



# Understanding the responses of professional accounting bodies to crises

Understanding  
responses  
to crises

## The case of the Australian profession in the 1960s

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### Abstract

**Purpose** – The purpose of this Australian case study, set in the 1960s, is to comprehensively examine the responses of the two major professional accounting bodies to a financial/corporate/regulatory crisis necessitating the defence of the profession's legitimacy.

**Design/methodology/approach** – This historical paper draws on surviving primary records and secondary sources and applies the perspectives on the dynamics of occupational groups and the legitimacy typology of Suchman.

**Findings** – While the history of the accounting profession has been characterized by intra-professional rivalries, this case study illustrates how such rivalries were put aside on recognising the power of collectivizing in defending the profession's legitimacy. Based on the available evidence, pragmatic legitimacy is shown to have been a key focus of attention by the major accounting bodies involved.

**Research limitations/implications** – The paper may motivate similar studies in Australia and elsewhere, thus potentially contributing to developing a literature on comparative international accounting history. The evidence for this historical investigation is largely restricted to surviving documents, making it necessary to rely on assessments of the key sources.

**Originality/value** – In addressing responses to crises in defending the legitimacy of the profession as a whole, the paper makes an original contribution in exploring the relationship between literature on the dynamics of occupational groups and on legitimacy management.

**Keywords** Corporate collapse, Crisis, Accounting history, Australia, Professionalisation, Legitimacy, Case studies

**Paper type** Research paper

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## Introduction

In developing a comprehensive understanding of professional projects, it is important to focus attention on how professions face crises because of the potential adverse ramifications of crises for the legitimacy of professional occupations. This Australian study examines how the major accounting bodies representing the organised accounting profession responded to such a crisis which arose in the post-Second World War period[1]. By the early-1960s, accounting's professional project in Australia had produced two major professional accounting bodies. The competing accounting bodies were The Institute of Chartered Accountants in Australia (hereafter "the Institute"), a body largely responsible for accountants in public practice, and the Australian Society of Accountants (hereafter "the Society") (now known as "CPA Australia") as the body largely responsible for members in commerce, industry and government. Adopting different organizational strategies and recognized as rivals, the Institute and the Society were confronted with the fallout of the so-called "credit crisis" (hereafter "crisis") of the early-1960s in Australia, which resulted in a spate of corporate failures across a short time period that "stirred" the accounting profession[2]. The two accounting bodies were ultimately required to put aside their rivalry in coming together, on behalf of members in order to defend the profession's legitimacy. Where the organised accounting profession in any country is implicated in instances of corporate failures, especially "surprise" company collapses, professional associations are obligated to respond when the profession's legitimacy is "threatened or challenged" (Ashford and Gibbs, 1990, p. 183).

According to Burrows (1996, p. 15), "post-1961, the [Australian] accounting profession confronted its greatest challenge". What spurred this challenge was a Commonwealth government imposed credit squeeze which followed a rapid expansion in consumer spending fuelled by the easiest credit terms in living memory following an influx of European settlers to Australia from 1949 (Sykes, 1998, p. 296). The government's "destructive and ill-timed" credit measures of November 1960 ended the "'development' boom", resulting in "the birds of the boom coming home to roost as remarkable overconfidence, bad business principles, sloppy financing and mismanagement" became clearly apparent (*Australian Financial Review*, 1963a, p. 12). Companies which failed during this period included Reid Murray, Stanhill Development Finance, Cox Brothers, Latec Investments, Sydney Guarantee Corporation and H.G. Palmer (Consolidated) (for case study examinations refer to Sykes, 1998, chaps. 14-16 and Clarke *et al.*, 2003, chaps. 3-5; also see Appendix 1 (Table AI) for a time line of major company failures and the issue of company inspectors' reports as well as certain responses of the accounting profession). The losses recorded in the 1960s were described as the "heaviest losses in the history" of the Australian investing public (*Australian Financial Review*, 1963a, p. 12; also see Clarke *et al.*, 2003, p. 51). Questionable financial reporting practices were later strongly implicated in these failures by company inspectors who were joined by finance journalists and shareholders in criticising the accounting profession for its role in the failures (Zeff, 1973, pp. 10-11; Burrows, 1996, pp. 1 and 15)[3]. Indeed, the state of accounting principles and accounting practices came under strong and relentless criticism (see, for example, Birkett and Walker, 1971; Chambers, 1973a, b; Gibson, 1979; Clarke *et al.*, 2003, pp. 49-50), thereby deterring accountants from effectively employing the typical defence rendered during times of scandal of appreciating the existence of

“bad apples in every barrel” (Birkett and Walker, 1971, p. 111; also see p. 131). According to Birkett and Walker (1971, p. 136), these company failures “produced a confrontation between the public and the accounting profession” (also see Irish, 1963; Trigg, 1966). Notwithstanding the frenzy of criticism, this study does not argue the proposition that the profession itself severely breached its “social contract” and, therefore, lost its legitimacy during this crisis (Deegan and Rankin, 1996; Carnegie and Napier, 2010). Rather, the profession’s legitimacy was under threat, thus necessitating its defence by the Institute and the Society (Ashford and Gibbs, 1990; Tilling and Tilt, 2010)[4].

The response of the Institute and the Society to the financial/corporate/regulatory crisis (hereafter the “crisis”) was initially tentative at best. As the number of corporate failures which implicated accounting mounted, a number of actions were initiated by the Institute and/or the Society to counter the mounting criticisms. Among the actions taken, the two bodies announced their intention in November 1965 to establish the Accountancy Research Foundation (later the Australian Accounting Research Foundation) (hereafter “the Foundation”) as a jointly-sponsored entity, which was incorporated as a company limited by guarantee on 23 November 1966 (Zeff, 1973, p. 43; Burrows, 1996, p. 21). This unprecedented major development was the “first joint venture between the Society and Institute” (Birkett and Walker, 1971, p. 117) and assisted in generating favourable conditions for the Institute and the Society to mount in the late-1960s the first of ultimately four unsuccessful attempts to merge (Linn, 1996; Carnegie, 2009).

The aim of this historical case study is to comprehensively examine the key responses of the two major professional accounting bodies to the early-1960s crisis drawing on perspectives on the dynamics of occupational groups and the legitimacy typology of Suchman (1995). Accordingly, the study explores the nexus between the literature on accounting’s professional project and Suchman’s legitimacy-management framework during a crisis when legitimacy may no longer be taken-for-granted. The study seeks to answer three key research questions. First, how did the major Australian professional accounting bodies respond to the crisis and, in particular, what specific initiatives were adopted in addressing the crisis? Second, what key forms of legitimacy, according to the Suchman (1995) legitimacy-management framework, were the focus of attention of the accounting profession in taking actions aimed at defending legitimacy? Third, how were the individual and collective responses employed by these professional accounting bodies to the crisis moulded by the different organizational strategies that they were adopting under accounting’s professional project?

This study is intended to augment the literature in several ways. First, the present investigators have been able to gather new insights from previously rarely-examined minutes of historic conferences conducted in Canberra between the Institute and the Society where the formal responses that were adopted were formulated. Second, previous authors on the financial reporting controversies of the 1960s in Australia (see, for example, Birkett and Walker, 1971; Zeff, 1973; Burrows, 1996) have not analysed the responses of the professional bodies in the context of the literature on accounting’s professional project nor from a legitimacy-management perspective, especially from the perspective of defending the legitimacy of the profession[5]. Third, the study addresses the responses of the professional bodies in a holistic manner. Previous research has tended to strongly focus on particular developments, especially the

formation and history of the Foundation (Burrows, 1996), rather than to comprehensively analyse the profession's responses on an integrated basis. Fourth, as an historical study conducted almost 50 years after the company failures involved, the study has permitted reflection on the long-term ramifications of actions that were taken in the 1960s. Despite the passage of almost five decades, it remains clear that the accounting profession was implicated in the crisis of the 1960s, which stimulated an era of considerable activity and related achievement by the profession in developing and issuing technical pronouncements of various forms. Fifth, the study may provide inspiration to accounting historians to conduct similar investigative studies on the local, time-specific responses of professional accounting bodies to crises elsewhere around the globe.

The remainder of this paper is structured as follows. The next section outlines the theoretical foundations of the study. There follows an overview of the divergent organizational strategies adopted by the Institute and the Society and an outline of the institutional efforts to forge accounting principles in Australia to around the mid-1960s. Elaboration of the hostile external environment faced by the accounting profession in the 1960s is then provided. Drawing on the available surviving minutes of joint conferences held in Canberra, there follows an examination of the responses mounted by the professional accounting bodies and an outline of the key actions taken in answering the study's first key research question. A detailed analysis of these key actions drawing on the theoretical perspectives adopted is then provided in answering the two remaining key questions of the study. Summarising comments are provided in the concluding section.

### Theoretical foundations

#### *Accounting's professional project*

This study concerns the professional project of accounting, which has been described by Carnegie and Napier (2010, p. 362) as "the attempts of accountants both as individuals and operating through institutional structures such as firms and associations to establish and then maintain accounting's status as a profession rather than a trade, craft or industry". The study is premised on the notion of social closure as encapsulated in the sociology of the professions literature (Larson, 1977; Murphy, 1984, 1988). Larson's (1977, p. xvii) seminal work graphically locates the professional project as "an attempt to translate one order of scarce resources – special knowledge and skills – into another – social and economic rewards". Drawing on Lee (1995, 2006), who adapted Larson (1977) on examining the concept of public interest in the context of the accounting profession, this study also recognizes that the focus of professional accounting bodies is primarily an economic one of converting a monopoly of competence into economic rewards, while the advancement of social status tends to be of secondary importance. Notwithstanding this economic rewards orientation, the rivalry between the Institute and the Society in Australia during the 1960s had seemingly more to do with the social status of members than with economic rewards.

According to Abbott's influential *The System of Professions*, jurisdictional disputes between competing occupational groups or inter-occupational rivalry are "the real, the determining history of the professions" (Abbott, 1988, p. 2). Notwithstanding inter-professional rivalry in shaping the landscape of professions, Larson (1977, p. 67) emphasized the importance of unity within particular occupational groups as they

strive to enhance their status in stating “the professional project of social mobility is considered as a *collective* project, because only through a joint occupational effort could roles be created – or redefined – that would bring the desired social position to their occupants” (emphasis in original). Accounting’s professional project, however, “provides a counter to these perspectives” (Carnegie *et al.*, 2003, p. 792). Intra-professional rivalry has been shown to be a feature of the history of the accounting profession (Macdonald, 1985; Willmott, 1986; Richardson, 1987, 1989; Annisette, 2000, Carnegie and Edwards, 2001; Carnegie *et al.*, 2003; Noke, 2007; Noguchi and Edwards, 2008). Historically, however, different groups of accountants have shown a propensity to come together in order to defend their position where a well-defined monopoly of competence was under threat (Kedslie, 1990; Walker, 1991, 1995; Shackleton, 1995). Such episodes tend to confirm Lee’s depiction of the accounting profession as concerned with “protecting the public interest in a self-interested way” (Lee, 1995, p. 49).

