights obtained and the franchisor services provided.

An important qualification of the above features is highlighted by the Australian Trade Practices Consultative Committee in its 1979 Report on Small Business which states that the franchise does not include: any relation of employer or of partnership; licensing or trademark; an arrangement whereby the franchisee is not required to make a payment at any time. Shannon (1982) in a discussion of legal considerations in franchising, points out that a franchise is the grant of a right or rights, and the legal issue relates to questions of what rights are being granted and what is it that is being franchised. Shannon (1982) highlights that the rights could include the use of trade-marks, business names, confidential information and know how, patents, copyrights and designs.

In addition to the above, Shannon (1982) states that most forms of franchising involves the franchisee sharing, at a price, in the goodwill established by the franchisor. Goodwill in legal terms is built by establishing a reputation for quality, consistency, expertise, service and the like. It is further highlighted that goodwill "may be nurtured by advertising but it does not exist by advertising alone" (Shannon, 1982, p. 16). Rubin (1978) points out that the main item sold by a franchisor is the trademark, and the trademark provides consumers with information about price and quality of service sold by an establishment with a given trademark. Due to the above, a franchisee could benefit by allowing quality to drop, since the franchisee would reap full benefits of reduced quality maintenance, while only incurring part of the costs, the balance borne by other franchisees: consumers would have less faith in the quality promised by the trademark, and consume less services from all franchisees of the same trademark, because of one franchisee. He argues that this provides the franchisor with the incentive to police the quality of service vigorously. This is carried out through rigorous screening of potential franchisees and the quality control of services offered.

Rubin (1978) further points out that in areas involving a high degree of managerial discretion, the franchisor would charge a high fixed fee and low royalties. In the above

situation, the franchisor would also be less concerned with the revenue generating capacity and profitability of an individual franchisee.

The relationship between the NZSA and its membership can be analysed in terms of the characteristics of a franchise. The NZSA is the owner of a name or designation 'CA/ACA/AT' and allows a member to use the name or designation and the goodwill associated with it for an annual fee. The bye-laws of the NZSA forms the basis of a contract between the NZSA and the members, and stipulates the regulations and controls relating to the operations of the franchise and the conditions which could lead to the termination of membership and usage of the name or designation. Whilst some of the above features in a franchise relationship might be similar to those of a professional association and its members, the difference lies in the usage of the designation, in the former it is a trademark, in the latter it is a qualification. Furthermore, the relationship between the NZSA and its members does not resemble a partnership nor a contract for employment, nor does it involve any form of licensing. The use of the 'CA' trademark requires regular annual payments not one-off payments.

The actions of the NZSA are also consistent with the behaviour patterns of franchisors. Screening of new members has been made more rigorous through new examinations and efforts are made at ensuring quality control through continuing professional education and practice review. The Wheeler Campbell (1993) recommendations also call for the nurturing of the trademark or brand, and refer to a trademark or brand as a provider of information concerning quality and price.

The fee structure of the NZSA is also consistent with the predictions of Rubin (1978) that in areas involving a high degree of managerial discretion, the franchisor would charge a high fixed fee and low royalties. The substantial discretion provided to members of NZSA in the use of the franchise leads it to charge a fixed annual fee with no royalties on the revenue of the franchisee. Since the NZSA does not charge royalties it also takes little interest in the revenue generating capacity of individual franchisees.

There are however, a number of differences between this kind of franchise and the commonly referred to business unit franchise. This franchise in contrast to the common types is a mutually owned (owned by its members) franchise and therefore the principal objective is that of pursuing the members' interest. Further, since it is a mutual franchise and all profits will be distributed to its members, it does not have a profit motive, other than in the area of commercial activities. In this case, the franchisee is a human unit, not a business unit, and since the rights and obligations extend to an individual only, the franchisee could compete in both the service as well as the employment market. Furthermore, since it is a human unit franchise, the franchisee only invests his/her own effort to obtain the franchise, and therefore termination of the franchise only affects the individual and not the unit employing the individual.

For the reasons identified in the preceding paragraph, from here on this kind of franchise would be referred to as the occupational franchise to differentiate it from the usual business unit franchise. An occupational franchise can be defined as the *granting by one organisation to a number of individuals the right/s to use its trademark when providing a particular service. The rights are granted when the franchisee has shown sufficient competence in the provision of a particular service (for example through an examination process), and the willingness to maintain certain quality standards in the provision of the service, and the payment of a fee on a regular basis. The failure to maintain the quality standards or the payment would lead to the withdrawal of the rights.*

9.5 SUMMARY

This chapter sought to examine one accounting body's attempt to respond to threats to its maintenance of occupational control. The major threats it is shown are the inability of the profession to control the provision of accounting services in the current environment, and that many members of the profession do not see substantial benefits from pursuing a strategy to maintain occupational control.

The recent developments in New Zealand seem to reflect many features of a franchise, in view of the fact that the principal asset that the Institute possesses to attract

membership is the title 'chartered accountant' and the associated goodwill. In the current environment the continued relevance of an accounting body, seems to be dependent on the differentiation of its members from others in the marketplace providing a similar service.

The next chapter looks at the possibility of similar developments in other Anglo-American countries as well as the impact of occupational franchising on the market for accounting services, and the organisational structure of accounting firms and accounting bodies. The next chapter also combines the critique of the public interest ideology (Chapter Four) with the findings in this chapter to identify the emerging ideology in the accounting profession.

CHAPTER TEN: OCCUPATIONAL FRANCHISE: IMPLICATIONS FOR THE ACCOUNTING PROFESSION

10.1 INTRODUCTION

In chapter nine the occupational franchise was highlighted as an emerging role for the accounting body in New Zealand, in the current environment. Insights gained from the study of the recent restructuring of the NZSA are used in this chapter to identify the implications of the concept of franchise for the accounting profession in other Anglo-American countries. It is shown that the developments within the accounting bodies in Australia and the United Kingdom are similar to those of the NZSA, while changes to the accounting bodies in the United States and Canada could take a while longer because of the legal and political environments in the respective countries. The chapter concludes with an analysis of the distinctive features of the emerging structure and ideology based on insights gained in this and previous chapters.

10.2 DEVELOPMENTS IN OTHER ANGLO-AMERICAN COUNTRIES

10.2.1 Australia

The accounting profession in Australia is mainly represented by the Australian Society of Certified Practising Accountants (ASCPA) and The Institute of Chartered Accountants in Australia (ICAA). The ICAA was formed in 1907, as the Australasian Corporation of Public Accountants, and on receiving a Royal Charter in 1928 changed its name to ICAA. The Australian Society of Accountants (ASA), the predecessor body of the ASCPA was formed in 1952 as a result of a merger of the Federal Institute of Accountants formed in 1894 with the Commonwealth Institute of Accountants formed in 1886. Between 1952 and 1966 the ASA absorbed five other smaller accounting bodies leaving the accounting profession with two major bodies. The members of the two professional bodies however do not enjoy a monopoly over the term accountant, and the state registration boards of auditors reserve the right to recognise those who are not members of the two bodies.

