

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

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

A thesis presented in partial
fulfilment of the requirements
for the degree of

Doctor of Philosophy
in
Accountancy

at Massey University

Sivakumar Velayutham
1996

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.

ACKNOWLEDGEMENTS

In completing this thesis, I owe a great deal of gratitude to a number of people. First, a special thanks to my three supervisors, Professor Hector Perera and Associate Professors Asheq Rahman and Wayne Edwards. I am deeply indebted to Professor Perera for giving me the opportunity and freedom to pursue a research topic which not only gave me the chance to study the profession but which also allowed me, in some ways, to reflect on my own view of the world and how it has been shaped. I also appreciate the time he made available for discussion and the patience he has displayed in the revision of numerous drafts of the thesis. My appreciation is also due to Professor Rahman, who was not only a supervisor but also a friend, for his advice and time, and Professor Edwards for his constructive comments and the different perspective he brought to the study.

I would also like to acknowledge the assistance and co-operation of my Departmental Heads Professors Lal and Perera and Mr. Fin Hamilton, and the staff in the department of accountancy. The constant encouragement of Joane Locke, and the help of Andrew Rowatt in developing my tables, figures and for help with computer problems require a special mention. I am also grateful to Associate Professor Hai Yap Teoh for getting me interested in research.

A special mention is due to my parents for whom my education has been central to their life. Finally my appreciation to my wife for her constant encouragement and my son for showing me that there is more to life than research and work, that is living for and enjoying the moment.

PUBLICATIONS ARISING FROM THIS STUDY

Refereed Journals

1. Towards Understanding the Gap Between Accounting Research and Practice. Asian Review of Accounting, 1(2), 1992. pp.30-48. With A.Rahman.
2. The Reflective Accountant: Towards a New Model for Professional Development. Accounting Education, 2(4), 1993. pp.287-301. With M.H.B.Perera.
3. The Historical Contexts of Professional Ideology and Tension and Strain in the Accounting Profession. Accounting Historians Journal, 22(1), 1995. With M.H.B.Perera.
4. The Influence of Underlying Metaphysical Notions on our Interpretation of Accounting. Accounting, Auditing and Accountability Journal, 9(2). 1996. With M.H.B.Perera.
5. Corporatisation and the Regulation of Accounting Services. The British Accounting Review (forthcomming).

Conference Presentations

1. The Institute of Chartered Accountants of New Zealand: Demise of a Professional Association, Emergence of an Occupational Franchisor. Paper Presented at the **New Zealand Sociology Conference** in Palmerston North, New Zealand on 25-27 November, 1994.
2. Recent Developments in the Accounting Profession in New Zealand: A Case of Deprofessionalisation. Paper to be presented at the **International Accounting Research Conference** in Warwick University, U.K. on 24-25 May, 1996.

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 128		
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 147		
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 162		
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 177		
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