The evidence to be presented of responses made in defending the legitimacy of the Australian accounting profession in the 1960s is informed by the literature on the dynamics of occupational groups, especially by the literature on the organizational strategies of competing professional bodies (see Macdonald and Ritzer, 1988, pp. 257-258; Carnegie *et al.*, 2003, pp. 795-796). An understanding of organizational dynamics within a professional occupation serves to illuminate the nature of intra-professional rivalry. According to Carnegie *et al.* (2003, p. 793), “the overarching theoretical construct that may be used to interrogate the organizational strategies adopted by professionalising accountants in Australia” is best summed up by what Macdonald and Ritzer (1988, p. 257) termed as “the dilemma of exclusiveness versus market control”. That is “. . . to control the market, the occupational body must include anyone with a reasonable claim to expertise, but such inclusion brings in marginal practitioners who lower the standing of higher-status members” (Macdonald and Ritzer, 1988, pp. 257-258). The proliferation of occupational associations in accounting is “both a manifestation and reflection of this circumstance” (Carnegie *et al.*, 2003, p. 792). Proliferation of occupational accounting associations has arisen in a number of countries largely due to the status differential of public-practitioners *vis-à-vis* those who are employed in industry, government and in other sectors (Macdonald and Ritzer, 1988; Chua and Poullaos, 1993, 1998; Poullaos, 1994; Linn, 1996; Caramanis, 1999, 2002, 2005; Carnegie and Parker, 1999; Carnegie *et al.*, 2003; West, 2003, chap. 3; Noguchi and Edwards, 2008). The notion that involvement in public practice constitutes a superior vocational status to accounting roles in commerce, industry and government has been shown “to have exerted a profound and lasting influence on the institutional structure of the Australian accounting profession” as will be further elucidated in this study (Carnegie *et al.*, 2003, p. 792).

In this study, the profession’s responses aimed at defending legitimacy are analysed using the legitimacy-management framework of Suchman (1995). This typology is now outlined.

#### *Legitimacy-management framework of Suchman*

Suchman (1995, p. 574) defined legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. In providing a

framework for managing organizational legitimacy, Suchman (1995) identified three broad types of legitimacy:

- (1) pragmatic;
- (2) moral; and
- (3) cognitive.

This legitimacy typology is applied in this study for three key reasons. First, the typology is concerned with perceptions which may change during a crisis, such as considered in this study, and which may require to be modified. Professional associations through their actions contribute to the attainment and defence of legitimacy. According to Greenwood *et al.* (2002, p. 74), it is important to “draw out the complex way in which professional associations contribute to continuity and change and the connection between their actions and different types of legitimacy”. Second, the typology has been previously applied in the accounting literature, particularly in respect to social and environmental reporting (see, for instance, O’Donovan, 2002; Mobus, 2005; Ratanajongkol *et al.*, 2006) and in the institutional context of accounting standard-setting (Durocher *et al.*, 2007), as well as in the non-accounting literature (see, for example, Rindova and Fombrun, 1999; Elsbach and Eloffson, 2000; Guler *et al.*, 2002). Finally, it considers both the strategic view of legitimacy (Dowling and Pfeffer, 1975) and the institutional view (Oliver, 1991), with both views of relevance in the context of this study[6]. In the remainder of this section Suchman’s (1995) typology is outlined and the use of the typology by Durocher *et al.* (2007) is addressed.

*Legitimacy forms.* According to Suchman (1995, p. 577) “each type of legitimacy rests on a somewhat different behavioural dynamic”. The first of these, pragmatic legitimacy, “rests on the self-interested calculations of an organization’s [or a profession’s] most immediate audiences” (Suchman, 1995, p. 578). Hence, leaders of an organization or profession engage in self-interested calculations of what constituents want before acting on those viewpoints. Pragmatic legitimacy can exist in three forms:

- (1) exchange;
- (2) influence; and
- (3) dispositional.

Exchange legitimacy entails support by constituents for organizational policies predicated on their likely value to that group. Influence legitimacy is more socially constructed. This sub-category implies that constituents support the organization or profession not merely because they perceive that it ensures clear advantageous exchanges, but because they view it as being conducive to their greater interests. According to Suchman (1995, p. 578), dispositional legitimacy is manifest where constituents grant legitimacy to an organization or profession that has “our best interests at heart” or which “share our values”.

Moral legitimacy “reflects a positive normative evaluation of the organisation and its activities” (Suchman, 1995, p. 579). Unlike pragmatic legitimacy, moral legitimacy “rests not on judgments about whether a given activity benefits the evaluator, but rather on judgments about whether the activity is the right thing to do” (Suchman, 1995, p. 579). Suchman (1995) argued that moral legitimacy takes one or more of the following four sub-types: Consequential, procedural, structural and personal.

Consequential legitimacy implies that organizations should be evaluated by what they achieve, although it should be recognized that the outputs of some organizations may be inherently difficult or complicated to gauge. Procedural legitimacy relates to the moral evaluation of an organization based on the social acceptability of the procedures that it adopts in conducting its affairs. He also pinpointed structural legitimacy as being achieved through the adoption of structures that are socially acceptable, but notes that there is some degree of “blending at the margins” between procedural and structural legitimacy (Suchman, 1995, p. 581). Suchman (1995, p. 581) differentiated the two by contending that the former relies on “discrete routines viewed in isolation”, whereas the latter relates to general organizational features where “entire systems of activities recur consistently over time”. The final form of moral legitimacy identified, personal legitimacy, is based on legitimacy achieved through the charisma of individual(s) who lead organizations.

Cognitive legitimacy reflects a very high order of legitimacy where an organization is accepted by constituents as “inevitable” and “necessary” (Suchman, 1995, p. 582). As the name suggests, this form of legitimacy is “based on cognition rather than on interest or evaluation” (Aldrich and Fiol, 1994 as cited in Suchman, 1995, p. 582). There is often an element of taken-for-grantedness within such a belief system and, therefore, it is a powerful form of legitimacy as alternatives may seem improbable and challenges to that legitimacy may be regarded as almost out of the question. Appendix 2 (Table AII) provides an overview of Suchman’s (1995) legitimacy typology as applied in this study.

Suchman (1995) also identified various contrasts and interrelationships between these primary forms of legitimacy. Self-interest underpins pragmatic legitimacy which is not the case with moral or cognitive legitimacy. The latter two forms of legitimation “implicate larger cultural rules” (Suchman, 1995, p. 585). Pragmatic and moral legitimation rest on discursive evaluation; cognitive legitimacy does not. According to Suchman (1995, p. 585), “as one moves from the pragmatic to the moral to the cognitive, legitimacy becomes more elusive to obtain and more difficult to manipulate, but it also becomes more subtle, more profound, and more self-sustaining, once established”. As will be addressed, a parallel is identified in this investigation in terms of the identification of the key forms of legitimacy, according to the Suchman (1995) legitimacy-management framework, that were found to be manifest in the historical setting based on the available evidence.

*Application of Suchman’s legitimacy typology by Durocher et al.* The study by Durocher *et al.* (2007) is the only accounting study of direct relevance to the present investigation as the author team specifically examined the institutional environment of accounting standard-setting. These researchers used a combination of legitimacy, expectancy and power theory to examine financial statement user participation in the accounting standard-setting process in Canada. In contrast to the present study, two key facets of the Durocher *et al.* (2007) investigation are noted. First, Suchman’s (1995) legitimacy typology was tested through the perceptions of participants gathered by means of interviews. In contrast, this historical study draws on the archives of professional accounting bodies and other sources, including financial press commentaries. Second, unlike the present study Durocher *et al.* (2007) did not apply Suchman’s (1995) framework in analysing actions taken for the purpose of arresting a threat to legitimacy following a crisis. However, Durocher *et al.* (2007, p. 56) called for

further case-based research. This study seeks, in part, to answer that call. Attention is now turned to addressing the divergent organizational strategies of the Institute and the Society as well as the institutional efforts that were made in forging accounting principles in Australia for a period of approximately 20 years from the mid-1940s during which time these strategies moulded such developments.

### Organizational strategies of the Institute and the Society

An understanding of the dynamics of the Australian accounting profession in the early-1960s is necessarily premised on an appreciation of the historical development of the Society and the Institute. The earliest antecedent body of the Society, the Incorporated Institute of Accountants, Victoria (IIAV), was formed in Melbourne in 1886 while the forerunner of the Institute, the Australasian Corporation of Public Accountants (ACPA), was formed in Sydney in 1907 (Carnegie *et al.*, 2003; Edwards *et al.*, 1997; Carnegie and Edwards, 2001)[7]. The IIAV's membership comprised individuals drawn from all forms of organizations, including public practice firms. On the other hand, the ACPA was formed as a national association for accountants in public practice and its initial membership included prominent public practitioners, including founding members of the IIAV and leading members of other state-based accounting bodies. The advent of the ACPA resulted in a division in the Australian accounting profession "in a compelling instance of intra-professional conflict" (Carnegie *et al.*, 2003, p. 814; also see Poullaos, 1993, 1994 and West, 1996). In 1928, a Royal Charter was bestowed on "all reputable practising public accountants in the Commonwealth of Australia" (Marshall, 1978, p. 9) and was granted to the Institute as the Sydney-based reincorporated ACPA (Graham, 1978, chaps. 3 and 4; Poullaos, 1994, ch. 6), thus creating the chartered accountant/non-chartered accountant divide. Founded in 1952, the Melbourne-based Society resulted from the merger of the Commonwealth Institute of Accountants (formerly the IIAV) (hereafter the "Commonwealth Institute") and the Federal Institute of Accountants and, on 1 January 1953, members of the Association of Accountants of Australia became eligible for admission to the (new) Society (Kenley, 1963, pp. ix-x).

The organizational strategies of the Institute and the Society in the early to mid-1960s continued to reflect "the dilemma of exclusiveness versus market control" (Macdonald and Ritzer, 1988, p. 257; Carnegie *et al.*, 2003, p. 795). The Sydney-based Institute with its Royal Charter and emphasis on public practice adopted an exclusivist strategy while the Melbourne-based Society, as the larger of the two bodies, had adopted an inclusivist strategy drawing its membership from a broader base including industry, government, and other sectors (Carnegie and Parker, 1999, pp. 78 and 97-98). These divergent organizational strategies underpinned the intra-professional rivalry which characterized accounting's professional project in Australia at the time of the 1960s crisis. One perception of the differences at the time between these two bodies was put in the financial press in terms that the Society "is younger, richer, more dynamic and less hidebound" than the Institute (*Australian Financial Review*, 1965a, p. 2). In addition, the long-existing Sydney versus Melbourne rivalry seemed to accentuate differences between these two bodies (Graham, 1978, p. 114).

Following the early-1960s crisis and the establishment of the Foundation, four unsuccessful proposals to merge the Institute and the Society, launched in 1968, 1980, 1991 and 1998, were rejected by members of the Institute, presumably because they



“believed that they had most to lose” (Linn, 1996, p. 179)[8]. The results of these polls show that member perceptions of the organizational strategies of the Institute and the Society were not the same, thus assisting to explain why no further attempts have been made since 1998 to unify the Australian accounting profession by means of the amalgamation of these two major bodies[9]. Notwithstanding the lack of co-operation between these two professional bodies before the 1960s and the subsequent inability to merge across a period of 30 years, the Institute and the Society around the mid-1960s during a crisis came to recognise that the legitimacy of the profession is a collective good and is not able to be taken-for granted as tends to occur during less volatile periods. The lack of institutional co-operation specifically in respect to the development of accounting principles is addressed in the next section.

### Efforts to forge accounting principles to around the mid-1960s

Organizational strategies exerted an influence in moves within the profession to forge accounting principles. The institutional interest in issuing accounting principles by professional accounting bodies in Australia was first evinced in 1944 and resulted in five “Recommendations on accounting principles” (hereafter “Recommendations”) being issued by the Institute in 1946. These Recommendations were based on “Recommendations of accounting principles” of the Institute of Chartered Accountants in England and Wales (hereafter the “English Institute” as it was known at the time). The local Recommendations “retained the substance and, in most respects, the detail of the earlier English Recommendations” (Zeff, 1973, p. 3)[10]. The Institute issued two further local Recommendations in 1946 and 1948 respectively. No further Recommendations were considered by the Institute’s General Council until almost a decade later. This gap is largely explained by the perception of the General Council “that its role should be confined, in the main, to the administration of Institute affairs” (Zeff, 1973, p. 4). Zeff (1973, pp. 4-5) sought to explain the factors contributing to this gap in stating:

A majority [of General Council] were reluctant to advise Institute members on the conduct of their professional engagements. Although sporadic attempts were made during the 1940s and 1950s to expand the General Council’s role in the establishment of professional standards, it was not until the middle 1960s that this function was fully accepted as General Council policy. Accounting principles of the day were based largely (1) on the office practice of each of the many firms of practising accountants, and (2) on the opinions held by company directors and accountants employed in commerce and industry. It was not accepted that the views of one or two large firms, or of a few strong-willed members of the General Council, should oblige Institute members throughout Australia to rethink the accounting principles they have adopted.