Two attempts to merge the two bodies in 1969 and then again in the early 1980's failed. One of the main reasons for the failure was that the members of the ICAA which had a more demanding entry requirement were not happy to be equated with members of the ASA which had easier entry requirements. After the failure of the second effort at unification of the Australian accounting profession, the ASA initiated a strategy to become the premier accounting body in Australia and differentiate the image of its members from other accountants. In 1983, the ASA created a new membership with the designatory letters CPA standing for Certified Practising Accountants, and introduced specialisations with associated designations. The ASA also instituted equivalent entry requirements (professional schedule) for new CPA's as the ICAA had for its members. a feature story (Australian Accountant, June, 1990) of the ASCPA in 1980's states: "If it is not possible by law to stop unqualified people from calling themselves accountants, then an alternative solution is for qualified people to call themselves something else" (p. 18). CPA's were also required to make a compulsory commitment to a quantum of continuing professional education.

The new level of membership allowed the ASA to maintain its position as the largest accounting body in Australia as well as to develop a prestigious designation. The requirements of the existing designation ASA was made easier to capture market share and members with the new designation (CPA) were promoted as providers of quality service who had undergone stiff entry requirements. To support this, the Society in 1984 initiated a video programme entitled "The Australian CPA" which won the "Outstanding Video of the Year" award from the Public Relations Institute of Australia, and developed a television advertising campaign with the slogan "The CPA Not Your Average Accountant". In 1990, the name was changed to the current name. In 1992 the ASCPA established a network of ten specialised Centres of Excellence across Australia to further its reputation as a professional body at the cutting edge of research and development in accounting. During this period the Society relaxed the prohibition on advertising by its members. The ASCPA also promoted its membership overseas.

In 1989, the ICAA made a new proposal for a merger of the two bodies in the form of an invitation to all ASCPA members to join the ICAA (Hay, 1989). The invitation however failed as few members took up the offer. In 1994, the ICAA also unveiled a new logo to promote chartered accountancy designation. Peter Jollie, the President of the ICAA states "This market differentiation is the key to marketing success" (Mace, 1994, p. 14).

During this period, the ASCPA cooperated with the ICAA on issues of common interest mainly in the basic accounting education area - a common accreditation arrangement for undergraduate accounting courses; standard setting in accounting and auditing through the Australian Accounting Research Foundation (AARF), a body jointly owned by ASCPA and ICAA, founded in 1965; and more recently the establishment of a Joint Working Party to provide a coordinated input to a study on restrictive practices in the Accounting Profession by The Trade Practices Commission in Australia.

Most of the pressures contributing to the demise of occupational control had been present in the Australian professional environment for some time. The trigger for the changes undertaken by the ASA was the failure of the merger proposal with the ICAA. Now it appears that both the ASCPA and ICAA have adopted the role of an occupational franchisor.

10.2.2 United Kingdom

The accounting profession in the United Kingdom consists of six major bodies [(The Institute of Chartered Accountants in England and Wales (ICAEW), The Institute of Chartered Accountants of Scotland (ICAS), The Institute of Chartered Accountants of Ireland (ICAI), The Chartered Association of Certified Accountants (CACA), The Chartered Institute of Management Accountants (CIMA) and The Chartered Institute of Public Finance and Accountancy (CIPFA)], which combine to form the Consultative Committee of Accountancy Bodies (CCAB). The six bodies were formed as a result of the merger of some seventeen bodies. Of the six bodies, the three chartered accountant bodies and the CACA monopolise the market for auditing services.

The existence of more than one body and the internecine quarrels among them contributed to the failure of the accounting profession in the U.K. to achieve registration of its members and thereby a legal monopoly over the provision of accounting services (Macdonald, 1985). In recent times, the above bodies have made a number of efforts to unite the profession (Bishop Working Party, 1994), realising that a splintered profession diminishes the ability to achieve occupational closure and control. The most recent proposal by the Bishop Working Party (1994) is for the three chartered accountant bodies to absorb the members of the other three bodies depending on the residence of their members.

Whilst promoting the unification of the accounting profession in the U.K., the ICAEW recently issued a Consultative Paper entitled "Chartered Accountant - The Future of Our Qualification". The purpose of the paper was to set out proposals "designed to improve the value of the Chartered Accountant Qualification through greater relevance, increased flexibility and a better return on the training investment by both trainers and students" (Chamberlain, 1993, p. 1). The paper proposes to increase flexibility in the education program by a combination of compulsory and optional papers as well as flexibility in the method of obtaining post-qualification training, through overseas Post-Qualification Training Offices (PQTO's) and non-public practice offices.

In the past, the ICAEW took the view that the appropriate training for a Chartered Accountant could only be obtained in England and Wales, and only in public practice. The Chartered Association of Certified Accountants (CACA) and The Chartered Institute of Management Accountants (CIMA) taking into account their second tier status in the United Kingdom, aggressively expanded overseas, in an attempt to undermine the position of the ICAEW as the premier accounting body in the United Kingdom. There is also no suggestion of a unified profession in the Consultative Paper. This seems to be a recognition by the ICAEW that in a deregulated international market the main asset of the Institute is its qualification and it has to compete for members globally.

In a competitive environment for the provision of accounting services coupled with the right to advertise professional services, which emphasises differentiation in quality and

price it seems difficult to argue that a unification would improve the value of the Chartered Accountant Qualification. The above seems to indicate a tension in the ICAEW between the traditional ideology of achieving occupational closure and the need to respond to competitive forces in the environment by becoming an occupational franchisor.

10.2.3 Canada

The accounting profession in Canada consists of three main national bodies: the Canadian Institute of Chartered Accountants (CICA) formed in 1902, the Certified General Accountants' Association of Canada (CGA-Canada) formed in 1913, and the Society of Management Accountants of Canada (SMAC) formed in 1929. The CICA represents about half the professional accountants in Canada, with the CGA and SMAC each representing about a quarter of the professional accountants.

The national accounting bodies in Canada are a confederation of provincial bodies with their own set of regulations for membership. The development of a truly national body has not been possible because public accountancy regulation in Canada falls within provincial jurisdictions, and requirements vary greatly from province to province (CGA-Canada, 1989). Of the three bodies, only the CICA members have full auditing rights in all provinces.

