The professionalization of accountancy
A history of protecting the public interest in a self-interested way
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Introduction
Accountants and the institutions of accountancy are subject to increasing public scrutiny. Recent research suggests the typical strategy of response to criticism adheres more to the economic self-interest of accountants than their duty to protect a public interest. This article reviews the UK and US histories of accountancy professionalization, and identifies the early origins of the strategy. The analysis suggests accountants use the public interest argument continuously as a means of protecting their economic self-interest.

The article is divided into several sections: the nature of professionalization; the birth of the accountancy profession; establishing and defending professionalization; and a retrospect and prospect. The methodology is a traditional one in historical studies of explained narrative using secondary sources (Previts et al., 1990).

Nature and history of professionalization
Before proceeding to a history of the UK and US accountancy profession, this section outlines briefly the nature and history of professions and, in particular, distinguishes professional activities from other occupations. The review comes from a variety of sources (e.g. Bledstein, 1976; Carr-Saunders and Wilson, 1933; Freidson, 1986; Johnson, 1972; Krause, 1971; Larson, 1977).

The term professional is used in this article to denote occupations organized in institutional form, whose practitioners are committed explicitly to serve the public interest, and who offer client services related directly to an intellectually-based body of knowledge. Professions emerged as institutionalized occupations...
The profession-alization of accountancy in a Victorian Britain coping with economic and social changes such as population shifts, industrialization of commerce and trade, decline of the church and involvement of the state in matters of poverty, health and education (see, e.g. Smout, 1986). Organized professions were means by which the middle class exercised cultural control and established its social status (Bledstein, 1976). The professional was perceived as an independent and knowledgeable practitioner with an explicit obligation to act in the public interest.

The traditional literature on professionalization suggests professional tasks have a history and reputation as privileged work with altruistic objectives (Carr-Saunders and Wilson, 1933). However, there is an alternative economic view of the role of professionals. In this perspective, they are perceived as organizing to gain market control of an occupational service by means of monopolistic exclusion of individuals deemed unworthy or unqualified to provide it (Larson, 1977). Professionals create explicit mechanisms to operationalize this strategy, including entry prerequisites, institutionalized programmes of academic education and work-related training and experience. Unless an individual satisfies these criteria, professional membership is impossible and certain service opportunities denied. The professional monopoly is established when the state grants exclusive rights of service only to certified professionals. Each of these features is evident in the formation and development of the accountancy profession.

Birth of professionalization

A small number of eighteenth century accountants were the forerunners of the individuals who formed the first professional society of accountants in Scotland in 1853 (Brown, 1905a). Other researchers identify innovative accountants in Scotland and England before and during the Industrial Revolution (e.g. Baladouni, 1986; Burley, 1958; Edwards and Newell, 1991; Fleischman and Parker, 1990; Forrester, 1980; McKendrick, 1970; Robertson, 1970, 1984; Solomons, 1952; Stone, 1973; Walsh and Stewart, 1993). The stage was clearly set in the UK for a formal professionalization process to start in the mid to late 1800s.

This raises an interesting question. Given the prior history of accountancy and accountants, why did a very small group of mid nineteenth century Scottish accountants in public practice feel compelled to organize in institutional form? A typical response is that professionalization was a natural consequence of the economic and organizational changes of the Industrial Revolution (e.g. Garrett, 1961; Howitt, 1966; Kedslie, 1990; Miranti, 1990; Stewart, 1977). More detailed analyses and arguments, however, suggest a more complex rationale. For example, in addition to the industrialization argument, Stewart (1977) suggests Scottish professionalization was a response to competitive pressures and a need to provide a unified view on accountancy matters. Brown (1905b) states Edinburgh accountants made several unsuccessful attempts to provide this unification prior to 1853. However, in
1853 they were successful and formed The Society of Accountants in Edinburgh, with a royal charter following in 1854.

Brown makes no suggestions regarding the reasons for professionalization in Edinburgh, but Kedslie (1990), Macdonald (1985), Parker (1986) and Walker (1988) argue a catalyst was a proposed change in bankruptcy law which would have allowed lawyers to undertake work then dominated by Scottish accountants. Thus, at least one major reason for professionalization was economic in nature, and consistent with the suggestion of Stewart that accountants were reacting to competitive pressures. The possibility also exists of a nationalistic rivalry underlying the professionalization events.

A number of writers reveal the close relationship between accountants and lawyers in bankruptcies and sequestrations during the nineteenth century. Accountants in public practice dealt with the accounting aspects of such matters (Brown, 1905a; Kedslie, 1990; Macdonald, 1985; Parker, 1986; Walker, 1988). Walker (1988 and 1993) also provides evidence that voluntary insolvencies and judicial factories were important parts of public accountancy practice at that time. However, accountants covered a variety of other functions (e.g. merchants accounts; accounting for canal, rail, and banking companies; estate management; insurance and stockbroking; and legal work) (Brown, 1905b; Kedslie, 1990). Few accountants were employed in industrial accounting or commercial auditing.

