UNDERSTANDING THE RESPONSES OF PROFESSIONAL ACCOUNTING BODIES TO CRISES: THE CASE OF THE AUSTRALIAN PROFESSION IN THE 1960s

Introduction

Professional projects constitute a quest for legitimacy. In developing a comprehensive understanding of professional projects, it is important to focus attention on how professions respond to crises because of the adverse ramifications of crises for the legitimacy of professional occupations. This Australian study examines how the accounting profession responded to a crisis which arose in the post-World War 2 period. 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 credit 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. The two accounting bodies were ultimately required to face this unprecedented challenge to the profession’s legitimacy together on behalf of the firms and individuals comprising the profession. Where the accounting profession in any country is implicated in instances of corporate failures, especially “surprise” company collapses, the legitimacy of the profession is called into question.

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). Among the companies which failed during this period were Reid Murray, Stanhill Development Finance, Cox Brothers, Latec, Sydney Guarantee Corporation and

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1 Birkett & Walker, 1971, p. 136) first stated that “the profession was ‘stirred’ by the company failures of the 1960s”.

2 As this study is concerned with the legitimacy of the accounting profession as a whole and not with the reputations of specific firms within the profession, it does not apply a reputation risk management perspective as proposed by Bebbington, Larriniga and Moneva (2008a) (also see Unerman, 2008; Adams, 2008) in the context of corporate social responsibility reporting and as suggested for consideration by an early commentator on this paper. In addition, the study is not concerned with the reputations of specific individuals in the profession.
H. G. Palmer (Consolidated) (for case study examinations refer to Sykes 1998, chaps. 14-16 and Clarke, Dean and Oliver, 2003, chaps. 3-5). Losses experienced by investors in the 1960s “were substantial in context” (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 & 15). Indeed, conventional accounting practices came under strong and relentless criticism (see, for example, Birkett & Walker, 1971; Chambers, 1973; Clarke et al., 2003, pp. 49-50). According to Birkett and Walker (1971, p. 136), the company failures of the 1960s “produced a confrontation between the public and the accounting profession” (see, for example, Irish, 1963; Trigg, 1966). Notwithstanding, 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 & Rankin, 1996; Deegan, 2002; Carnegie & Napier, 2009). Rather, the study posits the view that the profession’s legitimacy on the whole had been unfavourably impacted these events, thereby necessitating its replenishment.

The profession’s response to the crisis was initially tentative at best. Slowly, 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 key development was the “first joint venture between the Society and Institute” (Birkett & Walker, 1971, p. 117).

The aim of this historical case study is to 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 applying 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. The study seeks to answer three key research questions. First, how did the major Australian professional accounting bodies respond to the crisis and what processes did they employ in addressing the crisis? Second, what forms of legitimacy, 3

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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 (ASA, 1966, pp. 8-22).
as identified by Suchman (1995), were addressed by the accounting profession in taking actions aimed at repairing 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 & 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 repairing the legitimacy of the profession. 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. 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 comprehensively analyse the responses that were made 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. Fifth, the study may serve as a model for similar 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 of the institutional efforts to forge accounting principles in Australia to the early 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 actions taken. A comprehensive discussion of the actions taken using the theoretical perspectives adopted follows. Summarising comments are provided in the concluding section.
Theoretical foundations

Accounting’s professional project

This Australian study concerns the professional project of accounting, which has been described by Carnegie and Napier (2009, p. 5) 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, therefore, draws upon 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, 2006b), 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, it is contended that the rivalry between the Institute and the Society in Australia during the 1960s had more to do with the social status of members than with economic monopolies.