Turning to the interest in accounting principles by the Society and its antecedent bodies, the institutional output of pronouncements on accounting principles was even more *ad hoc* while the body’s output did not reflect the imprimatur of the English Institute or a similar prestigious association. The Commonwealth Institute formed a Committee on Accounting Principles in 1938 and, following the Second World War, the Committee discussed whether it should recommend any of the Institute’s newly-issued Recommendations to its own members. Following the completion of a review of these Recommendations and after initial attempts to develop recommendations on the balance sheet and profit and loss statement, no action was taken. In 1950, the

Commonwealth Institute promoted the formation of a “Joint Committee of Accountancy Bodies in Australia”, to be composed of the five professional accounting bodies then existing in Australia. As part of this initiative, it was proposed that this Joint Committee would coordinate the accounting profession’s research activities. True to its exclusivist strategy, the Institute was the only accounting body not to agree to join the standing committee. While the Institute indicated a willingness to co-operate with the other bodies in undertaking joint research, it “was particularly keen to preserve the right to issue its own statements” (Zeff, 1973, p. 32) As a result of the Institute’s unwillingness at the time to issue joint accounting pronouncements, co-operation in joint research, as hinted, did not eventuate. In 1956, the Society began to issue “Statements on Accounting Practice” and “Technical Bulletins” on a variety of topics (Birkett and Walker, 1971, p. 102). According to Zeff (1973, p. 35), only two of the nine Statements on Accounting Practice that were issued between 1956 and 1965 dealt with accounting principles and “no statement, it appears, was submitted to General Council for its endorsement”. The series of Technical Bulletins (renamed “A.S.A. Bulletins” from 1962) was even less formal and was “intended for manuscripts submitted to *The Australian Accountant* that were too long for publication in the journal” (Zeff, 1973, p. 35). These sets of Society publications, therefore, were not concerned with the establishment, promulgation or dissemination of accounting principles nor were they endorsed by General Council for the specific guidance of members.

This overview of attempts to forge accounting principles in Australia shows some enterprise, but little, if any, commitment by the Institute and the Society to jointly develop and issue pronouncements of accounting principles on behalf of the profession. Rather, the Institute did not entertain any notion of issuing joint pronouncements on accounting principles, being content to “draw on the more mature professional experience of the English Institute” (Zeff, 1973, p. 9) and, therefore, to reflect its elitist orientation through its Royal Charter, public practice focus and alliance with the English Institute. The resultant efforts to promulgate accounting principles were sporadic and disjointed. Hence, by the early-1960s, the Institute and the Society were the “spokesmen” for the Australian accounting profession; the profession had “two voices” (Birkett and Walker, 1971, p. 101) and did not speak on key issues, including key technical issues, with one authoritative voice. Elucidation of the hostile external environment in which the two professional bodies were embedded follows.

#### **External environment: adverse publicity and threats to autonomy**

According to Clarke *et al.* (2003), the corporate failures of the early-1960s in Australia, recognized as a period of “dubious credit and tangled webs” (p. 47), focussed attention on the role of professional accounting bodies (p. 49). One commentator wrote “one point that does emerge clearly from these results [i.e. corporate failures] is that several companies have very misleading statements of profits in the previous year’s accounts and in interim statements last year” (*Australian Financial Review*, 1963a, p. 12). Another commentator related this state of affairs to accountants in stating “chartered accountants in their endorsement of annual reports [this is, in issuing unqualified audit opinions], declared that the figures were fair and reasonable, when, in fact, they were not” (Sanders, 1963; also see Craswell, 1986). By early 1963, the profession’s public image had “suffered from recent spectacular company failures” (Briggs and Parker,

1964, p. 833). It was also reported that stock exchange officials had asserted that “poor accounting . . . brought about these situations” (*Australian Financial Review*, 1963a, p. 12; also see Briggs and Parker, 1964 and Birkett and Walker, 1971, p. 108)[11]. The dependability of published audited financial statements was under challenge at a time when “the Institute and the Society had no mechanism for mounting [a] united response to common problems” (Burrows, 1996, p. 12).

In view of mounting criticism, accountants were imploring the Institute and the Society “to restore faith in the profession” (Burrows, 1996, p. 15) as they appreciated “that their claim to professional status was in question” (Birkett and Walker, 1971, p. 131). For instance, at the Institute’s Executive Meeting of February 1963, Dick Wood, a prominent Sydney member, tabled a batch of press clippings which criticized accountants for “financial failures in the commercial world”, thus at least confirming a serious concern with the profession’s predicament. In May 1964, Sir Alexander (Alex) Fitzgerald, the 73 year old doyen of the Australian profession, urged the Institute to take the “lead in countering public criticism” (Burrows, 1996, p. 15).

In February 1964 the Institute released three new Recommendations (The Institute of Chartered Accountants in Australia, 1963–1964; 1964b). These Recommendations were approved in late 1963 or early 1964[12]. As in the past, these Recommendations were closely modelled on the Recommendations of the English Institute that were issued in 1958 or in 1960 (Zeff, 1973, p. 9; Birkett and Walker, 1971, p. 111)[13]. An editorial in the February 1964 issue of the Institute’s journal welcomed the Recommendations in “making a rare reference to company failures” (Birkett and Walker, 1971, p. 111). The editorial stated: “It is clear that these recommendations . . . will give the investing public greater assurance that their interests are being safeguarded against the actions of incompetent and unscrupulous management” (The Institute of Chartered Accountants in Australia, 1964c). While the Institute may have been “self-satisfied at this point” (Birkett and Walker, 1971, p. 111) with this polite yet clear disclosure of the apparent perpetrators of company failures, the following months witnessed further company failures as well as the issue throughout 1964 of further unflattering inspectors’ reports on a number of companies which had “shown such startling profit reversals” (Birkett and Walker, 1971, p. 112). Many of these reports “criticized accountants and accounting practices” and the wide publicity they received was “to goad some sections of the profession into action” (Birkett and Walker, 1971, p. 112). The specific cases of “poor accounting” exposed in company failures became translated into a general impression of systemic problems with accounting. The prospect of putting the various scandals down to the “one-off” work of “rogue accountants” was not available.

Throughout an initial period of intense criticism of accountants and auditors, the profession “responded with silence. There were no public statements, nor even comments in professional journals” (Birkett and Walker, 1971, p. 108). Indeed, *The Bulletin* of 27 July 1963 reported that “the [accounting] institutes remained dumb” (p. 47). Apart from the initial understated attempt by the Institute to attribute responsibility onto “incompetent and unscrupulous management” (The Institute of Chartered Accountants in Australia, 1964c), the public-practitioner elite of Australian professional accounting remained silent during this period (Zeff, 1973, p. 12). According to a story in *The Australian* entitled “Those watchdogs [auditors] are failing to bark”, the Institute was portrayed as maintaining “its usual imperturbable silence”

in spite of “auditors’ trouncings at the hands of shareholders at some recent meetings” (*The Australian*, 1965). Indeed, the commentator challenged the Institute in stating “perhaps some official from the Institute would like to inform the public and the Press just what reforms, if any, are around the corner” (*The Australian*, 1965)[14].

Strong criticisms of the accounting profession were also aired in public forums from within accounting academe. Criticisms from within often hit harder than those from outside the realm. In particular, Professor Raymond J. Chambers of the University of Sydney was particularly critical of conventional accounting thought and practice during this period[15]. Chambers was a regular commentator on what were described as “grave weaknesses in methods of financial reporting by companies in Australia” (*Australian Financial Review*, 1963b, p. 1), knowledge of which had emerged following the corporate collapses. Indeed, this editorial introduced four articles in a “provocative series” on the theme “traps for the unwary investor”. These articles by Chambers identified major problems in financial reporting and accounting regulation and appeared during the first-half of July (Chambers, 1963a, b, c, d). Previously, the views and concerns of Chambers on the state of financial reporting in Australia had been expressed in public forums, such as in March 1963 at the meeting of the Economic Society of Australia and New Zealand where he was reported as having “deplored the inadequate information [disclosed] by companies to their shareholders and the investing public” (*Australian Financial Review*, 1963c) and also in articles and in letters to editors[16]. In September 1963, Chambers proposed the formation of an “independent Financial Research Foundation” set up in a university “to enquire into methods of financial accounting” (*Sydney Morning Herald*, 1963; also see *Australian Financial Review*, 1965b).

At this time, the idea of establishing an Australian regulatory body similar to the Securities and Exchange Commission (SEC) in the USA was raised. For instance, the chairman of the Sydney Stock Exchange, Mr A.H. Urquhart, was reported as stating at a Chartered Institute of Secretaries function that the possibility of forming such a body “must not be discounted”. As chairman, Urquhart himself did not formally propose the formation of such a regulator but was quoted as stating “. . . should one come into being some time in the future, the Exchange would do everything possible to make it 100 per cent workable” (*Australian Financial Review*, 1963d). The editorial of the *Australian Financial Review* on the same date (i.e. 23 May 1963) claimed “this is a very enlightened and encouraging attitude for the chairman of the Sydney Stock Exchange to take” (p. 2)[17]. The advocacy of this idea and of its appeal to the financial media was perceived by the accounting bodies as a threat to the profession’s autonomy as will be addressed in the next section. Birkett and Walker (1971, p. 136) believed that “the profession had not confronted this situation before” while Gibson (1979, p. 28) described the criticism of the profession as “damaging”.

Certain critics stung the accounting profession, including the Victorian Chamber of Manufactures (VCM), which unleashed heavy criticism, particularly on auditors, in its Weekly Service Bulletin of 28 November 1966. The contribution, entitled “The professions under fire”, in part stated:

At no time in Australian history have the higher professions been subject to such open criticism and public scandal, as during the past decade. As a result of this, a slur which every thinking Australian will abhor has been cast on these professions. Undoubtedly the leading group in earning this vilification has been the auditing profession . . . (VCM, 1966).

The Victorian State President of the Society, F. T. Whiteway, responded to this attack in the January 1967 issue of *The Australian Accountant*, stating, among other things, “statements made in the editorial are substantially misleading because they generalise from the particular” (p. 11).

Notwithstanding such defences, Dr W. John Kenley believed, with the benefit of hindsight, that during the 1960s[18]:

... the absence in Australia of any recognised Statement of Generally Accepted Accounting Principles as published in the USA was producing too much diversity in practice and was effectively impeding the development of the accounting profession. Too much variation in practice was undesirable as the early 1960s crisis in Australia clearly demonstrated. At that time, qualified people and the public were beginning to lose confidence in what the profession was doing (Kenley, 2010, p. 2).

The ongoing and sometimes sharp criticisms of accountants and accounting practice in Australia were not only causing concern among a number of accountants but were beginning to shake the confidence of the public in the accounting profession. Delays in responding to criticisms were compounding the profession’s woes. It could no longer be taken-for-granted that the actions of the accounting profession were, according to Suchman’s definition of legitimacy, “. . . desirable, proper, or appropriate within . . . [the] socially constructed system of norms, values, beliefs, and definitions” of the time (Suchman, 1995, p. 574). Rather, a challenge to the profession’s legitimacy following a crisis had become apparent necessitating the two major professional accounting bodies to “practise some self-criticism” (*Australian Financial Review*, 1965c) and to acknowledge a perception that the actions of the accounting profession were not necessarily “desirable, proper, or appropriate” as well as to contemplate appropriate responses.