The conventional evidence of accounting history therefore suggests the existence of a small but growing public accountancy community in Scotland by the mid 1800s. Members of this community are portrayed as facing a potential economic threat because of proposed bankruptcy law changes. Unsurprisingly, they are perceived as reacting to protect their economic self-interest. They are described as organizing to form institutions which justified the term profession, thus mimicking previously-established bodies in other areas such as law and medicine (Kedslie, 1990; Walker, 1988). More specifically, as Brown (1905b) documents, 61 Edinburgh accountants petitioned Queen Victoria in 1853 to form The Society of Accountants in Edinburgh. The petition pointed out the public interest focus of the proposed organization. Accountants were stated to need to unite into one body to ensure their legal and actuarial work was completed by appropriately qualified individuals for the benefit of the public. A Glasgow body was chartered in 1855 on petition by 49 accountants, who also adopted an actuarial and legal basis to their argument to protect the public interest (Brown, 1905b). Once formed, the two Scottish bodies proceeded to resist the proposed bankruptcy laws and ensure the continuing employment of accountants in such work (Brown, 1905b; Walker, 1995b).

Evidence of the origins of accountancy professionalization in Scotland is reassessed by Walker (1995). In a study of a mix of economic, political and social factors at work in mid nineteenth century Scotland, an alternative explanation is provided which, nevertheless, is consistent with previous histories. As in other studies (e.g. Kedslie, 1990), the impetus for professional organization by Scottish accountants in public practice is identified as a
significant threat to their economic self-interest. There was a London proposal to base Scottish insolvency practice on English legal provisions which required lawyers, rather than accountants, to act as administrators. The practical reason for the proposal was an English concern about the effectiveness of Scottish bankruptcy law, and its economically damaging effects on English businesses trading in Scotland. The intellectual argument for reform was related to the case for improving free trade. Scottish accountants in public practice organized in Edinburgh to defeat the threat. They not only organized, but presented their case in the context of a prevailing Scottish nationalism. They initiated a debate to obtain public support, convincing senior members of the Scottish legal profession and Scottish Members of Parliament that the English proposal to reform should be resisted. This was successfully accomplished between 1854 and 1856.

Establishing and defending the profession

What the above brief analysis reveals is evidence of an organized profession created to provide market control of accountancy services. It is consistent with the professionalization model of Larson (1977). In particular, the Scottish accountancy bodies sought legitimacy in royal charters. The primary significance of this was the creation of institutions with royal permission to self-regulate professional accountancy, and to describe their members as chartered accountants. Brown (1905b) points out the immediate use of this designation following formation. It was a deliberate act to publicly separate chartered accountants from other accountants, provide a basis for public confidence in the work of chartered accountants, and stimulate demand for their accountancy services.

Both Walker (1988) and Kedslie (1990) provide evidence of the strengthening of the Scottish professionalization process by entry, education, examination and training requirements. These provisions had the dual effect of explicitly revealing professional accountancy as a learned occupation with high standards, and also restricting the number of institutionalized members. The nature of these requirements has been researched by Walker (1988) who demonstrates that early accountancy professionalization in Scotland was almost exclusively middle class, and associated through family, friendship and client relations with lawyers and landed gentry.

A similar sequence of professionalization occurred in England, with the formation of local societies of accountants in the 1870s (Brown, 1905c; Howitt, 1966). Unlike the Scottish formation, however, the English movement appears to have been little more than a series of copy-cat events as local accountants sought the credibility and authority of Scottish chartered accountants. It has to be presumed such credibility had positive economic benefits. In addition, English professionalization was initially characterized by competitive disputes between London-based bodies and those in other regions. These disputes were concerned with elitism and the concentration of power and influence in accountancy matters by accountants working in London firms. To portray
public unity on accountancy matters, however, talks quickly took place to merge five English bodies into The Institute of Chartered Accountants in England and Wales in 1880. According to Howitt (1966), the Institute proceeded quickly to impose standards of entry, examination and training, and was involved in influencing changes in law relating to accounting for bankruptcies and municipal auditing.

Internal rivalries
However, all was not well with UK accountancy. Garrett (1961) describes the founding of The Society of Incorporated Accountants in England in 1885. It was licensed by the Board of Trade as a competitive response to the conditions of entry imposed by The Institute of Chartered Accountants in England and Wales. Of particular concern were the Institute's requirement of an apprenticeship system, and the restricting of the activities of its members to those of public accountancy. In contrast, Society membership was UK-wide with regional organizations and members in both public and private sectors of the economy. An examination system was initiated, and specific professional designations agreed. There also appears to have been a desire that the Society influence legislation affecting accountancy work (Garrett, 1961).

The subsequent history of the UK accountancy profession is characterized by a form of unity among the royal chartered bodies, despite pre- and post-foundation English concerns regarding centralization of power in London. Arguably, this unity may have been a consequence of an institutional feeling of superiority over non-chartered accountants. Chartered accountants were regarded as élite (Brown, 1905d), and their institutions co-operated in various ways. For example, the Scottish bodies adopted similar entry and training requirements, formed a joint national examination system in 1893, consulted over responses to proposed bankruptcy and corporate legislation, issued a national directory of chartered accountants in 1896, published a joint journal (The Accountant's Magazine) in 1897, arranged joint lecture courses, had similar student societies and written Transactions of proceedings, and merged in 1951 (Brown, 1905b; Kedslie, 1990).