Furthermore, the national accounting standard setting body, the Accounting Standards Board (AcSB), is controlled by the CICA which appoints eight of the thirteen members on the Board (Gorelik, 1994). The official document for the standards is also the CICA Handbook. In 1981, the CGA sponsored the establishment of the Accounting Standards Authority of Canada (ASAC) with wider community participation as an alternative to the Accounting Standards Committee (AcSC) the predecessor to the AcSB. The ASAC however, failed to gain the support of the Provincial Securities Commissions (PSCs) and failed to make much progress (Gorelik, 1994). The PSCs have generally reserved their support for the AcSC and then the AcSB.

The above environment seems to support the continued maintenance of occupational control of accounting services in Canada. Whilst there might be a movement at the national level to directly regulate accounting information, it seems unlikely that the provinces would want to give up their rights to regulation of the profession. The CGA has however gained recognition in a number of provinces and this could contribute to pressure in other provinces. In recent times, the CGA has concentrated its attention overseas attempting to raise its profile internationally. Recently it licensed its educational program to be offered in six universities in the People's Republic of China.

10.2.4 United States (USA)

The accounting profession in the United States consists of three main accounting bodies: the American Institute of Certified Public Accountants (AICPA), the Institute of Management Accounting (IMA) and the Institute of Internal Auditors (IIA). Unlike the situation in Australia, United Kingdom and Canada, each body in the U.S. keeps to its domain within accounting and does not compete with the other. Only members of the AICPA have public accounting rights in the U.S.. This situation exists because the right to practice in a state is determined by the State Accountancy Board which is normally controlled by the State CPA Societies.

The attempt to form a truly national public accounting body (the American Institute of Accountants) by a group of accountants in the early days of the profession was defeated by the combined force of the State CPA Societies (Carey, 1969). Whilst there seems to be an interest at the national level to directly regulate the provision of accounting service through accounting and auditing standards, it seems unlikely that this will contribute to the demise of occupational control in the market for accounting service, since the states would be reluctant to give up their powers of regulation. The pressure on the states to deregulate the provision of accounting services is however increasing as highlighted in a recent article by Krol and Svorny (1994). Krol and Svorny (1994) argue that state regulation of professions raises costs to consumers, and limits mobility of professionals across states.

10.3 IMPLICATIONS FOR THE STRUCTURES IN THE ACCOUNTING PROFESSION

The above review indicates that there is substantial pressure in the environment for changes in the current role of the accounting profession as well as evidence that a number of professional bodies, e.g., the NZSA and ASCPA are re-examining their purpose for existence and their role in the future. Accounting bodies intending to continue playing the traditional role would become ineffective and even irrelevant in the modern environment. The adoption of an occupational franchisor role by professional accounting bodies would have major implications on the current structures in the accounting profession. These would include the market structure in accounting services, the structure for the regulation of accounting services, the structure of accounting firms and the structure of accounting bodies.

10.3.1 Regulatory Structures in Accounting Services

The market for auditing and receivership services in most Anglo-American countries is regulated by the accounting profession. The ability to regulate, flows from the monopoly to provide auditing services that is given to members of the accounting profession. The continuous criticism of the effectiveness of self-regulation has placed the state under pressure to improve the quality of financial reporting. This has led to the formation of independent regulatory authorities, e.g., the FASB in the U.S. and ASB in the U.K.. The formation of independent regulatory authorities has diminished the role of accounting bodies as governing institutions (Middlemas, 1980) within the state.

Furthermore, in chapter Eight it is highlighted that in the current environment the unit responsible for the delivery of the service (the audit firm) is not the unit being regulated (the member of the accounting body). It is therefore argued that the unit to be licensed to provide accounting services should be firms that intend to provide the service rather than members of accounting bodies. In the past when the unit being regulated was an individual, the main form of regulation was the enforcement of strict admission

requirements in the form of examinations. In more recent times the profession developed accounting and auditing standards to regulate the output of accounting services.

Whilst accounting and auditing standards would still be a useful tool for regulation, the first form of regulation would clearly not be suitable for regulating accounting firms. As in most other commercial activities, one important mode of regulation would be the firms ability to indemnify the client and/or the public for damages. This regulation could be carried out by a government agency, independent agency or an association of accounting firms.

Regulation by accounting bodies in the new environment would be the type of regulation carried out by franchisors. Implicit in the adoption of this strategy, is a recognition that the professional body is a producer of services in a market (Wheeler Campbell, 1993), and all producers of services face competition as a way of life. In the above context the principal concern of regulation would be the promotion of goodwill towards the designations its members carry. This is primarily aimed at creating a perception in the public and employers that they can expect a higher quality of service from members of the professional body. Towards this objective, professional bodies would make the screening of new members more rigorous, and efforts would also be made to improve quality control through continuing professional education and practice review requirements.

10.3.2 The Market Structure in Accounting Services

Whilst the market for most accounting services is deregulated the markets for auditing and receivership services are generally restricted to members of recognised accounting bodies in many Anglo-American countries. The monopoly of the above markets provides members of the accounting bodies with an advantage in the market for other accounting services as well, e.g., taxation and information systems.

In the new environment where the unit being regulated is the firm, a number of accounting firms could be licensed to carry out audits if the state chooses to do so. The

need for a license to audit could be restricted to the audit of listed companies only. This restriction would not have a significant effect on the audit market. In the United States the top eight accounting firms audit 98% of the companies listed on the New York Stock Exchange (NYSE) and 92% of the companies listed on the American Stock Exchange (AMEX) (Wootton *et al*, 1994). Beattie and Fearnley (1994) found that the percentage of companies audited by the top eight audit firms had gone up from 64% in 1987 to 79% in 1991.

Members of accounting bodies however would have to compete with each other and with individuals who are not members of professional bodies for employment as well as to provide services to the public. Shannon (1982) argues that franchising can have a pro and anti-competitive impact on a market. The pro-competitive effects include the facilitation of market access, the reduction of risks associated with a new venture, the introductions of innovations and an increase in the rate of adoption of new ideas, the provision of economies of scale for media advertising, the provision of assurances of quality control not available from independent businesses and the provision of extra services and service standard. The principal anti competitive impact would be that non-members of a franchise would be at a disadvantage when trying to enter a market.

10.3.3 The Organisational Structure of Accounting Firms

The traditional structure of accounting practices has been the sole owner or the partnership structure. The rules of many of the accounting bodies in fact did not allow its members to enter into any other organisational structure. The limitation was placed on accounting practices based on the argument that professionals took personal responsibility for the performance of their service and that other organisational structures would lead to the dilution of this principle. It is also shown that the partnership form of ownership has contributed to maintenance of occupational control in three main ways: (a) it has ensured that ownership of accounting firms is limited to members of the profession, (b) promoted the wide distribution of ownership among members of the profession, ensuring that the interest of the profession coincides with the interest of the firm, and (c) ensured that owners are actively involved in the operation of the firm,

preventing the managing partner and the management committee from becoming a gate-keeper of information to the owners.