### **Responses of the professional accounting bodies**

Calls from within the profession for essentially the defence of the profession’s legitimacy were ultimately heeded by the Institute and the Society. In this section, the particular responses of the Institute and the Society to the crisis and, in particular, the specific initiatives that were adopted in dealing with the profession’s predicament are examined. Hence, this section is concerned with answering the study’s first research question which is concerned with the process of change. In so doing, attention is initially placed on the historic joint conferences on “neutral” ground in Canberra of the Sydney-based Institute and the Melbourne-based Society dating from mid 1964. This section contains two sub-sections. The first addresses the joint conferences of these bodies and examines the deliberations at each of two conferences for which minutes are surviving and the second outlines the key actions that were subsequently taken. The next section is concerned with analysis and addresses the study’s other two research questions through the theoretical lenses adopted for interpretive purposes.

#### *Joint conferences of professional accounting bodies*

In response to calls to defend the profession’s legitimacy, the Institute and the Society took the unprecedented step of conducting four joint conferences in all, which were held during 1964 and 1965 in order to discuss “matters of mutual interest” and address “areas of possible co-operation” (Australian Society of Accountants, 1965, p. 61; Graham, 1978, p. 33). According to Zeff (1973, p. 43), “in prior years, the Institute and

the Society (including its predecessor bodies) had confined their co-operation largely to the joint sponsorship of accounting congresses". The joint sponsorship of certain congresses was ceremonial in nature and uncontroversial in practice. The coming together of senior officials of both bodies to jointly address a range of key issues of mutual interest and common concern to the profession as a whole was, therefore, a watershed and was viewed as "encouraging" by a member of the Institute (Pursche, 1965).

The first joint conference of the Institute and the Society was held in Canberra on 23 June 1964. The other three conferences took place there on 8 October 1964, 8 December 1964 and 8 April 1965. The closeness in proximity of these conferences demonstrates the urgency of the matters addressed. Prior to the first conference the Institute's President, Colin Kelynack, telephoned his Society counterpart, Lyle Braddock, in March 1964 "proposing that their senior members meet informally" (Zeff, 1973, p. 43; also see Burrows, 1996, p. 15) and the Society concurred. Five national office bearers from each body, including their Presidents, Vice-Presidents, Past Presidents and General Registrars, congregated at the Hotel Canberra in the national capital to attend the first conference[19]. As a member of the august league of chartered accounting bodies, the Institute, in initiating informal meetings with the Society, may have indulged or even flattered the Society, which would not have been under any misunderstanding about its position in the generally "perceived pecking order" (Carnegie and Parker, 1999, p. 97) of professional accounting bodies in Australia.

At the first conference, as an indication of the novelty of the event and reflecting a degree of caution, the General Registrar of each body recorded separate "notes" of the deliberations. Hereafter, these independently prepared conference notes are respectively known as the "Institute Minutes" (The Institute of Chartered Accountants in Australia, 1964b) and the "Society Minutes" (Australian Society of Accountants, 1964a). Composite notes of the second conference, described hereafter as "Composite Minutes" (Australian Society of Accountants and The Institute of Chartered Accountants in Australia, 1964), were prepared by the two General Registrars, thus elucidating the newly-established intention of the two bodies to facilitate co-operation in a range of matters of common interest and to engender trust[20].

Colin Kelynack, by consent, served as chair of the first conference. In his opening comments, Kelynack:

... explained that the Council of the Institute had recently decided to extend such an invitation with specifically nominating matters to be discussed but without limiting the areas for discussion. In effect, the Institute was offering to co-operate with the Society in matters of common interest and where co-operation was practicable and thought desirable in the interests of the profession as a whole (The Institute of Chartered Accountants in Australia, 1964b, p. 1).

Kelynack also:

... explained that the discussion at this stage would be solely explanatory of matters in which the Institute and the Society might co-operate. No decisions would be recorded and any conclusions reached would need to be referred to the General Councils of the two bodies for consideration (Australian Society of Accountants, 1964a, p. 1).

Ten topics of mutual interest were addressed at the first conference as respectively listed in the Institute and Society Minutes under “matters discussed” (The Institute of Chartered Accountants in Australia, 1964b, p. 1) and “discussion” (Australian Society of Accountants, 1964a, p. 1). Four of these topics were specifically associated with the early-1960s corporate collapses. These were identified in the Institute Minutes as “adverse and unfavourable publicity”, “public relations” “research” and “recommendations on accounting principles” (The Institute of Chartered Accountants in Australia, 1964b, p. 1)[21]. In relation to these topics, each set of conference notes recorded similar or close to identical details of the individual initiatives that had been adopted by each body, as explained by representatives at the first conference, to deal with the fallout following the corporate collapses.

*Deliberations of the first conference.* The Institute was advised that the Society had agreed to appoint “a representative committee to study the reports of investigations into the affairs of companies which had failed in recent times and to point up the lessons to be learned by the profession from the findings of the investigators” (Australian Society of Accountants, 1964a, p. 3). The Institute was informed that the committee had yet to meet but would hold its inaugural meeting shortly. The Society agreed to inform the Institute of the names of the members of this committee and of the intended approach following the inaugural meeting of the committee. This Society initiative was only announced to members in June 1964, thus confirming the recent origin of the response at the time (Australian Society of Accountants, 1964b, p. 288)[22].

Similarly, the Institute informed the Society of its “intention of setting up a committee of four persons . . . to act as ‘spokesman’ for the Institute in countering press criticism” (The Institute of Chartered Accountants in Australia, 1964b, p. 2). Consistent with the tentative recent approach of the Society, the Institute advised the Society that the “nominees to this committee had not yet been contacted” (The Institute of Chartered Accountants in Australia, 1964b, p. 2) and, as a result, “the Institute was not yet in a position to name the members”. In discussion of the Institute’s proposal, it was indicated that the “Institute’s proposed committee should be looked upon as short-term action in any overall public relations programme” (The Institute of Chartered Accountants in Australia, 1964b, p. 2). Such fresh proposals to form individual committees assist in confirming the slowness of the formal responses to the crisis by these bodies. At the inaugural conference, the Institute also informed the Society that it had appointed Messrs Eric White and Associates, Australia’s first international public relations consultancy (Zawawi, 2004, p. 30), “to assist in gaining more publicity for the work of the Institute and of its members” (Australian Society of Accountants, 1964a, p. 3; also see The Institute of Chartered Accountants in Australia, 1964a, p. 11).

In the deliberations on accounting research, consideration was given to the establishment of a joint and relatively independent research foundation which “was first raised” in Canberra by representatives of the Society (Graham, 1978, p. 61; ICAA General Council minutes, 9 November 1964; also see Gibson, 1979). It was recognized that “because of the large expenditure involved in systematic research, the resources of neither the Institute nor the Society were adequate for the purpose” (Australian Society of Accountants, 1964a, p. 4). In the discussions, the following concern was recorded: “. . . if the profession could not find a way to clarify accounting principles in the public interest either some government regulatory body would be set up to do so or it would be done by piece-meal legislation” (Australian Society of Accountants, 1964a, p. 4).

This general fear within the profession of some sort of government intervention was not linked to any formal government proposal to legislate accounting principles. However, any lack of adequate action at the time was generally perceived within the profession as an invitation to government to take control of accounting principles and conduct standards.

In effect, these notes referred to the potential loss by the accounting profession of the ability to self-regulate in this key field of expertise, thus potentially weakening the power of the profession. The importance of the issue was readily apparent in the agreement reached to recommend to the General Councils of both bodies the establishment of a "joint research organisation" (The Institute of Chartered Accountants in Australia, 1964b, p. 3; also see Australian Society of Accountants, 1964a, p. 4). It was also agreed to prepare a short written submission on the proposal and "to this end, the General Registrar of the Society [C. W. Andersen] and the Chairman of the Management Committee of the Institute's Research and Service Foundation [J. K. Little] be invited to confer" (The Institute of Chartered Accountants in Australia, 1964b, p. 3)[23].

*Deliberations of the second conference.* At the second conference between the Institute and the Society, held in Canberra on 8 October 1964, Colin Kelynack was again appointed to the chair and the proceedings were "looked upon more or less as a continuation of the previous conference" (Australian Society of Accountants and The Institute of Chartered Accountants in Australia, 1964, p. 1). The composite notes of the conference indicated that the Society advised the Institute of the names and institutional affiliations of the members of the Society's Committee on company failures and these names were stated in the notes (Australian Society of Accountants and The Institute of Chartered Accountants in Australia, 1964, p. 2). The Institute was also informed that the Committee's report would be discussed with the Institute before any action would be taken.

The Society's representatives were informed by the Institute of the names of the members who had been appointed to the Institute's Committee on adverse publicity, although the notes indicate that the names had previously been conveyed to the Society. It was stated that "whilst the Institute's Committee would be acting on future press criticism, the Society's Committee would be analysing past criticism by inspectors under the Companies Acts" (Australian Society of Accountants and The Institute of Chartered Accountants in Australia, 1964, p. 2). It was acknowledged, however, "it might well happen in future press articles that criticism could arise out of reports made in the past by the inspectors" (Australian Society of Accountants and The Institute of Chartered Accountants in Australia, 1964, p. 2).

A joint report dated 30 September 1964 on the formation of an "accountancy profession research foundation", prepared by Messrs J.K. Little and C.W. Andersen of the Institute and Society respectively[24], was received and considered. It was agreed "that the report be submitted to the General Councils of the two bodies with the recommendation that it be adopted for implementation and with the further unanimous recommendation that it be adopted without delay" (Australian Society of Accountants and The Institute of Chartered Accountants in Australia, 1964, p. 3). Little and Andersen (1964, p. 1) commenced their report as follows:

A major issue confronting the accountancy profession is the means by which accounting principles are to be determined for the guidance of the profession in particular and the



business community in general. Unless the profession assumes the responsibility, further direction by legislation is inevitable. Company legislation in Australia is already prescribing the minimum content of published financial statements and the manner in which certain items shall be recorded. It is a short step from this to some form of Securities and Exchange Commission.

The report, later described as a “blueprint” by Graham (1978, p. 61), also stated that “the task [of forming a joint research foundation] is a formidable one deserving the attention of eminent members of all sections of the profession aided by highly competent staff” (Little and Andersen, 1964, p. 1) while “the two bodies would participate in this proposal on a 50/50 basis in regard to costs” (Australian Society of Accountants and The Institute of Chartered Accountants in Australia, 1964, p. 3). It was recognized that more was to be gained by working cooperatively as “the profession will be in a position to speak with one voice and this should add considerably to the public acceptance of its recommendations” (Little and Andersen, 1964, p. 1). The authors added that “the existing organisation of the profession and the multiplicity of authoritative voices result in confusion in the public mind” (Little and Andersen, 1964, p. 1)[25].

#### *Key actions subsequently taken*

The most tangible outcomes stemming from these deliberations are readily apparent in the publication of the Society report on company failures and the joint sponsorship of an accountancy profession research foundation. Both of these key actions were aimed at “improving technical standards” (Graham, 1972, p. 6) and are addressed below. While the Institute’s engagement of the services of Messrs Eric White and Associates, combined with the formation of a high-profile committee to deal with future adverse and unfavourable publicity, were part of its moves made to defend the profession’s legitimacy, it has not been possible to identify and access the specific outcomes arising from these latter two initiatives. This observation should not, however, be construed as implying that these initiatives did not have any favourable impacts. For instance, the 1964 Annual Report of the Institute indicated that its public relations committee had “been evident on some recent occasions in the daily press” (The Institute of Chartered Accountants in Australia, 1964a, p. 11). Based on available surviving records, evidence of any key outcomes of the activities of the Institute’s committee has not been found. Notwithstanding the existence of this committee, the more hidebound Institute (*Australian Financial Review*, 1965a) was commonly described in frustrating terms as being silent in contrast with the Society.