However, creating and maintaining a profession was not an easy task for UK accountants. Several writers comment on attempts by Scottish and English accountancy bodies to obtain statutory registration of the title of professional accountant (e.g. Garrett, 1961; Howitt, 1966; Kedslie, 1990; Macdonald, 1985; Walker, 1991). A variety of reasons combined to create rivalry in accountancy over a period of more than 50 years. These reasons include a proliferation of bodies serving different membership needs and occupying traditionally competitive geographical locations, the specific use of the title chartered accountant by members of the chartered bodies to create exclusiveness and economic benefit, and the organizational aggressiveness of latecomers to the professional accountancy market.

Statutory registration of suitably qualified individuals to practice accountancy was seen by the leaders of the competing bodies as the most
sensible way of protecting the public interest against substandard accountants. It also presumably assisted in a sharing of the available economic pie by a restricted number of accountants. Many registration attempts in the form of parliamentary bills were made by chartered and incorporated bodies. All failed for various reasons, not least of which was an underlying rivalry between the Scottish and English chartered bodies concerning their geographical jurisdictions (Macdonald, 1985). In addition, the Scottish chartered bodies successfully used the court system to defend their right to the exclusive use of the invented and abbreviated title C.A. when that was challenged by two non-chartered bodies in the period 1854 to 1914 (Walker, 1991). The chartered bodies argued that their professional monopoly provided a higher value of service because of the competence of their members, and that competition devalued the chartered accountant designation. Scottish chartered accountants such as Marwick, Touche, and Niven, together with a number of English colleagues such as Guthrie, used this argument when emigrating to the USA and helping to found its accountancy profession (Brown, 1905e; Carey, 1969; Kedslie, 1990; Wise, 1982).

US experience
The most obvious feature of early UK professionalization is the pursuit by accountants and their institutions of economic self-interest in the name of a public interest. Use of entry, examination and training requirements, lobbying over legislative matters, defending the exclusive use of professional designations and attempting statutory registration each illustrate this point. A similar pattern emerged in the USA in the late 1880s, although the specific rationale for professionalization was different from that of the Scots chartered accountants.

Several writers have researched the US history of professional accountancy (e.g. Brown, 1905e; Carey, 1969, 1970; Merino, 1975; Miranti, 1990; Previts and Merino, 1979). Their work needs to be read in the context of change in American economic and social conditions between 1870 and 1900 (Bledstein, 1976; Bruchey, 1990; Galambos and Pratt, 1988). This period witnessed population expansion, industrialization, railroad competition, agricultural boom and decline, population drifts from country to city and the emergence of a professional middle class. Economic opportunities for investment by UK companies and individuals opened the way for a significant influx of experienced Scottish and English chartered accountants. They quickly organized as firms of accountants, and sought the professional credibility to which they were accustomed in the UK. They found no institutionalized bodies in the USA devoted to public accountancy, and began to form institutions similar to those of the Scottish and English chartered accountants.

The first body of US professional accountants was the Institute of Accounts formed in 1882. Membership was open to any accountant passing its admission test. The Institute's main function was the education of accountants. Several other bodies were founded from 1882 onwards. One such body was the
American Association of Public Accountants (1887) which was concerned solely with a public accountancy membership. Its structure and constitution were patterned on the UK chartered accountancy model, and its membership initially comprised 31 individuals based in the north-east of the USA.

These accountants were mainly UK chartered accountants concerned with stewarding UK investments in US agricultural, manufacturing and railroad industries. They appear to have founded the Association to obtain professional status and economic rewards perceived to be unavailable from membership of the Institute of Accounts. The Institute was open to all professional accountants. The Association restricted its membership to individuals in public practice. An initial problem for the Association's members was changing a public perception of accountants from bookkeepers to professionals (Carey, 1969). That they did so is evidenced by the employment of early members of the Association by US bankers financing various industries.

In 1895 and 1896, the Association and the Institute individually and then collectively sought to create legislation in the State of New York to license professional accountants who met prescribed educational and residential requirements, emphasizing a public interest focus in US accountancy and mirroring similar UK events. Unlike the UK situation, however, the US outcome was state-accredited professional accountancy in which, following prescribed examinations and training, a licence was granted by the state in which the individual accountant worked. Only licensed accountants could use the title certified public accountant. Following New York, this system was adopted in several other states. Each state founded a society of accountants to regulate and administer its certified public accountants separate from federal bodies such as the Association.

Early US accountants were concerned to demonstrate publicly their high professionalism in terms of education, training and ethics (Carey, 1969). Much of this concern was due to external criticism of accounting and auditing standards, and internal concern about the variety of entry standards of state societies. A need for overall control was perceived and, in 1902, the Federation of Societies of Public Accountants was formed. It merged with the Association in 1905, was retitled as the Institute of Certified Public Accountants in the United States of America in 1916, and further changed to the American Institute of Accountants in 1917. The Institute attempted to provide uniformity in professional standards to enhance the title certified public accountant, seek new areas of service for its members (particularly in the governmental sector), and work with regulators to standardize accounting and auditing practices at an acceptable quality level.