It has been pointed out in chapter Eight, that even while retaining the above structures, responsibility for the provision of accounting service has shifted to the firm. This shift has principally been due to changes in accounting practice (complexity of work requires a team effort in service provision) and the growing size of accounting firms. This has contributed to the centralisation of management and authority as well as the adoption of other corporate like structures within partnerships. In this context the corporatisation of the firm seems merely a change in the legal identity of the firm.

Furthermore, the partnership structure offers less protection to the public because partners can put their personal assets away from potential creditors (Crawford, 1993). In fact it is argued that the corporate form offers more protection to the public because minimum levels of liability insurance and corporate assets could be built into any law allowing professional incorporation (Crawford, 1993). With a shift to the regulation of the firm instead of the individual, the corporate form of organisational structure could become a popular method of organising accounting firms. The corporate form of organisational structure for accounting firms as an alternative to the partnership is already allowed in the United States and the United Kingdom, and one of the Big Six firms (KPMG) has incorporated its audit segment in the United Kingdom.

10.3.4 The Organisational Structure of Accounting Bodies

The common structure of accounting bodies in most Anglo-American countries other than the United States and Canada, has been the mutual-benefit association structure. The primary objective of this kind of organisations is the aggregation and expression of member interests (Knoke and Prensky, 1984). These organisations are also found to be characterised by ambiguous and diffuse measures of goal attainment, and collegial and confederated authority patterns (Knoke and Prensky, 1984) (Table 10.1). Blau and Scott (1963) point out that the crucial problem in mutual benefit associations is that of maintaining internal democratic processes - providing for participation and control by

the membership. The separation between the membership decision making process and executive implementation of the decisions is also usually blurred.

Table 10.1: A Comparison of the Corporate Structure and the Mutual Benefit Association Structure

DIMENSION	INCENTIVE SYSTEMS AND PARTICIPANT COMMITMENT	LEADERSHIP AND AUTHORITY	EFFECTIVENESS
<i>Firms</i>	Utilitarian-centred incentives systems	Hierarchical authority patterns Centralized decision making Professionalised leadership	Goals of profits, growth Quantifiable performance indicators
<i>Associations</i>	Normative, affective-centred incentive systems	Collegial, confederated authority patterns Democratic ideology and decision making Amateur leadership	Goal of aggregating and expressing member interests Ambiguous and diffuse measures of goal attainment

Source: Knoke and Prenskey (1984, p.14)

The shift in the role of the accounting body from that of occupational control to occupational franchising contributes to clearer objectives (that of maximising the value of the franchise) for the body as well as quantifiable performance indicators (New Zealand Society of Accountants, 1994). In this context the corporate form of organisation with clear separation of decision making from executive implementation, and hierarchical authority patterns is found to be more suitable (Wheeler Campbell, 1993).

10.4 IMPLICATIONS FOR THE IDEOLOGY OF THE ACCOUNTING PROFESSION

In Chapter Four it was highlighted that ideology can only be understood in its institutional and social contexts. In this section an attempt is made to provide an ideology that is consistent with the emerging practice and structure of the accounting profession. The tendency to adopt a franchising role by accounting bodies indicates a recognition in the profession, that differentiation of service and quality in service provision, rather than the attainment of monopoly status, is the key to survival. In this context, fundamental principles of professional conduct such as independence and objectivity are not considered to be questions of ethics, but rather factors that affect the quality of service provided. This strategy requires the association to place more attention to the products and services offered by competitors, and to emphasise the production of new products to cater for the changing needs of its members, on a continuing basis.

The above strategy and the critique in Chapter Four shows the public interest ideology in its traditional form to be redundant. The profession, whilst making the admission that it functions in the private interest of its members, recognises that the private interest of its members in the long term is tied closely to the interest of its clients and public trust of its quality standards. The concepts of public interest and private interest in this context are not mutually exclusive but rather the serving of one is a fundamental prerequisite for the serving of the other (Parker, 1994). The above view, however, requires a shift in the idea of public interest, from one based on some abstract conceptualisation of public interest, to one based on client interest and legislation.

The franchising strategy also allows the professional bodies to project an image that is consistent with the current market ideology, that is popular in world economics (Self, 1993). Professional bodies would be able to argue that consumers are not compelled to contract with their members as in the case of a monopoly, but rather do contract with their members because of the quality assurance they receive. It would also allow the professional bodies to focus on clear objectives, rather than combining the roles of an advocate for their members, as well as that of a regulator for society.

The abandonment of the public interest ideology in its traditional form would also make the code of ethics redundant. The code of ethics however would be replaced by a quality assurance contract. This contract would inform clients as well as the public what are the quality assurances they can expect when they deal with a member of the accounting body. The contract could also spell out the compensation for any failure of the member to adhere to the contract.

The discussions in Chapter Eight as well as this chapter lead to the prediction of the demise of occupational control in the accounting occupation. Frequently when one predicts the demise of occupational control, it is assumed that this would lead to the organisational control of the occupation (Child and Fulk, 1982). This view is further supported by Marxist theorists who argue that organisational or direct control by the firm is the theory and practice of capitalist control over productive activity (Friedman, 1977). The existence of the occupational franchisor however complicates the clear shift from occupational control to organisational control of the occupation.

The occupational franchisor, though unable to specify who is qualified to provide a particular service or be employed in a particular position, can prescribe the quality standards to be upheld by the employer. When a firm employs a franchisee it recognises that it has to cede some control over employees to reap the benefits of quality assurance as well as the expertise provided by the franchisor.

An example of this kind of control in the literature is the responsible autonomy strategy advocated by Friedman (1977):

The responsible autonomy strategy attempts to harness the adaptability of labour power by giving workers leeway and encouraging them to adapt to changing situations in a manner beneficial to the firm (Friedman, 1977).

Dent (1993) argues that changes in the organisation and control of hospital medicine highlight the demise of professional autonomy and the emergence of responsible or clinical autonomy as the principal strategy for control in the medical practice. Dent (1993) points out that in the new environment "doctors will retain control over the work situation (operational decisions) but allocative decisions will become a managerial

prerogative" (p. 266). Whilst professional autonomy is the outcome of the strategies of organised occupational/professional groups, responsible autonomy is the outcome of management strategies within a contexts of prevailing labour market conditions.