*Society report on company failures.* The Society published its report on company failures in January 1966 (Australian Society of Accountants, 1966). The 47-page publication issued by the General Council entitled *Accounting Principles and Practices Discussed in Reports on Company Failures*[26] was published “as a result of an examination of the findings of inspectors on certain company failures” (Australian Society of Accountants, 1966, p. 1)[27]. The report’s “Introduction” referred to the announcement made in the June 1964 issue of the Society’s journal, *The Australian Accountant* (Australian Society of Accountants, 1964b, p. 288), of General Council’s concerns over the contents of the reports of inspectors appointed by State governments which had adversely reflected on “the validity of published financial statements” (Australian Society of Accountants, 1966, p. 4). The report acknowledged the

importance of this issue in stating “because there are so many reported departures from generally accepted accounting principles, and so many criticisms (whether valid or not) of accounting principles themselves, there is a strong implication that there are deficiencies in the accountancy profession” (Australian Society of Accountants, 1966, p. 5).

The Society’s report stated that “the public’s view of the accountancy profession is far from satisfactory” and also acknowledged that “this was so even before the spate of publicity which the profession has received in recent years as a result of company failures” (Australian Society of Accountants, 1966, p. 29). The validity of some criticisms of accounting reports was conceded in the report as follows:

While it would not be realistic to expect company accounts to be readily understood by all members of the community, the evidence of dissatisfaction (among competent investment advisers) with the value of information given by companies is such that General Council considers that accountants must make much greater efforts to provide more informative financial statements (Australian Society of Accountants, 1966, p. 42).

The report indicated that a number of criticisms, however, were “unjustified, or not soundly based” (Australian Society of Accountants, 1966, p. 5) and drew a distinction between problems of accounting measurement and problems of financial and management policy (ASA, 1966, pp. 5-8 and 45-46; also see Clarke *et al.*, 2003, p. 50 and Clarke and Dean, 2007, p. 124). The latter problems, “which concern parties who are not members of the profession” (Australian Society of Accountants, 1966, p. 5), were argued to be the reason for “much of the criticism levelled at the companies under investigation” (Australian Society of Accountants, 1966, p. 22). These problems were stated as falling “outside the scope of the present examination except in so far as it may be necessary to consider whether or not the particular policy affects accounting measurement” (Australian Society of Accountants, 1966, p. 7). According to Clarke *et al.* (2003, p. 50), reference to the “apparent deficiencies of management” (Australian Society of Accountants, 1966, p. 7) or rather “bad management”, has become a perennial defence invoked by the Australian accounting profession during crises. Nevertheless, the report recognized the “numerous instances ... where accepted accounting principles were not followed” (Australian Society of Accountants, 1966, p. 24) by the companies under investigation (Burrows, 1996, p. 15; Clarke and Dean, 2007, p. 124)[28]. Given these deficiencies, the adverse publicity devoted to accounting principles indicated “a need for the profession to promote wider understanding of currently accepted accounting principles in order that these may be better understood by the investing public generally” (Australian Society of Accountants, 1966, p. 24)[29].

Concerning the future autonomy of the profession, the Society’s report stated:

General Council believes that the profession must seek to improve its standing as a profession, for if the profession is incapable or unwilling to maintain high professional standards, then it would not be unreasonable to assume that some authority may be set up by statute to undertake this responsibility (Australian Society of Accountants, 1966, p. 29).

Notwithstanding this perceived threat, the General Council stated its opposition “to any external control of professional standards” (Australian Society of Accountants, 1966, p. 29), reinforcing the view that “the control of the profession should be entrusted by statute to the profession itself and not some statutory authority appointed for the purpose” (Australian Society of Accountants, 1966, p. 30). To this end, it was stated

that “the establishment and promulgation of generally accepted accounting principles and standards of conduct” and “the continued adherence to these by members of the profession” were regarded as being “of prime importance to the profession” (Australian Society of Accountants, 1966, p. 31)[30]. On publically releasing the report in February 1966, the Society unsurprisingly suggested the formation of an “Accountancy Council”, nominated by the professional bodies, as the means of entrusting to itself statutory control of the profession. Press reports indicated that an “Accountancy Council be set up to ensure that members adhere to accepted accounting principles and conduct standards” (*Sydney Morning Herald*, 1966; also see *The Times*, 1966, *The Age*, 1966a; *Australian Financial Review*, 1966a). Particular statements in certain reports defended the profession in stating “many criticisms related to areas outside the responsibility of the accountancy profession” (*Sydney Morning Herald*, 1966) or “many criticisms of the accounting profession were not soundly based” (*The Age*, 1966a) or “many criticisms of accounting principles ... were ‘not soundly based’” (*The Times*, 1966). One story described the Society report in technical terms as “largely a summary of references to accounting techniques in reports of the major official Government investigations to date” (*Australian Financial Review*, 1966a). However, the specific accounting techniques discussed, presumably due to their complexity, were not addressed in any of the press stories.

*The Foundation.* In May 1965 the two General Councils formally approved the terms of the joint undertaking to form a research foundation which was established and operated under the sponsorship of the Institute and the Society (Zeff, 1973, p. 43). The November 1965 issues of *The Australian Accountant* and *The Chartered Accountant in Australia* announced the intention to establish the Foundation. This announcement was jointly made by the Institute President, T.C. Boehme, and the Society President, L.A. Braddock (Boehme and Braddock, 1965)[31].

Boehme and Braddock (1965, p. 318) stated the purpose of the Foundation as “the consolidation and dissemination of extant accounting and auditing principles, and research into the refinement of extant principles and unresolved problems of accounting and auditing”. The announcement indicated that the Foundation would “issue statements on accounting and auditing principles which will expose vital problems affecting the profession for further discussion and thought” (Boehme and Braddock, 1965, p. 318; also see Zeff, 1973, p. 47). Four trustees were appointed to the Foundation, including the two national presidents who made the joint announcement (Burrows, 1996, p. 21). In addition, high-profile members, such as senior partners in large accounting firms and controllers in large publicly traded companies, were appointed (six from each body) to the initial joint Accounting and Auditing Research Committee (AARC). The announcement made clear the need for the appointment of “eminent members of all sections of the profession aided by highly competent staff” in order to deal with this “major issue confronting the accountancy profession” (Boehme and Braddock, 1965, p. 318). The AARC’s membership was described in the *Australian Financial Review*, under the headline “Accounts foundation has impressive membership”, as “an impressive group of practising accountants, businessmen and academics to direct its [the Foundation’s] operations” (*Australian Financial Review*, 1965d; also see McKeon, 1972a) which, according to Burrows (1996, p. 18), “was not hyperbole ... [as] all were eminent, and several would become more so”. The Society appointed two professors of accounting (L. Goldberg and R. Mathews) to the AARC

while the Institute did not appoint any accounting professors among its representatives. While a research foundation eventuated, Chambers' proposal for an independent Financial Research Foundation to specifically inquire into methods of financial accounting was not adopted.

The joint advertisement for the Foundation's inaugural "Director of Research" stated "it [the Foundation] inaugurates a major service to the profession and the business community" (Burrows, 1996, p. 20). These words were echoed in the official media release announcing the Foundation's incorporation and listing the membership of the AARC, which appeared in the June 1967 issue of *The Australian Accountant* (Australian Society of Accountants, 1967, p. 317). The establishment of the Foundation was indeed a key component of the accounting profession's strategy to "improve its standing as a profession" (Australian Society of Accountants, 1966, p. 29) and to avert the perceived threat of the government assuming the responsibility for technical pronouncements. According to Kenley (1970b, p. 79), the Foundation's formation "was viewed with a great deal of envy by many of the people with whom I had discussions"[32]. Insiders often referred to the Foundation as the "Little-Andersen" Foundation given the key roles of these individuals in its formation (Burrows, 1996, p. 19).

The Foundation became an important component of the institutional structure of professional accounting in Australia. After a slow start, it undertook a range of technical and research activities on behalf of the accounting profession as a whole, including the development of Australian accounting and auditing standards in the periods prior to these sets of standards becoming the sole responsibility of the Federal government in 2000 and 2006 respectively (Deegan, 2010, pp. 13 and 21). The Foundation was disbanded in July 2006. In the next section, the responses of the Institute and Society are analysed using the theoretical perspectives adopted and answers to the study's other two research questions are provided.

### **Analysis of key outcomes using the theoretical perspectives adopted**

As indicated in the Society's report and in the statements on the establishment of the Foundation, suggestions of the formation of an SEC-style regulator were posing threats to the autonomy of the profession. This situation largely arose because of the "vast gulf between the public's expectations and the profession's performance" (Birkett and Walker, 1971, p. 131). The critical examination of the profession, according to the Institute's President, was "of some value in causing us [the profession] to take a good look at ourselves" (Boehme, 1966, p. 474). The fact that no SEC-style regulator was formed as a consequence of the 1960s crisis indicates that the Institute and the Society were successful in their efforts to maintain the autonomy of the accounting profession.

This section is divided into two sub-sections. The first sub-section addresses the Suchman (1995) legitimacy-management dimensions of the study in answering the second research question. The second sub-section deals with the divergent organizational strategies involved in accounting's professional project at the time in answering the third research question.

#### *Legitimacy-management framework*

It will be recalled that Suchman (1995) identified three primary forms of legitimacy: Pragmatic, moral and cognitive. Each is discussed in turn in identifying the key forms

of legitimacy that were the focus of attention of the major professional accounting bodies in taking actions aimed at defending legitimacy

*Pragmatic legitimacy.* As indicated earlier, pragmatic legitimacy relates to engaging in self-interested determinations with what constituents want before acting. This form of legitimacy can take three forms: Exchange, influence and dispositional (Suchman, 1995). Concerning the notion of exchange legitimacy in the context of this investigation, the support for particular policy initiatives based on the expected value of those policies to constituents involved the following four key identifiable groups: Members of professional accounting bodies, financial statement users including investors and creditors, company inspectors, and government. The collective interests of these constituents are viewed in this study as comprising the public interest. However, the accounting profession of the mid-1960s is shown as having a narrow interpretation of public interest, as compared to present day conceptions of the term, with a local, time-specific focus on the interests of the business community as well as its own interests.

The professional accounting bodies at least sought to appease these groups of constituents. The accounting bodies provided a platform for securing members' value in the marketplace through restricting membership, promoting the designation, and lobbying on behalf of members on issues that affected the profession. In undertaking this role, especially in the publication of the Society report and in announcing the formation of the Foundation, the accounting bodies endeavoured to reinstate their "value" to member constituents. Lloyd (1966) believed that "the profession will welcome the technical pamphlet just published" (i.e. the Society report) which, as indicated earlier, sought, among other things, to defend the accounting profession from what was regarded as unfair criticism which should have been targeted instead at company management. According to Lloyd (1966), "the accounting profession as a whole has managed to minimise, in the eyes of the public, their direct responsibility for a string of company failures". The accounting profession was concerned with showing "that it was unfairly treated and 'misunderstood'" (*Australian Financial Review*, 1965c). Through the mechanism of the Foundation, attempts were being made to place a clear value on the consolidation, dissemination and refinement of accounting principles. This approach to clarifying accounting principles respected the local, time-specific view that professional accountants were essentially responsible for forming their own judgements in the adoption of appropriate accounting practices. They were not accustomed to being told what to do by the professional bodies. Hence, the proposed solution in the form of the advent of the Foundation was aligned with accepted notions of appropriate professional practice at the time.