According to Abbott, in his influential book The System of Professions (1988), jurisdictional disputes between competing occupational groups are “the real, the determining history of the professions” (Abbott, 1988, p. 2). Along similar lines, Larson (1977) emphasized the importance of unity within 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” (Larson, 1977, p. 67, emphasis in original). Accounting’s professional project, however, “provides a counter to these perspectives” (Carnegie, Edwards & West, 2003, p. 792). Intra-professional rivalries, therefore, are a feature of the history of the accounting profession (Macdonald, 1985; Willmott, 1986; Richardson, 1987, 1989; Annisette, 2000, Carnegie & Edwards, 2001; Carnegie et al., 2003; Noke, 2007; Noguchi & 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). Other studies have shown that professional accounting bodies, in responding to crises, strive to continue to control the
professional project of translating monopolies into economic rewards while still appearing to protect the public interest (Fogerty, Heian & Knutson, 1991; Hooks, 1991; Humphrey, Moizer & Turley, 1992), consistent with Lee’s depiction of a profession as concerned with “protecting the public interest in a self-interested way” (1995, p. 49). Such authors tend to view the formal communication of official responses to accounting crises as generally of more importance than the facilitation of any meaningful change as a result of the adoption of the measures announced.

The evidence to be presented of responses to a crisis of confidence in the Australian accounting profession 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 & Ritzer, 1988, pp. 257-258; Carnegie et al., 2003, pp. 795-796) and by the studies that place an emphasis on process rather than on outcomes (see Carnegie & Edwards, 2001, p. 303; Chua & Poullaos, 1998, p. 157). Concerning the former, an understanding of organizational dynamics within a professional occupation serves to illuminate the nature of intra-professional rivalry. In respect to the latter, accounting’s professional project remains a dynamic, on-going process and the maintenance of professional trajectory should not be taken-for-granted as an unchangeable outcome. The quest for legitimacy is on-going and effectively remains a “work-in-progress”.

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 & 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-a-vis those who are employed in industry, government and in other sectors (Macdonald & Ritzer, 1988; Chua & Poullaos, 1993; Poullaos, 1994; Linn, 1996; Caramanis, 1999, 2002, 2005; Carnegie & 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 has been shown “to have exerted a profound and lasting influence on the institutional structure of the Australian accounting profession” (Carnegie et al., 2003, p. 792).
Carnegie and Edwards (2001, p. 301) have portrayed professionalization as a dynamic process involving a diversity of “signals of movement” towards occupational ascendancy that arise in the periods before and after the formation of occupational associations (also see Lee, 2006a). Signals of movement that arise in the period before the formation of a professional body include “the creation of a specialist knowledge base, the emergence of an identifiable occupational group, the holding of oneself out to the public as an expert provider of specialist services, [and] the arrangement of listing in commercial and trade directories …” (Carnegie & Edwards, 2001, p. 303). After the formation of a professional body, other signals of movement include “the development of the role of the professional body, implementation of examination regimes for admission and membership upgrade purposes, acquisition of a Royal Charter, [and] recognition in legislation as the appropriate provider of expert services…” (Carnegie & Edwards, 2001, p. 304).

This broadly constituted professionalization process comprises incremental developments, manifesting as signals of movement, which emerge during the ongoing struggle to maintain professional trajectory and monopolize social and economic opportunities (Weber, 1968; Larson, 1977; Willmott, 1986; Murphy, 1988; Carnegie & Edwards, 2001; Carnegie et al., 2003).

Following Carnegie and Napier (2009), it is argued that this dynamic, on-going process may also involve the emergence of “negative signals of movement”. Negative signals of movement, “if particularly strong and sufficiently high profile, may hinder or even divert the professionalisation trajectory of accountants” either within a single country or region or even internationally, such as in the case of post-Enron perceptions of accountants and accounting (Carnegie & Napier, 2009, pp. 5-6). The notion of negative signals of movement is related to events which impact adversely on the accounting profession and which may threaten accounting’s ongoing professionalization project. Signals of this genre, where they arise, are likely to emerge during or following crises.

Where particularly strong and sufficiently high profile, negative signals of movement have adverse ramifications for the legitimacy of professional occupations as occurred in respect to the Australian accounting profession in the early 1960s. Therefore, the profession’s responses aimed at repairing legitimacy are analysed using the legitimacy-management framework of Suchman (1995). Suchman’s (1995) legitimacy typology is now outlined.