The current labour market conditions seem especially conducive to the emergence of occupational franchisors and the type of autonomy in the work place identified above. Bridges (1994) argues that the concept of 'job' as we know it is disappearing. He argues that the conditions that created 'jobs' - mass production and large organisations - are disappearing. In its place it is argued, emerges part-time and temporary work situations. It is pointed out that people will be brought together for particular projects and later disbanded. In a recent article in the Journal of Accountancy, Mingle (1994) highlights the emergence of just-in-time staffing in major accounting firms. The objective of this strategy is to develop a "work force model that fits the work load as well as possible and on which every future hiring decision is made" (p. 40). Shank (1993) discusses a similar scenario for accountants in industry.

In the above contexts firms would not have the resources nor the desire to provide comprehensive training for its employees because of the fluid nature of its work force. In its place the firm would be willing to pay a premium for individuals with the requisite expertise to do the job. The accounting body in this context would provide the assurance that its members have the requisite expertise and back-up to work in a project team.

10.5 SUMMARY

In this chapter an attempt is made to identify the features of the emerging structure and ideology within the accounting profession, based on the impact corporatisation would have on the accounting profession, and the restructuring process that is ongoing in a number of accounting bodies. It is shown that new patterns of work, new trends in the regulation of services, the loss of monopoly over accounting knowledge, and the splintering of the accounting profession in many countries do not support the maintenance of occupational control.

An evaluation of the impact of the above forces on accounting bodies in some Anglo-American countries shows accounting bodies in Australia and the United Kingdom to be most affected by the forces identified earlier, while accounting bodies in the United States and Canada to be most able to resist the pressures. The new role of the accounting bodies in New Zealand, Australia and United Kingdom is shown to be very similar to that of an occupational franchisor.

It is shown that the above changes would allow the profession to drop the much maligned claim of working in public interest, and to develop a more focused strategy on a single goal - that of maximising the value of the franchise. This would also involve a recognition that principles concerning independence and objectivity are not ethical questions, but rather factors that affect the quality of service provided, allowing the professional bodies to project an image that is consistent with contemporary market ideology.

CHAPTER ELEVEN: SUMMARY AND CONCLUSION

11.1 INTRODUCTION

In the Introduction to this thesis references were made to escalating criticism of the profession and a coming crisis in accounting (Section 1.1). The criticisms include questions concerning the effectiveness of the accounting profession, commitment to professional values, effectiveness of self-regulation, and litigation. These criticisms it was pointed out, have led some to question the status of accountancy as a profession.

The aim of the thesis was: **To investigate the nature and causes of the crisis and the resulting changes occurring within the accounting profession in terms of its ideology, practice and structures.** The changes in the ideology, structures and practice of the accounting profession in Anglo-American countries are used as the focus of this study.

The next section provides a summary of the thesis, highlighting the main features. This is followed by the conclusions of the study, its implications for research and the profession, its contribution and some suggestions for future research.

11.2 SUMMARY OF THE STUDY

The major features of the study are summarised in Figure 11.1. The figure identifies occupational control as the distinguishing feature of professions (Chapter Two). The maintenance of occupational control is found to be supported by a public interest ideology, practice based on a technical rational view of knowledge, and self regulation. These features are matched to criticisms directed at the profession to identify the main areas for investigation (Chapter Three).

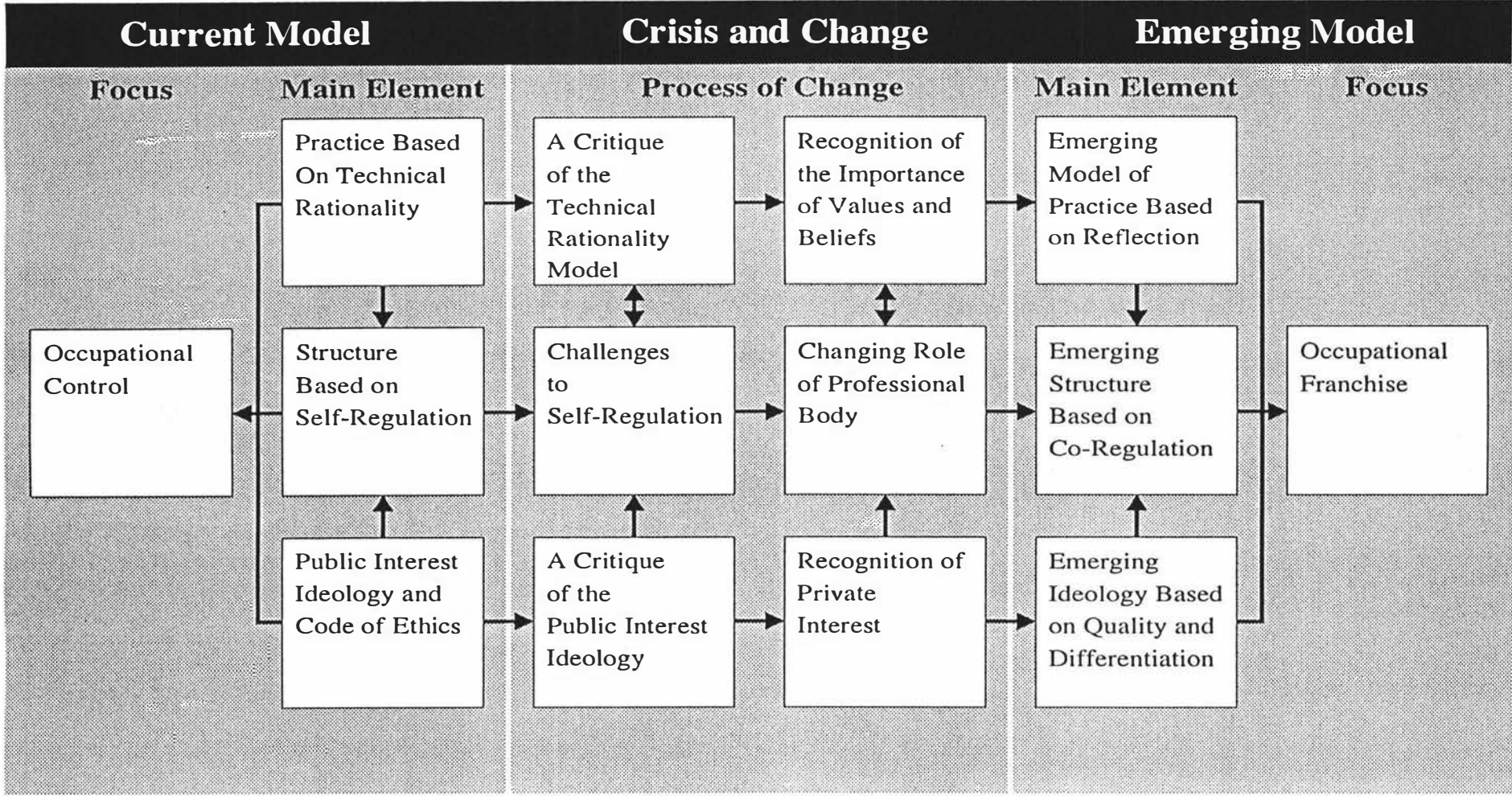
The study points to major problems with the application of the technical/rational model of practice in the accounting profession and provides a critique of the model (Chapters Five and Six). As an alternative the study identifies a model based on the concept of

reflective practitioner introduced by Schon (1983) for the development of accounting practice. It is argued that this model would contribute to improved professional effectiveness through its recognition of values and beliefs as an integral part of accounting practice (Chapters Six and Seven).