The study did not uncover any evidence of financial statement users criticising, dismissing or condemning the analysis of criticisms of company inspectors in the Society report or the initiatives proposed to consolidate, disseminate and refine accounting principles. Various press reports on the release of the Society report did not contain any adverse commentary on the action taken or on any of the statements appearing in the Society's press statement. Similarly, press coverage of the impressive membership of the Foundation did not contain any adverse publicity of the profession. These stories with a focus on redressing concerns were unlikely to have been objectionable to users. As in the case of users, no unofficial objections or commentaries by company inspectors were uncovered in this investigation, if indeed they were not

bound by confidentiality following the issue of their reports (Australian Society of Accountants, 1966; also see the final report of the investigation of Reid Murray[33]), in respect to the analysis of their findings in the Society report or in relation to the institutional developments aimed at consolidating, disseminating and refining accounting principles.

Although the government was a major accounting regulator during the 1960s crisis, it did not take any responsibility for the formulation or the application of accounting principles. The Recommendations, as addressed earlier, did not have any statutory backing and were issued as guidance for members of the Institute. These pronouncements were more concerned “with matters of presentation rather than the substance of measurement” (Gibson, 1979, p. 27; also see Gibson, 1971, chap. 23 and Birkett and Walker, 1971), while the adoption of principles “of the day” was based on “office practice” of accounting firms and “the opinions” of individual accountants and company directors (Zeff, 1973, pp. 4-5; also see Briggs and Parker, 1964)[34]. Government had played a major role since 1896 under the Companies Acts in requiring annual financial reports to be prepared and in mandating minimum disclosures of information in those reports (Gibson, 1971, 1979), but it was not until the establishment of the Accounting Standards Review Board (ASRB) in 1984 when the Federal government began to participate in the accounting standard-setting process involving the application of accounting principles[35].

The available evidence of reactions of the different groups of constituents is often limited in historical investigations. The South Australian government’s Minister of Education, Mr Loveday, indicated his belief “that accountants had been engaged in a considerable amount of soul-searching as a result of these events” (i.e. the company failures), with *The Advertiser* stating in regard to the Institute and the Society that “he [Loveday] believed, too, that they were tackling the matter” in jointly establishing the Foundation (*The Advertiser*, 1966). Murray (1967, p. 187), the Solicitor-General of the State of Victoria, also provided some insightful observations, stating that the auditors had faced:

... awesome problems ... having to make decisions without sufficient recognised guide lines to point the way. The reports upon their problems have been widely discussed by professional bodies and it is probably true to say that after perhaps a slow and disbelieving awakening no profession could have reacted more vigorously than has the accounting profession in seeking to find ways of tidying up what needs to be tidied up in its house[36].

These influential comments suggest that the key outcomes of actions stemming from public criticism of accounting principles were evidently sufficiently aligned with the problem to deter the government from forming an SEC-style regulatory agency following the failures. As a result, the constituent with the most power to threaten the autonomy of the profession had been effectively persuaded of the value of actions taken[37]. In the context of relations with the State, therefore, the notion of exchange legitimacy, as known today, was evidently a consideration taken into account by the organised accounting profession in the 1960s.

Influence legitimacy relates to the support granted by constituents when their greater interests have been adequately addressed or satisfied. As the voice of members in public practice, the Institute’s initial solo move in issuing new Recommendations in early 1964 was a largely ineffective move to deflect criticism onto “incompetent and unscrupulous management”. These Recommendations were closely based on English

Recommendations, which had not been specifically prepared in response to any similar crisis in accounting in England and Wales. The contents were not revisited or amended to accommodate the specific criticisms of accounting principles and practices in Australia, including criticisms “in relation to the presentation of items” (Birkett and Walker, 1971, p. 111). Notwithstanding the limited scope and relevance of the new Recommendations, gaining adequate public acceptance of future recommendations on accounting principles to be developed for “the guidance of the profession in particular and the business community in general” was perceived as being linked to the need to speak with one voice on such matters (Little and Andersen, 1964, p. 1). Subsequently, the advent of the Foundation under the joint sponsorship of the two bodies would enable the profession to speak with one authoritative voice, thus departing from the “multiplicity of authoritative voices” which was claimed to “result in confusion in the public mind” (Little and Andersen, 1964, p. 1). The Foundation served to focus the attention of board and committee members on issues, while “Institute-Society affiliations were invariably forgotten” (Burrows, 1996, p. 199).

This new-found whole-of-profession approach to enhancing the quality of financial reporting and auditing may have signalled to constituent groups the putting aside of intra-professional rivalry between the Institute, with its exclusivist strategy, and the Society, with its inclusivist strategy, with the intention of avoiding public confusion. A financial press commentator, for instance, argued it was “simple commonsense for [the] institute and society to collaborate in such as field as research” (*Australian Financial Review*, 1965a, p. 2). Another press commentator hinted at the benefits of the then new-found collaboration in stating that the Foundation, “formed by the ASA and the ICA”, will hopefully “ensure that accountancy principles in Australia are finally codified” (Lloyd, 1966). Such collaboration was described by another commentator as a “co-operative effort” by “rival organisations working closer together than they have in the past” (Horsfall, 1967). An editorial in the *Australian Financial Review* referred to the “considerable private ferment and self-examination among accounting councils which promises well for the future” and further stated there are “encouraging signs that such an improvement will steadily come” (*Australian Financial Review*, 1966b, p. 2; also see Pursche, 1965). Gibson (1971, p. 301) stated that the accounting profession, by means of the Foundation, “may be expected to have a more specific influence . . . in better formulating Australian accounting principles”. While the evidence is limited, it appears that the crisis-fuelled collaboration of the Institute and the Society was positively associated at the time with the notion, as known today, of influence legitimacy under the Suchman (1995) legitimacy-management framework.

Dispositional legitimacy relates to where the values being exhibited are perceived as shared values or where the best interests of the constituency are perceived to be the primary orientation. The Institute and the Society sought to respond to the concerns of constituents in a way that at least appeared to place the best interests of the profession and society at the forefront of the new initiatives. The accounting bodies sought to emphasise the integrity and responsibility of the profession, recognising that the profession needed to not only investigate cases of company failure but to clarify accounting principles in the public interest (Australian Society of Accountants, 1964a, p. 4). The General Council of the Society believed that the accounting profession “has a general responsibility to ensure that published financial statements provide information that is not irrelevant or misleading” (Australian Society of Accountants,

1966, p. 7). The public interest at the time, however, appears not to have been interpreted as broadly as may be the case today based on official notices and advertisements, which repeatedly stated that the joint sponsorship of the Foundation “inaugurates a major service to the profession and the business community” (see, for example, Australian Society of Accountants, 1967, p. 317). Hence, what was perceived as “good for business” was good for constituents outside the profession and was, therefore, in the public interest. Such pious claims, however, were unlikely to be accepted by cynical outsiders. Nevertheless, in the local-time-specific context the notion of dispositional legitimacy, as known today, was evidently a consideration recognized in the actions of the Institute and the Society.

In summary, the findings indicate a regard for pragmatic legitimacy with the evidence suggesting that exchange, influence and dispositional legitimacy received attention in efforts made to arrest a threat to the legitimacy of the profession.

*Moral legitimacy.* Moral legitimacy concerns actions that are perceived as “the right thing to do” (Suchman, 1995, p. 579). As indicated earlier, moral legitimacy can take one or more of the following four sub-types:

- (1) consequential;
- (2) procedural;
- (3) structural; and
- (4) personal.

Consequential legitimacy relates to being judged by what is accomplished. In contemplating the notion of consequential legitimacy, however, it should be recognised that “the technical properties of outputs are socially defined and do not exist in some concrete sense that allows them to be empirically tested” (Meyer and Rowan, 1991, p. 55). Heightened or stabilised confidence in any professional group is inherently difficult to measure, especially across short time periods. While the key initiatives adopted indicated that the major accounting professional bodies ultimately responded to continuing criticism, there was no objective perception testing of constituents and other reliable evidence of accomplishment recognition to confirm the prevalence of consequential legitimacy.

Ashley McKeon[38], however, of the *Australian Financial Review* commented on perceived improvements in work on accounting principles. In examining moves in the USA to develop new accounting pronouncements, he argued that such developments were not necessary in Australia because, among other factors, “the present system is quite satisfactory as judged by its improved performance in the last four years, the role of the research foundation and the number of exposure drafts currently being worked on” (McKeon, 1972b). While this assessment was reflective and complimentary in nature, most financial journalists are typically unlikely to revisit dated accounting and audit failures once the economy has recovered and the memory of past corporate collapses has dimmed, including those which implicated accountants and accounting. As found in undertaking this study, once the crisis had passed and the controversy had faded, the press had largely moved away from the subject. Indeed, by the late-1960s the main focus of attention in the press concerning the Australian accounting profession was on the first formal plan to merge the Institute and the Society. Accordingly, a general lack of evidence of constituents’ post-crisis impressions of the profession’s



belated responses to the crisis did not allow a clear association to be drawn between the actions taken and the notion of consequential legitimacy.

Procedural legitimacy relates to embracing socially accepted means and procedures. While the Institute and Society first began to address their responses to the crisis by holding a series of *ad hoc* conferences in Canberra, the available evidence indicates that these bodies did not engage in formal input processes involving the key constituents in policy formulation either before or after these conferences. Such processes might have involved holding forums for members or the general public or circulating proposals for reform to members or to the public for evaluation and comment before adoption. The profession did not follow any clearly articulated or inclusive due process and, therefore, appeared to be exclusionary based on surviving records, even if this approach was unintended. While the processes followed were evidently not socially unacceptable, the processes adopted were internal in orientation rather than open. Nevertheless, it would be unreasonable to judge the apparent lack of due process in the 1960s by assuming that the features of present-day standard-setting would have been seen as desirable by the actors. Nevertheless, based on surviving evidence the notion of procedural legitimacy, as identified under the Suchman (1995) typology, was not readily apparent.

Structural legitimacy relates to general organizational features where systems of activities recur consistently across time and is more concerned with allowing adequate representation by all constituents such as by means of formal co-option. While each of the accounting bodies had in place a set of committee structures and policies for operational purposes, the evidence indicates that the professional bodies largely focussed on their own networks of members and resources with few, if any, means of securing formal on-going input from constituents outside the profession. In addition, the calamity facing the profession at the time was unprecedented and the accounting bodies were initially distant of each other and uncoordinated, meaning there were no pre-existing, broad-based consultative models on which to draw. Therefore, evidence of the notion of structural legitimacy, as understood today in the terms of Suchman (1995), was sparse. The following statement in the Society's 1965 Annual Report confirms the introspective nature of the deliberations of the professional bodies and depicts the lack of formal co-option: "Members have been informed from time to time of discussions which have taken place between representatives of the Institute of Chartered Accountants in Australia and this Society on matters of mutual interest" (p. 1).

Personal legitimacy relates to the support afforded by constituents based on the charisma of individual organizational leaders. As indicated, certain key actors of the period, such as Little and the Fitzgerald brothers, were members of both the Society and the Institute and showed a concern for the broader interests of the accounting profession rather than a regard for the parochial interests of any single association. Little and Anderson played vital roles in the development of the Foundation concept and structure and were an influential duo in fostering co-operation. Apart from the roles played in defending legitimacy by such key individuals with a profession-wide perspective, it has not been possible to derive reliable evidence to specifically assess, in the terms of Suchman (1995), the charisma of the key participants within the profession. However, as previously noted, the committees and panels established by the two bodies were composed of eminent members, who were drawn widely from professional practice, business and academia. Given their seniority and talent, it is

apparent that these individuals possessed considerable influence within the profession, thus potentially offering reassurance to other constituents of their capacity to competently address difficult issues. Hence, in broad terms personal legitimacy, as known today, was not unimportant in the context of the key initiatives taken. However, the lack of evidence up to 50 years after the events specifically relating to the charisma of individual association leaders makes it difficult to amplify the findings on the contributions of key participants in order to present a clear case for the prevalence of the notion of personal legitimacy in the organised accounting profession.