Legitimacy-management framework of Suchman (1995)
Suchman (1995) provided a framework for those who aim to gain, maintain or repair organizational legitimacy in which he identified three primary forms of legitimacy: pragmatic, moral and 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, as is the context of this study, and require to be modified. Second, it 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, Davey & Low, 2006) and in the accounting institutional context of accounting standard setting (Durocher, Forte & Cote, 2007), as well as in the non-accounting literature (see, for example, Rindova & Fombrun, 1999; Elsbach & Elofson, 2000; Guler, Guillén & Macpherson, 2002). Finally, it considers both the strategic view of legitimacy (Dowling & Pfeffer, 1975) and the institutional view (Oliver, 1991), with both views of relevance in the context of this study. 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. 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.

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”. While organizations or professions typically aim to gain and maintain legitimacy, they may, however, occasionally transgress from societal expectations due to a resilience developed by means of a record of prior achievements. As stated by Suchman (1995, p. 597) “the task of repairing legitimacy resembles the task of gaining legitimacy”. However, strategies aimed at repairing legitimacy “represent a reactive response to an unforeseen crisis of meaning” (p. 597, emphasis in original). Situations which may invoke the need to engage in repairing strategies often come about where organizations have become entangled in their own legitimizing myths and may have failed to detect a decline in cultural support until some significant event occurs. Such significant events in this study are portrayed as negative signals of movement.

Legitimacy Forms

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: exchange, influence and dispositional. Exchange legitimacy entails support by stakeholders 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 stakeholders 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” (1995, p.579). Suchman (1995) argued that moral legitimacy takes one or more of the following four forms: 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 (1995, p.581). He 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” (1995, p.581). The final form of moral legitimacy identified, personal legitimacy, is based on legitimacy achieved through the charisma of individual(s) who lead the organization.

Cognitive legitimacy reflects a very high order of legitimacy where an organization is accepted by stakeholders 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 & 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 are seen to be almost out of the question.

*Application of Suchman’s legitimacy typology by Durocher et al. 2007*

The study by Durocher et al. (2007) is of direct relevance to the present study as the researchers 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. Two key facets the Durocher et al. (2007) study in context of the present study are noted. First, the authors tested Suchman’s (1995) legitimacy typology through the perceptions of participants gathered through interviews and hence their findings are potentially subject to their personal biases and preconceptions of subjects. In contrast, this historical study draws upon the archives of professional accounting bodies and other sources, including commentary from the financial press. Second, Durocher et al. (2007) did not apply Suchman’s (1995) framework in analysing actions taken for the purpose of repairing legitimacy as is the main focus of this study.

Durocher et al. (2007, p. 56) called for further cased-based research. The present study seeks, in part, to answer this call. The study also partly responds to Deegan (2002) who indicated that studies employing a legitimacy theory framework were under-developed, thus making predictions difficult. Attention is now turned to examining the divergent organizational strategies of the Institute and the Society and the institutional efforts that were made in forging accounting principles in Australia between the mid 1940s and the early 1960s during which time these strategies moulded such developments.

**Organizational strategies and efforts to establish accounting principles to the early 1960s**

An understanding of the dynamics of the Australian accounting profession in the early 1960s is necessarily premised on an appreciation of the formation of the Incorporated Institute of Accountants, Victoria (IIAV) in 1886 and the formation of the Australasian Corporation of Public Accountants (ACPA) in Sydney in 1907 (Carnegie et al., 2003; Edwards, Carnegie & Cauberg,
The IIAV was the earliest antecedent body of the Society. The ACPA was formed as a national association for accountants in public practice and its initial membership included prominent members, 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 upon “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, chpts. 3 & 4; Poullaos, 1994, ch. 6). Founded in 1952, the Society emerged as a result of 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 1960s continued to reflect “the dilemma of exclusiveness versus market control” (Macdonald and Ritzer, 1988, p. 257; Carnegie et al., 2003, p. 795). The Institute with its Royal Charter and emphasis on public practice adopted an exclusivist strategy while the 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 & Parker, 1999, pp. 78 & 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.

Following the early 1960s crisis and the establishment of the Foundation, four unsuccessful proposals to merge the Institute and the Society, made in 1969, 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). The results of these polls show that member perceptions of the organizational strategies of the Institute and the Society were not the same, as was the case in the early 1960s, 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 bodies5.

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4 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).

5 Notwithstanding, in recent years both bodies have embarked on membership growth strategies built around initiatives such as developing alternative pathways to membership.
Organizational strategies also 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). 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 essentially 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 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 (1973, pp. 4-5).