The thesis also provides a critique of the public interest ideology utilising the approach developed by MacIntyre (1971; 1984). This approach places professional ideology in its historical context to identify its vacuous nature in the current environment. It is suggested that the tension and strain that seem to exist in the profession can be related to the changing character of both the contemporary society and professional ideology. It is concluded that there is an urgent need to develop a new consensual ideology (Chapter Four).

An analysis of the literature on the regulation of accounting as well as other professional services highlights the emerging predominance of external regulation and a lack of focus in the regulation of accounting services. Based on that analysis, it is argued that corporatisation of accounting firms could contribute to the demise of professional self-regulation in accounting. Finally it is shown that the demise of self regulation, the competition among accounting bodies and new patterns of work are having a major impact on the role of accounting bodies, transforming them into occupational franchisors (Chapter Nine).

Figure 11.1: Framework to Explain the Emerging Phenomenon of Occupational Franchise within the Accounting Profession



11.3 CONCLUSIONS

(i) **Ideology based on Differentiation of Quality.** It was highlighted that the ideology of professions was based on 'public interest' (Section 3.3). The literature, however, as reviewed in sections 3.3.3 and 3.3.4 shows that this is not reflected in many actions of the profession. Furthermore, it is shown (chapter 4) that the continued maintenance of an ideology based on public interest would contribute to increasing tension and strain in the profession.

In Chapter Two ethics is shown to be an integral part of professional ideology. Research however shows that the code of ethics in many professions is ineffective and created for the protection of the professionals rather than the public. In this thesis it is concluded that the code of ethics should be replaced by a quality contract with the client, as many of the items included in the code of ethics, e.g., independence and objectivity are not only concerned with ethics but has a major impact on the quality of service. This would also bring accountants more in line with other service providers in society.

The recognition of private interest and quality in the ideology would require a fundamental shift in the objectives of the profession, from one of occupational control or the creation of market shelters to the differentiation of services provided by members from other providers in the marketplace. This differentiation would mainly be in terms of quality, which the profession would seek to raise with practice review and continuing professional development (CPD) programs (Chapter 10). Professional self-regulation would then mainly be used by the profession to ensure that members of the profession provide a level of service higher than the minimum quality standards prescribed by external regulators. The purpose of self-regulation would be focused on the enhancement of the value of the franchise rather than the protection of the public interest (see Table 11.1).

Table 11.1: A Comparison of the Traditional and Emerging Ideology in the Accounting Profession

<u>Component</u>	<u>Traditional view</u>	<u>Emerging view</u>
Professional ideology	Based on public interest	Based on private interest
Principal support	Code of ethics	Code of quality assurance
Professional-consumer relationship	Client Model (professional dictates what is good or evil, since the consumer cannot diagnose ones own needs)	The consumer has a role in determining his/her need and evaluate the competence of the professional
Power distance between professional and consumer (extent of unequal power in relationship)	Large	Small
Purpose of professional self-regulation	Protection of public interest	Enhancement of the value of the franchise

(ii) **The Reflective Accountant.** A crucial feature of professions is the type of knowledge used in practice and its impact on the professional - client relationship. The accounting profession has consistently strived to show that accounting practice is based on a technical/rational knowledge base (Section 3.3). Critics, instead claim that professional knowledge is characterised by indetermination and uncertainty (Jamous and Peloille, 1970). An analysis of accounting theories (Chapter 5) however shows that this goal has yet to be reached. A principal reason for this is the importance of values and beliefs in the development of accounting practice and theories (Chapter 6). It is also pointed out that the professional practice environment is characterised by uncertainty, complexity and instability. The above environment therefore requires the professional to rethink his/her role.

It is shown that the emerging role of a professional in the current environment is more akin to that of a facilitator working in collaboration with the client, rather than an expert prescribing solutions to well defined problems. This role requires the professional to go beyond the mastery of technical/rational knowledge, and possess intuition, vision and reflection-in-action (Chapter 7). From this perspective, professional ineffectiveness is not attributed to inadequate knowledge and training but rather to value conflicts, mistaken ideas about reality, and communication breakdown.

The change in the role of a professional as suggested above requires a reorientation in the role and type of research. Research would not be perceived as an activity undertaken to develop theories to explain a phenomenon and dictate solutions but rather an activity undertaken for a problem on the spot and linked to action. In this context every professional is also a researcher contributing to the merging of research and practice. The mode of professional education would also change from being predominantly instructional to the development of awareness of values and complexities in the decision making process.

Table 11.2: A Comparison of the Traditional and Emerging Practices in the Accounting Profession

<u>Component</u>	<u>Traditional view</u>	<u>Emerging view</u>
Professional role	Expert role in problem solving	Collaborative role in problem setting and solving
Nature of professional problem	Predictable and certain	Unpredictable and fluid. Each Problem is Unique
Solution to problems	Based on technical/rational epistemology of practice	the reflective process in practice as well as the technical/rational process
Role of research	To develop theories that would explain phenomenon and dictate a solution.	To enhance professionals capacity for reflection-in-action and linked to action
Explanation to Professional ineffectiveness	Inadequate knowledge or skills and/or Inadequate task training	Value conflicts, mistaken ideas about reality and communication breakdown
Purpose of education	Provide knowledge and skills to diagnose and solve problems	To develop awareness of complexities and values in problem setting and communication
Professional role in organisations	Expert adviser/decision maker	Facilitator

The adoption of the above role by professional would make the traditional professional-consumer relationship untenable. The professional would be required to demystify professional knowledge so that the consumer can play a larger role in the problem setting and solving processes. The demystification of professional knowledge would also contribute to a reduction in the power distance between professional and consumer (see Table 11.2).

(iii) The Accounting Franchise. The changes in the ideology and professional practice would require the professional body to rethink its role in relation to society, consumers of accounting service and its members. A major reason for the retention of the public interest ideology, as highlighted in the critical literature is for the maintenance of occupational control (Chapter Two). A review of the accounting practice environment however, shows that the maintenance of occupational control in the current environment would be extremely difficult. Furthermore, a group not claiming to work in public interest will have major difficulties in arguing for a monopoly over the provision of a particular service.