In summary, the study has shown that moral legitimacy, with the possible exception of personal legitimacy, was not discernable to any significant extent. In moving the analysis from pragmatic legitimacy to moral legitimacy, the discernment of the latter form of legitimacy in connection with the responses made, based on available evidence, seems to be consistent with its more elusive and less manipulatory nature as identified by Suchman (1995).

*Cognitive legitimacy.* Cognitive legitimacy relates to taken-for-granted cultural accounts and does not rest on discursive evaluation. As the most elusive form of legitimacy, cognitive legitimacy is difficult to assess separately and is the long-term outcome of all other forms of legitimacy. In this study, the rationale for the existence of accounting and auditing *per se* was not challenged by the early-1960s corporate collapses in Australia nor was any commentator seeking to disband the Institute and/or the Society as a result of the corporate failures of the period. It would have been unthinkable, for example, to abolish accounting and auditing or to prohibit the operation of professional accounting bodies altogether on the basis of the crisis. These outcomes clearly did not eventuate. However, the cognitive status of accounting principles was subject to critical commentary by parties outside the profession and was also criticised, or even challenged, by certain commentators within the profession, including by the vocal and influential Chambers and, to a much lesser extent, by Robert H. Parker who also became a prominent accounting academic (Briggs and Parker, 1964)[39]. Hence, accountants' cognitive legitimacy in Suchman's (1995) terms was not fully-accepted by all constituents. Nevertheless, the establishment of the Foundation in particular, as the official research arm of the profession as a whole, was an attempt to constructively deal with this problem by means of consolidating, disseminating and refining accounting principles.

Chambers, on the other hand, had advocated the establishment of an independent research foundation to specifically inquire into financial accounting methods. The Foundation, while a separately-constituted entity, was nevertheless not independent of its two sponsoring bodies and significantly relied on them for financial and other support. However, these differences from Chambers' proposal did not appear to cause any widespread consternation, thus indicating an alignment of the joint response with the widespread criticisms made. On the whole, it was not possible to discern any dissipation of this most elusive and least manipulable form of legitimacy. The long-term survival of the two major accounting bodies and their relative self-regulatory status indicates that the cognitive status of accounting was successfully held intact due at least partly to the advent of the Foundation and the general acceptance of its proposed agenda of developing and issuing accounting and auditing pronouncements on behalf of the profession. Indeed, the accounting profession had not severely

breached its social contract and, therefore, had not dissipated cognitive legitimacy at any stage during this period.

As shown, a number of aspects of Suchman's (1995) legitimacy typology have been identified as being of relevance in enhancing an understanding of the actions taken by the accounting profession in defending its legitimacy following the early-1960s crisis. Evidence of forms of pragmatic legitimacy was discerned as explained. Elements of exchange, influence and dispositional legitimacy under the typology were evidenced in the individual and collective actions of the Institute and the Society. Moral legitimacy, however, was not fostered to the same degree. Limited evidence of a regard for the notion of personal legitimacy only is apparent. Cognitive legitimacy, however, was essentially not undermined to any identifiable extent although this form of legitimacy was not totally-accepted by all commentators. As explained by Suchman (1995, p. 585) "legitimacy becomes more elusive to obtain and more difficult to manipulate" as it moves from pragmatic to moral and from moral to cognitive. A parallel can be drawn in this historical study in discerning, to the extent possible, the three primary forms of legitimacy that were found to be manifest in the belated responses made based on the available evidence.

#### *Divergent organizational strategies*

Attention is now turned to answering the study's third research question relating to the divergent organizational strategies of the Institute and the Society. Seeking to maintain its long-held exclusiveness, the Institute evidently preferred to work behind the scenes with the guiding support of an international public relations consultant "to improve its image" (Birkett and Walker, 1971, p. 114). The Institute also preferred to respond, as appropriate, to future criticisms of the profession (i.e. those arising from mid 1964) which would necessarily arise in the relative calm of the after-crisis period. It did not respond openly in public to the earlier concentrated crisis-related criticisms of accountants and the accounting profession. The Institute's favoured strategy appeared to emphasise taking a longer-term, less confrontational view by engaging in research that was intended to consolidate and disseminate accounting and auditing principles, to refine extant principles and to address unresolved accounting and auditing problems. Taking proactive steps for the future development of the profession in jointly sponsoring the Foundation with the Society, even though this idea was initially raised in Canberra by the Society, was seen by the Institute as a constructive and less reactive approach to the crisis confronting the profession.

The *Australian Financial Review* (1965a, p. 2) succinctly put that view that "there will always be a distinction between the highly qualified, chartered public accountant and the others". Notwithstanding this apparently permanent distinction, the Society, as the less exclusive body representing "the others", seemed to be more attuned to, and conscious of, the virtues of addressing the specific criticisms of accountants and the profession. While the Institute may have been expected to have been more concerned than the Society about the public criticisms of accountants, especially of auditors, the Society portrayed itself as more progressive by being more openly responsive to the criticisms. According to Birkett and Walker (1971, p. 133), the Society report on company failures was "the most tangible evidence of recognition by the profession that company failures were a phenomenon warranting detailed research". The report focussed attention on problems associated with accounting measurement, even though

it expressed the view that a number of criticisms of practitioners were unjustified or unsound and argued that the failures were mainly due to management excesses and oversights. While this position did not suit the more elitist public practice stance of the Institute given the body's decisions, the Institute was, based on the available evidence, evidently comfortable with this response, providing it was generated by the Society alone as the less exclusive body representing "the others". The Institute, with an exclusivist strategy, was evidently not content to publicly acknowledge any shortcomings of its members or their practices nor any deficiencies in its Recommendations, consistent with a view that a professional body at the top of the pecking order, similar to other elite organizations, does not gain by affording undue credence to criticism by directly responding to it. Notwithstanding the Institute's positioning at the time, the Institute's Registrar in 1972 acknowledged that the Society report "is a most valuable study and is still widely used as a text book in Australian colleges and universities" (Graham, 1972, p. 6).

The 1960s crisis stimulated the Institute and the Society to address the deficiencies exposed, leading to a commitment to speak with one authoritative voice on key technical issues. This key development was influenced by members of both bodies, especially by influential Melbourne-based joint members such as Little and the Fitzgerald brothers, who "devoted little or no time to emphasising the separateness of the bodies . . . . Instead they were focused on the broader interests of the profession" (Burrows, 2010)[40]. Commencing with the joint establishment of the Foundation, this strategic move involved putting intra-professional rivalry aside in the interests of the profession as a whole, without departing from the respective organizational strategies adopted. The Foundation was intended "to defend the accounting profession against accusations of complicity" (Burrows, 1996, p. 191). In ultimately taking this whole-of-profession approach, the Institute and the Society came to recognise the "power of collectivizing" by viewing "legitimacy as a collective good" (Barnett, 2006, p. 277). As stated by Barnett (2006, p. 272), when challenges to legitimacy arise they present "incentives to collectivize" and may neutralise intra-professional rivalry at least temporarily as has been elucidated in this study. The study, therefore, demonstrates a relationship between the literature on the dynamics of occupational groups and the legitimacy-management framework of Suchman (1995).

### Conclusion

This study has drawn on largely untapped evidence in endeavouring to provide fresh, theory-informed insights into the responses of the professional bodies in Australia to the early-1960s crisis in order to arrest a threat to legitimacy. It has sought to address the key responses made in defending the profession's legitimacy in a holistic manner, rather than to focus on any particular development of the period. In so doing, the study has drawn on perspectives on the dynamics of occupational groups within the sociology of the professions and has applied the legitimacy typology of Suchman (1995) in analysing the responses of the Institute and the Society. It has explored the nexus between the literature on accounting's professional project and Suchman's (1995) legitimacy typology. The study has, therefore, endeavoured to make a contribution to the synthesis of different yet compatible theoretical perspectives in examining the professional project in a setting involving intra-professional rivalry during a period of crisis.

The study sought to answer three key research questions. The first key question was concerned with how the major Australian professional accounting bodies responded to the crisis and, in particular, with the specific initiatives that were adopted in addressing the crisis. By means of individual and collective action following an unprecedented series of joint conferences held closely together on neutral ground in Canberra, the Institute and the Society ultimately came together to respond to the crisis. Stemming from these deliberations, various initiatives were adopted with the key initiatives mounted being the publication of the Society report on company failures and the joint sponsorship of the Foundation. Through the mechanism of the Foundation, the major professional bodies began to speak with one authoritative voice on key technical issues facing the profession. Solidarity in the form of co-ordinated individual action and collective action, as explained, was regarded as being of greater importance than division or inaction during this period of crisis.

The second key research question related to the identification of key forms of legitimacy, according to the Suchman (1995) legitimacy-management framework, that were the focus of the major professional bodies in defending the profession's legitimacy. Based on the available evidence, the three sub-types of pragmatic legitimacy, as known today, were identified as being a key focus of attention, specifically the notions of exchange, influence and dispositional legitimacy. The four sub-types of moral legitimacy in Suchman's (1995) terms were not found to have been influential with the exception of personal legitimacy, as explained, based on the available evidence. While the cognitive legitimacy of the profession was not undermined to any identifiable extent, this form of legitimacy was not fully-accepted by certain commentators, contributing to a focus on cognitive legitimacy specifically in respect to consolidating, disseminating and refining accounting principles. The findings reported suggest that the identification of the forms of legitimacy implicated, based on available evidence, parallel Suchman's (1995) explication of the increasing elusiveness and decreasing manipulatory nature of legitimacy as it moves from pragmatic to moral and from moral to cognitive.

The third key research question related to how the individual and collective responses employed by the major professional accounting bodies to the crisis were moulded by the different organizational strategies that they were adopting under accounting's professional project. Dating back to 1907, intra-professional rivalry in the Australian accounting profession reflected the different organizational strategies of the Sydney-based Institute and the Melbourne-based Society. This long-held intra-professional rivalry was put aside in the interests of the profession as a whole while the Institute choose not to respond to specific criticisms reflecting its elevated status in the perceived pecking order of professional bodies. When challenges to legitimacy arise they present "incentives to collectivize" (Barnett, 2006, p. 272) and, as a result, tend to neutralise intra-professional rivalry at least temporarily as has been illuminated in this study. The study, therefore, has shown a relationship between literature on the dynamics of occupational groups, especially in respect to intra-professional rivalry, and the literature on legitimacy-management framework of Suchman (1995) during periods where co-ordinated or joint action by professional bodies is regarded as necessary in arresting a threat to legitimacy. Collaboration among professional bodies for the good of the profession as a whole, however, may not

necessarily be viewed as an equal partnership, with the Society in this study being shown to be more progressive and openly responsive to criticisms than the Institute.

This historical study has permitted reflection on the long-term ramifications of the key actions that were belatedly taken at the time and also reflects developments in the literature, particularly addressing the use of theoretical perspectives for analysis. It may provide a basis for better understanding how the Australian accounting profession has responded to crises in other decades and centuries. Given the important ramifications of corporate failures for the standing of the accounting profession, the functioning of stock and credit markets, and for the general state of the economy and society, accounting researchers are also encouraged to conduct investigations of the genre in other countries or regions in order to augment an understanding of how the profession responds to crises. Comparative investigations (see, for example, Zeff, 1972), may assist in developing the literature on “comparative international accounting history” (Carnegie and Napier, 2002). Historical research on company collapses and accounting failures “may provide the greatest insight into both the present and the future” (Carnegie and Napier, 1996, p. 31).