On the other hand, the English Recommendations had been issued largely due to the persistence of members in commerce and industry (Zeff, 1973; Noguchi & Edwards, 2008). In Australia, the Institute largely represented “the practising arm of the profession” (Graham, 1978, p. 32) and only a small proportion of the body’s membership was from commerce and industry. The large majority of the Society’s members, however, came from “commerce, industry, government, and education” (Zeff, 1973, p. 1).

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

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6 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).

7 These members were not influential in the Institute’s affairs (Zeff, 1973, p. 5).
association. The Commonwealth Institute formed a Committee on Accounting Principles in 1938 and, following World War 2, 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 agreed to co-operate with the other bodies in joint research, it “was particularly keen to preserve the right to issue its own statements on accounting practice” (Zeff, 1973, p. 32). In 1956, the Society began to issue “Statements on Accounting” and “Technical Bulletins” on a variety of topics (Birkett & Walker, 1971, p. 102).

This outline of attempts at forging accounting principles in Australia until around the mid 1960s 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 to, therefore, exhibit its elitist orientation. The resultant efforts to promulgate accounting principles in Australia 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 & Walker, 1971, p. 101) and did not speak on key issues, including key technical issues, with one authoritative voice.

In February 1964 the Institute released three new Recommendations (ICAA, 1963-1964; 1964b). The approval to issue these Recommendations was granted in late 1963 and early 1964. 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 & Walker, 1971, p. 111). The new Recommendations, however, did not serve to curb the mounting criticism that the profession was facing. Elucidation of the hostile external environment is hereunder provided.

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8 The first two new Recommendations replaced four of the seven Recommendations that were issued during 1946-48.
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). By early 1963, the profession’s public image had “suffered from recent spectacular company failures” (Briggs & Parker, 1964, p. 833). According to an earlier commentator, “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, 22 January 1963). It was also reported that stock exchange officials had asserted that “poor accounting … brought about these situations” (Australian Financial Review, 22 January 1963; also see Birkett & Walker, 1971, p. 108).⁹

Briggs and Parker (1964) summarized some of the criticisms of the accounting profession that had been previously identified in the August 1963 issue (pp. 90-96) of the Institute’s journal, The Chartered Accountant in Australia, as follows:

One writer in the financial press has spoken of “significant shortcomings on the part of Chartered Accountants during recent years”, another has suggested that the outlook of auditors is “not attuned to the realities of present-day commerce and industry”; a third has stated that he was not prepared to accept “that balance sheets and accounts carrying unqualified audit reports were ‘true and fair’ and, therefore, adequate and useful and sensible”; and a fourth has claimed that “auditors are, beyond doubt, blameworthy and they above all others are to be blamed for the losses which so many investors have suffered during the last few years” (1964, p. 833).

In view of such mounting criticism, accountants were imploring the Society and the Institute “to restore faith in the profession” (Burrows, 1996, p. 15) as they appreciated “that their claim to professional status was in question” (Birkett & 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”. In May 1964, Sir Alec 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).

The new Recommendations issued by the Institute in late 1963 and early 1964 had been under consideration for some time “having been delayed until the passing of the Uniform Acts” (Gibson,

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⁹ Another commentator seemed to imagine a conspiracy of a kind on stating “there must have been collusion between directors, accountants and auditors to what amounts to fraud” (Australian Financial Review, 29 January 1963).
1971, p. 174 and chap. 33). An editorial in the February 1964 issue of the Institute’s journal welcomed the Recommendations in “making a rare reference to company failures” (Birkett & 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” (ICAA, 1964c). While the Institute may have been “self-satisfied” with this disclosure of the alleged culprits of company failures, the following months witnessed more failures and the publication of further reports by inspectors of failed companies which were characterized by startling and unexpected profit-reversals. Many of these reports criticized accountants and accounting practices and the wide publicity afforded them was “to goad some sections of the profession into action” (Birkett & Walker, 1971, p. 112).