The principal reason for membership of professional bodies was that only members were allowed to provide a particular service in society. The end of a monopoly in the accounting services sector would remove this incentive for providers of accounting service to become members of a professional body. As highlighted in the Wheeler Campbell Report (1993) the main product or service a professional body can provide in the new environment is information about the quality of services provided by holders of a trademark or brand. In this context it would be more appropriate to view the designation carried by members as a brand or trademark rather than as a qualification.

The new relationship between a professional and the professional body would be more akin to that of a franchisor and franchisee. Professional bodies assuming a franchisor role would also find the traditional structure (the association or society structure) cumbersome to operate in the new environment. The adoption of a corporate structure with clear separation of the executive from the members (franchisees) would clearly

Table 11.3: A Comparison of the Traditional and Emerging Structures in the Accounting Profession

<u>Component</u>	<u>Traditional view</u>	<u>Emerging view</u>
Role of professional body	Maintenance of occupational control	Occupational franchisor
Unit responsible for service provision	Individual	Team or firm
Unit of regulation	Individual	Firm
Mode of regulation	Self-regulation	Self-regulation and external-regulation
Government role in regulation	Regulation of service via Regulation of providers	Direct regulation of service via accounting and auditing standards
Form of self-regulation	Formal and Informal, e.g., through referral	Formal, e.g., practice review
Relationship between professional body and its members	Association - member relationship	Franchisor - franchisee relationship
Structure of Professional Body	Association or society structure	Corporate structure
View of designation carried by members	Qualification	Brand

Market Structure for
Accounting Services

Monopolised by members of profession

Free market competition

Professional Firm Structure

Sole-practitioner and partnership

Sole-practitioner, partnership and corporate

facilitate the achievement of the primary goal of the body, that of maximising the value of the franchise (see Table 11.3).

(iv) Regulation of Accounting Services. The demise of occupational control would also lead to the end self-regulation over the provision of a particular service. The government and other groups in society will get more involved in the direct regulation of accounting services via accounting standards and auditing standards. This shift in ideology and focus would deflect many of the criticisms directed at the accounting profession to the government or the external regulator appointed by the government.

Chapter Eight highlighted changes in the ownership structure of accounting firms due to the liability crisis. In most countries the corporate structure is allowed as an acceptable form of ownership structure for accounting firms. It was also highlighted that in the new environment the firm rather than the individual is usually responsible for the provision of services. This would shift the focus of government or external regulation from the individual to the firm (see Table 11.3).

11.4 IMPLICATIONS OF THE STUDY

The study highlights the self-fulfilling and circular nature of research on the accounting profession and strategy adopted by the accounting profession. The identification of occupational control as the distinguishing feature of professions (Johnson, 1972; Larson, 1977) has focused the energy of researchers on showing the different strategies adopted by different professions to achieve occupational control, and the professions in turn have focused on the attainment and maintenance of occupational control with little attention being paid to the changing environment.

This study emphasises the need for researchers to continuously challenge contemporary ideas about the professions in light of changes in the environment, rather than popularise them. In more general terms the study shows that the over-usage of a particular methodology to study a phenomenon can lead to stagnation in our understanding of the

phenomenon. This emphasises the need for researchers to use different methodologies to study a phenomenon.

For the accounting profession the study highlights the changing demand for a particular service. In the past when there was inefficient distribution of information in society, the exclusion of the unqualified from providing a particular service by the profession through occupational control was valued in society. In the information age, occupational control is seen to impede competition in the market place with little benefit for the consumer and society.

Following from the findings of the Wheeler Campbell (1993) report this study suggests that a useful service that the profession can provide in the current environment is that of providing information on the quality of service that the consumer can expect from its members. The adoption of this strategy poses a number of challenges to accounting practitioners and educators. It would require accounting practitioners to demystify accounting knowledge so that clients and others in society can participate in the solution of accounting problems as well as evaluate the quality of service provided. It would also require accounting educators to initiate a change in the orientation of education from one which is concerned with the efficient transmission of knowledge to one more concerned with reflection and quality.

11.5 CONTRIBUTION OF THE RESEARCH PROJECT

The profession has mainly adopted a fire fighting and ad-hoc approach rather than a comprehensive approach to dealing with criticisms directed at particular areas of professional activity. For example, in response to declining professionalism the professional bodies tightened the code of ethical conduct and reformed their disciplinary procedures; in response to inconsistent accounting practices they strengthened the standard setting processes and initiated the conceptual framework projects; and more recently the profession's response to the litigation crisis has been the call for limiting liability and corporatisation of accounting firms.

Frequently, a particular response in one area has created problems in other areas. For example in the United States, the profession's response to criticisms of the quality of financial statements was the development of a substantial number of accounting standards. The loading of the educational curriculum with discussions of the standards has been found to adversely affect the education of new accountants (AAA, 1986). The present study highlights the need to seek ways of providing some tentative explanations of these current issues prior to attempting to resolve them (Lee, 1990).

The study not only provides the accounting profession with a framework for understanding the criticisms directed at the profession in the contexts of a changing society but also the implications of its actions in responding to change. The study also serve as a point of reference for planning future strategies. For example, it is highlighted in Chapter Eight that the profession's decision to allow the corporatisation of accounting firms could contribute to the end of professional self-regulation of accounting services.

The study highlights the historical, social and institutional contexts of professional ideology and practice, and the tension and strain generated by changes in the social and institutional environment. It emphasises the importance of beliefs and values in accounting practice and their impact on the generalisability of accounting knowledge. The above focus on beliefs and values also draws attention to the close relationship between the knowledge base and mode of practice.

The framework (Figure 11.1) developed to explain the emerging phenomenon of occupational franchisor within the accounting profession can also be used to study change in other professions. The framework highlights the three main elements (ideology, practice and structure) of a profession that require close scrutiny, and the steps to be followed in analysing changes in the elements. It also recognises the interaction among the three main elements and therefore the need to study all three of them when attempting to provide a comprehensive analysis of professional change.

Further, the deficiencies in the two major approaches used to study the accounting profession, i.e., the taxonomic approach and the power approach are highlighted in this

study. The studies adopting the taxonomic approach (Carey, 1969; Buckley and Buckley, 1974) based on the tenet that professions possess both unique characteristics which set them apart from other occupations and play a positive and important role in the division of labour in society (Saks, 1983), has been found to be rife with inconsistencies and difficulties of application (Roth, 1974; Klegon, 1978). The functionalist approach was also found to ignore the significance of internal forces within the professions, and external forces impacting on the profession.