The above analysis describes briefly a system of professionalization in the USA different from that created in the UK. The US system was founded on accreditation by the state, and effectively provided for certified public accountants an economic monopoly in the name of the public interest. Such a monopoly could not be provided by the UK system of control of professional accountants by institutionalized bodies, even though the title chartered
accountant was protected by the courts. In addition, the US system created an explicit duality of potential responsibility by the accountant to the state and his professional body. What was similar in the UK and USA, however, was the phenomenon of economic self-interest driving the professionalization process in the name of a public interest. Also similar was the existence of nationalistic rivalry (Scots and English in the UK, and British and Americans in the USA), and the seeking of economic opportunity by influencing legislators and regulators. In the US, however, the pursuit of uniform accounting and auditing standards (e.g. the Federal Reserve Bulletin on Uniform Accounting in 1917) in conjunction with the state was different from the UK, where standardization was not a professional issue until the 1940s.

Historians such as Carey (1969), Previts and Merino (1979), and Miranti (1990) provide considerable detail about other aspects of the early history of the US accountancy profession. They evidence the early development of university and college-based accountancy education, a concern of practitioners with the need for and quality of financial accounting and auditing standards, the reciprocation between states regarding the professional designation of certified public accountant, and a move towards a uniform examination. Merino (1975) also observes the concern of early US professional accountants with a culture of professionalism including integrity, character, and personal responsibility and judgement. She demonstrates the early professional concern with ethics and individual accountability.

Image building

By the beginning of the twentieth century, the US accountancy profession had laid its institutional foundations and established a bridgehead in terms of relations with the state. The title of certified public accountant was protected and explicit standards of professional conduct were being discussed. However, despite a federal body of professional accountants and numerous state societies, not everything was under institutional control. The various bodies of accountants lacked the prestige and status associated with the UK chartered bodies. Each state regulated the practice of accountancy by means of legislation and state societies. US institutions were structured as trade associations, and major variations existed between states in the quality of accountants and accountancy services. In effect, the US profession entered the twentieth century with a need to initiate actions designed to create an image consistent with public perceptions of professionalized activities (Carey, 1969).

Of particular concern was the need to make explicit the virtues and benefits of professional accountancy. Thus, most state societies attempted to site accountancy education in reputable universities (Carey, 1969; Langenderfer, 1987; Previts and Merino, 1979). This had two effects reflecting a co-habiting of economic self-interest and public interest. The first effect deflected the economic burden of accountancy education away from professional firms and bodies. The second effect assisted in legitimizing the educational basis of professional accountancy. These developments were accompanied by a slow but persistent
interest by academics and practitioners in accounting research concerned with accounting theory and the development of a body of acceptable accounting principles (Langenderfer, 1987; Lee, 1993; Previts and Merino, 1979). This interest was the foundation for a critical debate on accounting principles in the 1930s onwards (Carey, 1969, 1970; Storey, 1977; Zeff, 1982a).

Internal US schism

Establishing the professionalism of US accountants proved to be a difficult task because of internal disputation (Carey, 1969; Miranti, 1990; Previts and Merino, 1979). Leaders of the American Institute of Accountants modelled it on the Scottish and English chartered accountancy bodies, with the apparent aim of making it appear to be a self-regulating federal body of American chartered accountants. A roadblock to this goal was the variable system of state-based licensing of certified public accountants. The Institute's leadership sought control of a self-regulating, independent profession of individual accountants rather than have a system in which government controlled the right to practice accountancy. However, the large majority of Institute members were state-licensed and had allegiances to their individual states. A schism was created in the Institute which lasted from 1916 to 1936.

The Institute initially set high entry standards of examination and experience which contrasted markedly with those of most of the licensing states. Its membership was open to all qualified accountants and not restricted to certified public accountants. State-licensed accountants objected to the entry conditions. The conflict appears to have been between accountants in large, east coast firms and those in small, provincial firms. In 1920, the leadership of the Institute removed all professional designations from its membership records (including that of certified public accountant).

Dissatisfaction reached a point at which a rival organization, the American Society of Certified Public Accountants, was founded in 1921. Its founder described accountancy not as a profession, but as a business of the very highest type, thus emphasizing the economic nature of the professionalization process. The Society's initial objective was protection of the title certified public accountant, and admission was based solely on the possession of this certification.

Eventually, a dialogue commenced to restore professional unity, with emphasis on admitting certified public accountants to the Institute, forming state chapters of the Institute and creating greater uniformity in examinations. The Institute and the Society merged in 1936 into the American Institute of (later, Certified) Public Accountants, with a membership of only certified public accountants and a uniform examination (adopted by all states in 1952).