#### Notes

1. While the term “accounting profession” is used generally to refer to all those who “do” accounting for a living, not all individuals who undertake accounting work are members of professional accounting bodies. In this study, the focus of attention is the activities of the major professional accounting bodies in supporting their memberships and in representing the organised accounting profession.
2. As far as can be ascertained, Birkett and Walker, (1971, p. 136) first stated that “the profession was ‘stirred’ by the company failures of the 1960s”. The authors made this statement (Birkett and Walker, 1971, p. 136) on reproducing the following comment of C.W.M. Court made at the 1949 Australian Congress of Accounting who stated: “Perhaps a few good local scandals might have stirred us out of our lethargy” (Australian Congress of Accounting, 1949).
3. Criticisms made by company inspectors related to many topics, including the following: profit on hire purchase sales, balance sheet valuation of hire purchase debtors, accounting for land transactions, the presentation of consolidated statements, and accounting for unearned income arising from terms charges in hire purchase transactions (Australian Society of Accountants, 1966, pp. 8-22; also see Kenley, 1965 and Table 3.1 in Clarke *et al.*, 2003, p. 48).
4. According to Tilling and Tilt (2010, p. 61), “the defence phrase . . . has tended to be the main focus of accounting researchers”, thus pointing to the importance of preserving the profession’s legitimacy when subject to challenge.
5. The literature on these theoretical perspectives has developed dramatically since the earliest of these studies were completed, while some later commentaries on the controversies (such as Burrows, 1996), like the earlier studies, did not apply any explicit theoretical perspectives.
6. As noted by Durocher *et al.* (2007, p. 37), the strategic view takes a managerial perspective to understanding organizations’ actions while the institutional view considers the impact of the external environment on organizational choices.
7. The IIAV and the ACPA were incorporated in 1887 and 1908 respectively. The earliest professional accounting body in Australia was the Adelaide Society of Accountants that was formed in South Australia in 1885 (Parker, 1961).

8. At the time of writing, Linn (1996) was referring to the first three unsuccessful merger attempts.
9. Notwithstanding the inability to further unify the profession, both bodies in recent years have embarked on membership growth strategies built around initiatives such as developing alternative pathways to membership.
10. Indeed, it was reported in 1963 that the “policy of the Council is to keep the Institute’s recommendations as close as practicable to the recommendations of the Institute of Chartered Accountants in England and Wales, having regard to Australian conditions and legal requirements” (The Chartered Accountant in Australia, June, 1963, p. 788).
11. Sanders (1963) in a “letter to the editor” of the *Australian Financial Review* also called for “a Federal [government] investigation into the whole matter”, and seemed to perceive a conspiracy of a kind in stating “there must have been collusion between directors, accountants and auditors to what amounts to fraud”.
12. The new Recommendations dealt with the following topics: Presentation of Balance Sheet and Profit and Loss Account; Treatment of Stock-in-Trade and Work in Progress in Financial Accounts, and Accountants’ Reports of Prospectuses. The first two named Recommendations replaced four of the seven Recommendations that were issued during 1946-48.
13. The new Recommendations had been under consideration for some time “having been delayed until the passing of the Uniform Acts” (Gibson, 1971, p. 174 and chap. 33). The Uniform Acts enabled the adoption of uniform legislation for companies in Australia across State boundaries.
14. A professional accountant who responded to this story in a “letter to the editor” wrote: “. . . there are many failings of the ‘watchdogs’ . . . Your remarks on The Institute of Chartered Accountants in Australia are interesting but do not go far enough” (*The Australian*, 1 December 1965, p. 11; also see *Australian Financial Review*, 1965c).
15. Chambers continued to criticise conventional accounting during the remainder of his long and distinguished career. He was a long-standing member of the Society, and served as National President, but appears to have never been a member of the Institute (Wolnizer, 2011).
16. See, for example, letters published in the *Australian Financial Review* on 31 January 1963, 28 May 1963 and 11 June 1963.
17. At a symposium on “Investment in Australia” held in Melbourne in February 1965, The Hon. A.G. Rylah, Chief Secretary and Attorney-General of Victoria, indicated that he “was not convinced that a USA-type Securities and Exchange Commission was either necessary or desirable in Australia” but indicated his preference for “. . . the State . . . [to] take a more active role in protecting the public” (Turnbull, 1965, p. 173). He also stated that “auditors must be more ready than they have been in the past to qualify their reports and to note matters that can affect the position of [board] members” (Turnbull, 1965, p. 174). In October 1966, Rylah was quoted as stating “the Government does not believe that legislation is the sole or dominating answer to these problems” (i.e. company crashes) (*The Age*, 1966b).
18. Kenley was appointed as the first Technical Officer of the Society and in this role was the Secretary of the Society Committee Report on Company Failures. He also served as the Foundation’s Director of Research between 1973 and 1975 and was a Churchill Fellow in 1970. Kenley (1970a) authored the first codification of Australian accounting principles on behalf of the profession that was published by the Foundation.
19. The Institute was represented at the first conference by C.R. Kelynack (President), T.C. Boehme (Vice-President), G.C. Tootell (a past-president), C.A Gray (Hon. Treasurer) and

- S.J. Walton (General Registrar). The Society's representatives comprised L.A. Braddock (President), H.R. Irving (Vice-President), J.G. Orr (Vice-President), G.E. Fitzgerald (a past president) and C.W. Andersen (General Registrar).
20. At the time of writing, the minutes of the third and fourth conferences were unable to be located by the authors despite exhaustive attempts to find them. CPA Australia, as keeper of the archives of the Society (as it was once known), and the Institute were each unable to trace any surviving copies of these minutes in their respective archives. The original minutes of the first two conferences are found in the Jill Bright Archives, CPA Australia, in Melbourne.
  21. Other issues addressed included recruitment into the profession, accounting education and libraries.
  22. In this notification, the General Council of the Society indicated that it was "naturally perturbed" over the findings reported by investigators "insofar as such findings have reflected on the validity of published financial statements" (p. 288).
  23. The notes also indicated that the proposed joint research foundation, once formed, would be "open to the receipt of funds from industry and commerce" (The Institute of Chartered Accountants in Australia, 1964b, p. 3).
  24. J.K. Little was the managing partner of Arthur Andersen & Co. at the time and a member of both the Institute and the Society who had a record of urging the Institute and the Society to co-operate and who insisted on his partners becoming members of both bodies (Burrows, 1996, pp. 16-17; Burrows, 2010). Other key Melbourne-based actors at the time, such as A.A. & G.E. Fitzgerald, were also members of both bodies, thus indicating a concern for the interests of the accounting profession as a whole rather than a regard for the interest of a particular association (Burrows, 2010).
  25. Professional accountants were informed of the conduct of the joint conferences (see, for example, Australian Society of Accountants, 1964c) and were advised of areas where agreement had been "reached on means of joint action on problems affecting the profession as a whole" (see, for instance, Australian Society of Accountants, 1965, p. 61).
  26. The report was reprinted four times in July 1966, July 1967, January 1969 and October 1970. Burgess *et al.* (1966) provided commentaries on the report.
  27. The specific inspectors' reports that were examined by the committee are listed in the Appendix to the publication (ASA 1966, pp. 46-47).
  28. Henderson (1997, p. 181) described the Society report as "surprisingly frank in its assessment of the state of the accounting profession".
  29. Further explanation by the profession was considered to be a vital component of its educative role (Australian Society of Accountants, 1966, p. 31).
  30. The announcement of the formation of a jointly sponsored research foundation had already been made at the time of publication of the Society report in January 1966.
  31. The Foundation was incorporated as a company limited by guarantee in the following year and was renamed the "Australian Accounting Research Foundation" from January 1975 (Australian Society of Accountants, 1986).
  32. Forty years later, Kenley (2010, p. 1) added "this development came as a surprise to many of the people I met overseas in 1970 who saw the merit in professional accounting bodies forming close liaisons, or co-operating together in order to represent the interests of the profession as a whole" ..
  33. Final Report of an Investigation under Division 4 of Part VI of the Companies Act 1961 into the Affairs of Reid Murray Holdings Limited, Reid Murray Acceptance Limited and Certain Other Companies, Victorian Government Printer, Melbourne, 1966.



34. In commenting on the newly issued Recommendations, Briggs and Parker (1964, pp. 833-834) stated "it is disconcerting to find that the criterion for the application of many of these principles is the accountant's judgement of truth and fairness!".
35. For the first time, accounting standards in Australia gained legal backing on approval by the ASRB (Carnegie, 2009, p. 290). By the mid 1980s accounting principles were becoming more widely known as accounting concepts.
36. Gibson (1971, p. vii) also referred to the accounting profession being "awakened [during the 1960s] to the need to define more adequately the process of accounting measurement and the reporting of the results of that process".
37. Notwithstanding the avoidance of an SEC-style agency and the non-establishment of the less intrusive Accountancy Council as the Society had suggested, regulators, according to Rahman (1992, p. 295), "have shown keen interest in company financial reporting since the company collapses of the 1960s".
38. According to Zeff (1973, p. 54), McKeon was a qualified accountant who joined the *Australian Financial Review* in 1967 and whose "articles exhibit a depth of accounting knowledge uncommon in the final press of English-speaking countries".
39. The vocal stance of Chambers at the time was seemingly connected to the imminent publication of his magnum opus, entitled *Accounting, Evaluation and Economic Behaviour* (Chambers, 1966) in which dramatic change to the underlying measurement basis in accounting was advocated. In 1964, Parker was employed as an accounting academic at the University of Western Australia but later returned to the UK where he rose to prominence.
40. With the benefit of hindsight, Burrows (2010) wrote "I believe there was somewhat more Melbourne than Sydney influence in the formation of the ... Foundation".

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Date	Name of company	Inspectors' reports released	Responses of accounting profession
March 1961	Sydney Guarantee Corporation	1964	
November 1961	New Investments	1964	
September 1962	Latec Investments	1965	
December 1962	Stanhill Development Finance	1964 (Interim); 1966 (Interim); 1967 (Final)	
December 1962	Commonwealth Land and Investment Co.	1964	
April 1963	Reid Murray	1963 and 1965 (Interim); 1966 (Final)	
February 1964			Institute releases three new Recommendations on Accounting Principles
April 1964 June 1964 to April 1965	Neon Signs (Australasia)	1966	Four joint conferences of the Institute and the Society are conducted in Canberra
October 1965	Cox Brothers	1967	
October 1965	H.G. Palmer (Consolidated)	1965, 1966 and 1967 <sup>a</sup>	
November 1965			Announcement of formation of Accountancy Research Foundation and appointment of high profile members from the profession to the Foundation's Accounting and Auditing Research Committee
February 1966			Society report on company failures issued

**Table AI.**  
Time line of major company failures and the accounting profession's responses

**Note** <sup>a</sup> These dates refer to reports issued to creditors by the receivers of H.G. Palmer (Sykes, 1998, chap. 16). According to Birkett and Walker (1971, p. 133) there was no government inspector appointed to investigate this particular collapse (also see *The Age* (1965))  
**Sources:** Australian Society of Accountants (1966); Birkett and Walker (1971); Clarke *et al.* (2003, p. 48); Sykes (1998)



Form	Definition	Sub-form	Definition
Pragmatic legitimacy	Self interested calculations of an organization's most immediate audiences	Exchange	Support by constituents for organizational policies based on their likely value to that group
		Influence	Constituents support the organization (or profession) because they perceive it as being conducive to their wider interests
		Dispositional	Constituents support an organization that they perceive has their best interests at heart
Moral legitimacy	Positive normative evaluation of the organization and its activities	Consequential	Organizations should be assessed by what they achieve
		Procedural	Moral evaluation of an organization predicated on the acceptability of the procedures that it employs in carrying out its affairs
		Structural	The adoption of organizational structures which are socially acceptable
		Personal	Legitimacy achieved through the charisma of the individuals who lead the organization
Cognitive legitimacy	Organization accepted by constituents as inevitable and necessary	Taken-for-grantedness	Alternatives may seem improbable and challenges to that legitimacy may be regarded as almost unthinkable

**Table AII.**  
Overview of Suchman's (1995) legitimacy typology as applied to this investigation

Source: Adapted from Suchman (1995)

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