The studies based on the critical/power approach (Armstrong, 1985; 1987; Kedsle, 1990; Walker, 1991), focusing on the power relationships and conflict that determines the formation of professions (Johnson, 1972; Larson, 1977), whilst being more contemporary, has a historical focus. An overemphasis on power relationships has also contributed to a neglect of other facets of a profession such as, how the professional association continuously manages the changing relationship with its members, how members manage a changing relationship with their clients and so forth.

Prior studies using the interpretive approach to study the professions (e.g., Burcher and Strauss, 1961) looked at the interaction of members within a profession, in this study the interpretive approach is extended to study the accounting profession as a social institution in its interaction with its individual members as well other individuals and institutions in society.

11.6 IDENTIFICATION OF AREAS FOR FUTURE RESEARCH

The study of the accounting profession has been dominated by two major approaches (taxonomic and critical/power). Accordingly, researchers have focused their attention on the historical development of the profession. This study makes an attempt to shift the focus from the past to the present using an interpretive approach. The focus on the present shows how obsolete current models used to study the accounting profession have become. This suggests that a wider use of the interpretive approach would enrich our understanding of the changing nature of the accounting profession.

More research on the ideology of differentiation by quality would greatly assist the profession in developing a quality approach to the provision of accounting services. The concept of the reflective accountant also raises wide ranging possibilities for future research, e.g., frame analysis research, repertoire building research and action research (Chapter Seven).

In the accounting literature the relationship between the state and the accounting profession is referred to as a corporatist relationship (Cooper *et al*, 1989; Walker and Shackleton, 1995). In this thesis evidence is provided to show that this relationship is breaking down and the state is becoming more involved in the direct regulation of services. These findings indicate that the relationship between the profession and the state is changing and further research on this phenomenon would be useful.

Finally the approach used in this study can also be used to analyse other professions such as medicine and law. Similar developments in other professions would indicate the impact of some fundamental changes in the values and structures of society on them.

11.7 CONCLUDING REMARKS

A substantial amount of research today is concerned with 'What' type questions. The 'Why' type questions are frequently neglected. The 'What' type questions help us understand the state we are in, but to get to a different state which is more satisfying we need to ask the 'Why' type questions. This study is therefore more concerned with the later. In this study the interpretive approach was found to be particularly useful for the 'Why' type questions.

As highlighted in Chapter Four, there is considerable criticism of the public interest ideology, but to change we have to understand why is there so much criticism, before we make any suggestions. There is considerable evidence of differences in the way we interpret and apply accounting knowledge, the question in Chapter Six is therefore 'Why do these differences arise?'. We can criticise and argue that one approach is better than the other but we will not get any closer to a solution if we do not understand, why the

criticism arise in the first place. In conclusion the study argues for more 'Why' type research.

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Appendix 1. Review of the Literature on the Gap Between Accounting Research and Practice

Author/s	Type of Gap	Reasons for the Gap	Proposed Solution
1. Sterling (1973) -A	Research is isolated from practice.	1. Research outputs are not practised. 2. Educators teach accepted practice and not research output. 3. Resistance to reform within the profession.	Educators should teach the research results as the desired state and teach accepted practice as the current state.
2. Mautz (1974) -P	Gap between the real world of the practitioner and the educational world	Practitioners expect immediate solutions in a complex world. Academics theorise in a simple world.	Education should provide for: <ol style="list-style-type: none"> 1. Conceptual understanding, 2. Technical skills, 3. Business judgement, 4. Professional responsibilities, 5. Basic virtues of life.
3. Staubus (1975) -A	Research results do not reach the professionals.	Value of research is uncertain and evidence is not well organised.	Teach well established decision-usefulness approach.
4. Flint and Shaw (1981) -A	Research not relevant and does not have sufficient authority to lead practice.	Research results not relevant and not conclusive.	Improve impact of research on practice. Results of research should have relevance

		Communication gap.	Separate academic and practitioner journals.	or potential relevance to practice.
				Accounting research results should be:
				1. Authoritative,
				2. Relevant,
				3. Communicated.
5.	Baxter (1988) · -A	Gap exists between research and practice.	<ol style="list-style-type: none"> 1. Research is geared towards acquiring new knowledge whereas practice demands solutions for immediate application. 2. Research results are too remote from practice. 3. Academic researchers have broader background than practitioners. 4. Academics look for theories and principles whereas practitioners seek new techniques. 	Professional bodies should commission more applied research to bridge the gap between academic research and practice.
6.	McLean (1988) -P/A	Practice lagging behind research and development.	<ol style="list-style-type: none"> 1. The lag between theoretical development and practical acceptance. 2. Many large firms do not even think of management accounting as a tool for expansion. Mergers and acquisitions are in vogue. 	<ol style="list-style-type: none"> 1. Need for practice-based research and development capable of offering short-term insights into the practice of management accounting. 2. Both academics and practitioners should research and publish their views.

			3. Management accounting theory is inappropriate for complex problems.	
7.	Scapens (1988) -A	<ol style="list-style-type: none"> 1. Mode of communication used by researchers is remote from practice. 2. Research has not kept pace with new manufacturing techniques. 	Type of research method used did stress the development of techniques but not its usage.	<p>Need for:</p> <ol style="list-style-type: none"> 1. Case studies in practice environment. 2. Broadening the area of research to include non-economic business practices.
8.	Flint (1988) -A	Gap between interests of academics and practitioners.	<ol style="list-style-type: none"> 1. Adds to Baxters (1988) list unlike other professions, lack of a common comprehensive education for academics and practitioners. 2. Absence of a theoretical intellectual enquiry in professional development. 3. The increasing vigour and intensity of research making it less intelligible to non-researchers. 	Establish a research council to bring the academic and practitioners together.
9.	Williamson (1989) -A	Mismatch between management accounting theory and practice.	<ol style="list-style-type: none"> 1. Textbooks are written for passing exams and not for guiding practice. 2. Case studies written by academics without input from practitioners. 	Partnership between academics/researchers and practitioners to develop research results.

3. Research is devoid of inputs from practitioners and non-accounting executives.
4. Current practice is not reported by practitioners.

10.	Elliot (1990) -P	Accounting practice lagging behind business needs.	Accounting practice is providing for industrial era enterprises, whereas enterprises are in the information era.	Rethink accounting paradigms. Accounting information should help entities attain goals. Accounting should provide real time information not just past information. Implicitly accounting research should help in bridging the gap between practice and business needs.
11.	Williamson (1990) -P/A	Education lags behind changing practising needs.	Emphasis on the designing of techniques.	Not just teach techniques but encourage broad learning. Redress the balance between teaching and research.
12.	Sunder (1990) -A	Accounting research follows practice. It should lead practice.	Research ideas are not communicated to practice or being technical not adopted in practice.	Teach research output in the classroom so that students take it to the profession. Pursue research to understand the new managerial regime not just the past.

A = Academic
P = Practitioner