What Carey describes as the “Great Schism” reflects the internal rivalry generated by a combination of economics, professional status, national differences and geographical allegiances. Such rivalry appeared in the UK earlier than in the USA. In both countries, however, the battle was an economic one to determine who was entitled to practice as an accountant. Of no lesser
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significance was the associated struggle to establish the right to regulate accountants. In the UK the professional bodies established and maintained that right. In the USA the main professional body has never attained such an autonomous position because of state licensing.

In other words, in contrast to the USA, the early UK professional accountants created an institutionalized environment separate from the state and were left to self-regulate. Unlike the US experience, the British tendency was not to use state-based higher education facilities to enhance professionalism. Only in Scotland was this a significant policy, with provision for compulsory university classes in law and the creation of part-time chairs of accountancy at Scottish universities (filled by leading practitioners) (Brown, 1905b). These developments were not followed in the larger English community, and it is unsurprising to find less interaction between practice and academe in the early history of the English bodies as compared to the Scottish and US situations.

Developing professionalism

The use of the journal (e.g. the Journal of Accountancy from 1905) was one means of publicly signalling the knowledge base of accountancy, and the intellectual leadership of the US profession (Carey, 1969; Previts and Merino, 1979). It was a strategy already in use in the UK with The Accountant (1874) and The Accountants' Magazine (1897) (Brown, 1905b; Garrett, 1961; Howitt, 1966). These journals identified accounting, auditing, tax, legal and business issues affecting professional accountants. They provided a means of publicizing and criticizing the accountancy body of knowledge, and the élite accountants developing and teaching it (Kitchen and Parker, 1980).

Other means of presenting the professionalism of accountants and their institutions took a physical form. For example, early efforts were made in the UK to found libraries as depositories of accountancy knowledge (Brown, 1905b; Garrett, 1961; Howitt, 1966). Similar developments occurred during a later period in the USA (Carey, 1969). In addition, consistent with more generalized evidence of impression management by nineteenth and twentieth century organizations (see Ewen, 1988; Featherstone, 1991; Harvey, 1989), the main UK accountancy bodies acquired or erected magnificent buildings on key city sites (Brown, 1905b; Garrett, 1961; Howitt, 1966; Macdonald, 1989). These events can be characterized as part of the UK accountancy profession's drive to respectability and social standing. The histories of Carey (1969) and Previts and Merino (1979) suggest this was not a priority of the early US accountancy professionals.

The early accountancy profession extended its menu of services when economic opportunities arose. Kedslie (1990) describes how early Scottish chartered accountants developed a range of services beyond those existing at the time of foundation, including accounting and auditing work for corporate entities and municipalities. Hein (1978) documents accountants' involvement in periodic parliamentary reviews of UK corporate legislation. Winsbury (1977)
The UK history of expanding professional accountancy services is characterized by a long-standing and complex mutual economic and social dependency which existed between accountants and lawyers, and a strained relationship between accountants and the state (Bromwich and Hopwood, 1992; Freedman and Power, 1992; Walker, 1988). The equivalent US situation has permitted more harmonious and productive relations between the state and the institutions of accountancy. However, the issues at stake in both the UK and the USA have been identical. There was a desire by professional accountants to secure the right to provide specific accountancy services, and a need to control the debate on which standards to apply to such work.

Napier and Noke (1992) provide a history of this process in the UK. The first part ranges from the late nineteenth century to the mid twentieth century, and suggests restrained involvement by accountants. In particular, they appear to have extended their political influence in corporate accounting and auditing gradually, without explicitly lobbying legislators, and without writing practice standards. This development seems to have been an extension of their established work in bankruptcies and liquidations. They did not have to lobby for new work, and operated in a relatively liberal and flexible environment without explicit standards. This conclusion is consistent with the findings of other historical researchers (Aranya, 1974; Edwards, 1976; Hein, 1978; Kitchen, 1982).

The second phase identified by Napier and Noke suggests a more proactive role by accountants from the 1940s onwards. It followed legal cases dealing with accounting and auditing failures and subsequent criticism, and reflects a growing awareness by UK accountants that their economic self-interest was not well served by ignoring their public interest responsibilities. As Nobes and Parker (1984) demonstrate, the major professional bodies began writing accounting and auditing standards – first as non-mandatory Recommendations on Accounting Principles, then as required Statements of Standard Accounting Practice. UK accountants had also influenced corporate legislation (e.g. by evidence to company law reform committees) and, in the Companies Act 1948, obtained a legal monopoly of corporate audit services.

Developing standards
The most recent history of UK professional accountancy standards is a cycle of criticism of perceived accounting and auditing failures, public expectations of accounting and auditing performance, extended prescriptions in standard-setting, reduced public concerns, followed by further sustained criticism as a result of new business failures (Lee, 1979; Mumford, 1979). The most significant change over time has been the increased writing of accounting and auditing standards by accountants (e.g. chronologically, by the Taxation and Research Committee of the English Institute, then the Accounting Standards Steering Committee and, most recently, the Accounting Standards Board). Thus, even...
though appropriate accounting and auditing practice is ultimately a matter to be decided by lawyers in the UK, the precise practices used by accountants and auditors have been historically determined within the accountancy profession.

The histories of researchers such as Carey (1969), Storey (1977), Previts and Merino (1979), Zeff (1982a), Boockholdt (1983), Davidson and Anderson (1987), and Miranti (1990) suggest a similar overall pattern in the USA, but with one specific difference. The US change from laissez-faire to prescription of standards took place earlier than in the UK as a result of the Great Depression. Following a period of relative flexibility in and persistent criticism of accountancy practice, leaders of the US profession realized it needed to control the debate over generally accepted accounting principles. The evolution from recommendation to mandate was from non-mandatory Accounting Research Bulletins and Accounting Principles Board Opinions of the American Institute of Certified Public Accountants to Statements of Financial Accounting Standards of the Financial Accounting Standards Board.

Also relatively clear is the move from part-time professional committees (e.g. the Committee on Accounting Procedure) to full-time, quasi-independent boards (e.g. the Financial Accounting Standards Board). In this respect, the state (represented by the Securities Exchange Commission from the early 1930s) usually left the accountancy profession to manage the standards process. This may have been a legacy of the early relationships built between the various institutions of US professional accountancy and legislators and regulators, in which accountants demonstrated their willingness and competence to institute quality standards. However, the US profession has not had complete control over standards, and regulators have occasionally criticized and intervened to assist in improving accounting and auditing practices (Miller and Redding, 1988). Indeed, relationships between the Securities Exchange Commission and the American Institute of Certified Public Accountants have been far from harmonious in more recent times (Olson, 1982).

What the histories of UK and US standard-setting suggest is a delicate process, managed by the professional accountancy bodies, of balancing economic self-interest against public interest. Professional accountants have persistently attempted to retain control over standards and standard-setting. They have done so by maintaining a dialogue with the agents of the state sufficient to give comfort to the latter that standards can be prescribed by accountants in the public interest. In recent times, such comfort has been given by separating the institutions of standard-setting from the professional bodies (e.g. the Accounting Standards Board in the UK and the Financial Accounting Standards Board in the USA). The issue at stake is an economic one. Loss of control over standards suggests loss of control over the body of knowledge, and loss of the body of knowledge brings into question the appropriateness of the professional monopoly of service.

Contemporary researchers have focused on how the institutions of professional accountancy have faced up to the issue of setting standards over recent decades. For example, Richardson (1988) reports that US audit
practitioners maximize their rewards by responding to politically sensitive issues, and standardizing their practices in these areas. This suggests professional accountants respond to issues only when they perceive an economic incentive to do so. Byington and Sutton (1991) provide evidence consistent with this observation. Identifying four events between 1938 and 1985 which threatened the autonomy of US professional accountants, they found significant increases in published accounting and auditing standards in the four years following each event.

In auditing, Humphrey et al. (1993) outline a history of accountants’ responses to the fraud detection expectation issue in which, while appearing to accept more responsibility, they have reduced their role. Sikka et al. (1992) conclude there was a late nineteenth century tendency by UK accountants and lawyers to diminish the importance of fraud detection in auditing for economic reasons, and a late twentieth century pressure by government to reverse that position as a result of increased economic crime in the corporate sector.

Fogarty et al. (1991) describe the above institutionalized responses as a complex strategy of doing “nothing”. It involves decoupling pronouncements of ideal accountings and audits from corrective actions by responding to concerns and maintaining the status quo so long as this is economically viable. Such a strategy is a familiar feature of the history of the accountancy profession. For example, in relation to the expectations gap debate over several decades, Humphrey et al. (1992) identify the UK accountancy profession’s ability to control and manage the debate in order to maintain the status quo regarding the role of the auditor. Controlling the debate reaffirmed accountants’ professionalism, but deflected attention from auditors towards the limitations of the proposed reforms.

Fogarty et al. (1991) confirm this strategy in a wider historical context of the US accountancy profession. They examined several responses to such pressure, including the lack of clarification of fraud detection duties; increased competition for audit services; diversification to non-attest services; demands for legal reform to reduce liability costs; cost containment measures to reduce audit time; expectations gap projects; and failures to develop better accounting and auditing practices, discipline deviant accountants, issue qualified audit opinions and improve quality control procedures. Fogarty et al. further argue that these responses to criticism make good economic sense so long as it is viable for professional accountants to absorb liability losses without changing the nature of the audit. The strategy of doing “nothing” also can be argued to have political as well as economic benefits for the accountancy profession. Power (1993a, 1993b) states that UK standard-setters have for some time adopted a political approach to issues which is cosmetic in substance and rich in form. In particular, he perceives the UK profession defining issues, setting up institutional structures to respond, and issuing standards or guidance to practitioners which maintain a zone of discretion for the practitioner.

Doing “nothing” has been revealed in other ways by historians. Fogarty et al. (1993) evidence the history of a US state accounting society’s failure to respond
to reported accounting errors by its members because there was no economic incentive to expose its members. Parker (1994) analyses published disciplinary cases in the Australian accountancy profession over three decades and, with evidence of few exclusions from membership, concludes that the economic self-interest of accountants dominates their duty to the public interest. Sikka et al. (1989) recount a documented situation in which a major UK professional accountancy body prevented individual external scrutiny of its standard-setting process, yet allowed access by a large professional accountancy firm.

Each of the above studies provides evidence of the behaviour of professional accountants when under pressure to respond to issues. They reveal the difficulty of being a professional with an explicit covenant to serve the public interest in situations where there are considerable economic incentives to adhere to self-interest. The interesting feature of this analysis is that the conflict is positioned at the institutional level. The professionalization of accountancy has provided institutional structures to permit accountants to maximize their self-interest in a publicly interested way. Davis and Strawser (1993) give a researched example of this situation. They observe the profession's historical involvement in the debate over accounting for inventory, and the eventual domination of individual client interests over the public interest. The broader studies by Briloff (1990) and Mitchell and Sikka (1993) of recent histories of accounting and auditing failures come to a similar conclusion. Client interests supersede the public interest, thus leading to concerns that the accountancy profession fails to make the powerful accountable, and itself remains unaccountable.

Body of knowledge
Evidence in the USA over several decades since the 1960s and, more recently in the UK, is the accountancy profession's desire to find an intellectual basis for its practices. Using Zeff's (1984) chronology, it is clear the US institutionalized search started with the 1938 study of Sanders, Hatfield and Moore, and the 1940 study of Paton and Littleton. Both studies rationalized conventional practice. The 1961 and 1962 studies of Moonitz and Sprouse, however, challenged the status quo, evoked considerable opposition and were quickly shelved (Zeff, 1982b). The issue was not revisited until a 1970 study on concepts and principles and the 1973 Trueblood Report. The former pronounced on conventional practice. The latter provided a conceptual framework for accounting change. It was later developed by the Financial Accounting Standards Board into a series of conceptual statements.

A similar and later sequence of events occurred in the UK (Archer, 1992; Peasnell, 1982). A conceptual framework study was published in 1975, shelved for more than 15 years, and reappeared in the 1991 conceptual proposals of the Accounting Standards Board. Despite this continuous effort in the UK and USA to expose a theoretical body of knowledge, there is a consistent view from researchers that it has not changed the nature of accounting practice (Archer, 1992; Hines, 1989; Peasnell, 1982). The historian is left with the distinct
impression that, if practice has not changed, the conceptual framework project's purpose is something other than for improving practice. Perhaps, as suggested by Hines (1989), its presence is no more than an historical ploy to demonstrate the existence of a body of knowledge sufficient to maintain accountants’ professional status and economic monopoly.

Further developments

Langenderfer (1987) discusses the historical attempts of US accountants to legitimize accountancy education. This process initially concerned the institution of university degree-based studies in the early 1900s (Carey, 1969; Previts and Merino, 1979), and contrasts with the traditional UK method of part-time non-university study within an apprenticeship system. Only recently has the US system been introduced to the UK. In both countries, however, university courses are now subject to accreditation procedures by peer review. In addition, expected qualifications for academic and student accountants have become more rigorous. The nature of the academic accountancy community has changed also, from practice-based teaching by part-time practitioner/educators to a profession of full-time teachers and researchers. These changes have enhanced the professional status of accountancy. But they have also created schisms in the accountancy community concerning the relevance of both teaching and research, and raised questions regarding the status of accountancy as a profession (Bricker and Previts, 1990; Lee, 1989; Lee, 1995; Strait and Bull, 1992; Zeff, 1989). Not only is the public interest potentially at risk with a divided accountancy profession, but so too is the latter’s economic wellbeing when the credibility of its body of knowledge and educators are doubted.

Change has also been a feature of the institutional and organizational framework of the accountancy profession. Renshall (1984) provides a UK analysis, while Wootton and Wolk (1992) give a US perspective (see also Carey, 1969, 1970; Olson, 1982; Previts and Merino, 1979). These analyses demonstrate considerable change in the profession’s structure. Over many decades, there has been a significant increase in the number of professional accountants and students, coupled with a continuous consolidation of practice firms and institutional bodies (e.g. Winsbury, 1977). Accountancy has become a multinational activity and an important part of private enterprise economics in the UK and USA. The range of professional services has extended beyond the traditional areas of accounting, auditing and taxation. The profession’s relationship with government has been continuous and increasingly significant.

But growth and change have brought attendant problems. In combination, they raise the question of whether contemporary accountants are professionals or business executives (Dyckman, 1974; Zeff, 1987). Dyckman’s concerns include the self-interest of professional accountants dominating their public interest commitment, lack of effective response to criticisms of practice by professional bodies, inability to find an acceptable theoretical foundation to accountancy practices, and failure to punish accountants who have breached
ethical standards. Zeff's comments are similar, concentrating on the issues of accountants responding to competitive pressures by treating management rather than ownership as the client, offering a wide range of non-accounting business services, and lacking intellectual leadership on accounting and auditing problems. More recently, the Chief Accountant of the Securities Exchange Commission has accused professional accountancy firms of being cheer-leaders for their clients' managements (Schuetze, 1994). According to its critics, therefore, what has happened to the accountancy profession is a loss of its sense of public mission, making it indistinguishable from any other form of profit-based business. Indeed, approximately one hundred years after its foundation, the American Institute of Certified Public Accountants was prompted in the 1980s to amend its statement of mission to make explicit its commitment to the public interest. But, as the previous analysis makes clear, the public mission of accountants has always been a smokescreen for economic matters.

Savings and loan bank failures in the USA have been linked with perceived failures in accounting and auditing services (Briloff, 1990). A similar phenomenon exists in the UK with respect to corporate disasters such as British Bank of Credit and Commerce International, and Maxwell Communications (Mitchell et al., 1991). Law suits, public scrutiny and press comment, as well as large court awards or out-of-court settlements, have become familiar features of accountancy life. The economic size of the problem is seen in a statement from the largest US audit firms describing their large economic influence on US industry, and the significant economic consequences of a perceived unfair litigation system (Cook et al., 1992). Although it is argued that this problem is facing all professions, its impact on accountancy is stated to have created a crisis of economic survival for the profession.

Such a crisis has been exacerbated in very recent times in the USA as a result of a number of institutional responses to the self-interest versus public duty dilemma. First, in response to the charge of the audit client being perceived as management rather than ownership, the American Institute of Certified Public Accountants' Public Oversight Board (AICPA, 1994) effectively denies it. In doing so, however, the Board suggests various ways of enhancing the professionalism of auditors, including a need for the auditor to view the board of directors as the client. Indeed, much of the Board's report appears to be a vindication of the professional accountant's duty to act in the public interest. But there are also signs within it of the persistent conflict with economic self-interest. In particular, the Board argues that decreasing auditor exposure to unwarranted litigation should be a leadership issue taken on by the Securities Exchange Commission to protect the investing public.

Meantime, professional accountancy firms and institutions in the USA have been hard at work to provide for economic protection. In 1994, it was reported that practising as a limited liability partnership is possible in about half the states in the USA, and that about 5 per cent of the largest firms were doing so by the end of 1993 (Bowman, 1994). Provision for audit firms to incorporate
with limited liability is possible in the European Union, and is being considered by certain of the largest firms in the UK as a means of minimizing litigation effects (Fleck and Foster, 1992). Additionally, in 1994, the American Institute of Certified Public Accountants overwhelmingly voted to permit non-accountancy ownership interests in accountancy firms, paving the way for state legislation to create diversified business practices in the USA (Public Accounting Report, 1994). The 1980s strategy of doing “nothing” is arguably being replaced by a 1990s strategy of doing “something”. As with “nothing”, the “something” appears to be motivated by economic rather than societal considerations.

Retrospect and prospect
The history of professional accountancy is relatively recent in the context of the existence of accountants and auditors. It is an economic text with a public interest cover. Originally written in the mid nineteenth century, it has been reworded on numerous occasions without changing the underlying emphasis. The fundamental influence driving professionalization throughout its entire history has been economics. Professional accountants came together to provide an institutional structure to protect a threatened economic monopoly. The process has repeated over several decades, with the institutional structure elaborated to maintain and expand service monopolies. Professional rivals were defeated or eventually absorbed by merger, and successful and unsuccessful attempts were made to obtain a state monopoly by registration. A strategy of using explicit signals of professionalism was practised, and the range of services increased. The size of the profession grew, accompanied by a concentration of practice units and institutional organizations.

The accountancy profession developed over relatively few decades into a powerful sector of the modern economy. But this progression has not been free of major problems. The most significant issue is the persistent public criticism of accountants and their services. Of concern is the association of accountancy with business failure, and the apparent inability of accountants to assist in the accountability process to protect the public interest.

Criticism originated before professionalization as a public concern about the ability of public accountants to discharge legally-based responsibilities effectively, and evolved over many decades into a concern about the flexibility of accounting practices and the inadequacy of audit procedures. Today, criticism involves doubts about the ability of accountants to resist managerial pressures to misreport. These criticisms have been externalized through the financial press, forcing the institutions of accountancy to respond more publicly. They have done so with two effects. The first is a gradual exposure of the accountancy body of knowledge through conceptual statements, standards and guidance recommendations. Explicit signals of the knowledge underlying practice have removed some of the mystique of accountancy, and made it easier for non-accountants to criticize practice. The second effect has been the institutional adoption of a strategy of doing “nothing”, in which issues are responded to without altering the status quo of accountancy practice.
The combination of these effects ensures the accountancy profession continues to face the fundamental issue of whether accountants wish to be professionals or members of trade associations. The explicit covenant to protect the public interest has to be taken seriously, perhaps for the first time in the history of the accountancy profession. It can no longer be taken as a legitimizing ticket to provide a range of services without public accountability but with significant economic and social rewards. Instead, accountancy has to be regarded as a vocation, in which service for a designated client also involves duties to a wider public, and where failure to satisfy these duties results in public accountability and punishment. These are issues which require public debate at a time when the global economy and technological change are providing professional accountants with unparalleled economic opportunities. In taking advantage of the latter, the need to protect the public interest must not be forgotten or neglected.

References


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