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 & Walker, 1971, p. 108; also see The Bulletin, 27 July 1963). Apart from the initial polite attempt by the Institute to deflect blame onto “incompetent and unscrupulous management” (ICAA, 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 the trouncing of “auditors’ at the hands of shareholders at some recent meetings” (27 November 1965, p. 17). 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” (p. 17). A professional accountant who responded to this story in a “letter to the editor” wrote the following: “… 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).

Strong criticisms of the accounting profession were also aired in public forums from within accounting academe. In particular, Professor Raymond J. Chambers of the University of Sydney was particularly critical of conventional accounting thought and practice during this period10. Chambers was a regular commentator on what were described as “grave weaknesses in methods of financial reporting by companies in Australia” (Editorial, Australian Financial Review, 2 July 1963, p. 1), knowledge of which had emerged following the corporate collapses. Indeed, this

10 Chambers continued to criticise conventional accounting during the remainder of his long and distinguished career.
editorial introduced four articles comprising 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 reported as having “deplored the inadequate information [disclosed] by companies to their shareholders and the investing public” (Australian Financial Review, 19 March 1963, p. 13) and also in letters to the editor.

At this time, the idea of establishing an Australian securities and exchange regulatory body similar to the Securities and Exchange Commission (SEC) in the United States was raised. The chairman of the Sydney Stock Exchange, Mr A. H. Urquhart, indicated 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, 23 May 1963, p. 15). Urquhart was also quoted as stating “I hasten to add that we would view with grave concern anything less than an Australia-wide scheme for regulation of companies and the securities industry …” (p. 15). The editorial of the Australian Financial Review on this date claimed “this is a very enlightened and encouraging attitude for the chairman of the Sydney Stock Exchange to take” (p. 2). The public airing of this idea and the support of 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.

**Responses of the professional accounting bodies**

The specific focus of this section is to examine the particular responses of the Institute and the Society to the crisis and the processes that were employed in dealing with it. In seeking to answer the study’s first research question in this section, attention is initially placed on the historic joint conferences of the Sydney-based Institute and the Melbourne-based Society dating from mid 1964. Canberra as the national capital provided “neutral” ground for these deliberations.

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Joint conferences of professional accounting bodies

In response to calls to repair the profession’s then existing 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” (The Australian Accountant, February 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 coming together of senior officials of both bodies to jointly address a range of issues of mutual interest and common concern was, therefore, a watershed.

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. 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). The Society concurred and a written invitation to meet was subsequently issued by the Institute on 10 June and accepted by the Society. Five national office bearers from each body, including their Presidents, Vice-Presidents, Past Presidents and General Registrars, congregated at Hotel Canberra in the national capital to attend the first conference. As a member of august chartered accounting bodies, the Institute’s initiative in proposing to meet with the Society may have indulged or even flattered the Society, which would not have been under any misunderstanding about its position in the “perceived pecking order” (Carnegie & 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 which took place. Hereafter, these independently prepared conference notes are respectively known as the “Institute Minutes” (ICAA, 1964b) and the “Society Minutes” (ASA, 1964). Composite notes of the second conference, described hereafter as the “Composite Minutes” (ASA & ICAA, 1964), were prepared by the two General Registrars, thus elucidating the newly-established intention of the two bodies to facilitate co-operation in matters of common interest and to engender trust\(^\text{12}\).

\(^\text{12}\) At the time of writing, the notes 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
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 (ICAA, 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 Council’s of the two bodies for consideration (ASA, 1964, 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” (ICAA, 1964b, p. 1) and “discussion” (ASA, 1964, 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” (ICAA, 1964b, p. 1)\(^\text{13}\). 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” (ASA, 1964, p. 3). The Institute was informed that the committee had yet to meet but would hold the 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 committee meeting. This Society initiative was only announced to members in June 1964, thus confirming the recent origin of the response at the time (The Australian Accountant, June 1964, p. 288).

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\(^{13}\) Other issues addressed included recruitment into the profession, accounting education and libraries.
In addition, the Institute informed the Society of its “intention of setting up a committee of four persons (probably two from N.S.W. and two from Victoria) to act as ‘spokesman’ for the Institute in countering press criticism” (ICAA, 1964b, p. 2). Consistent with the tentative approach of the Society, the Institute advised the Society that the “nominees to this committee had not yet been contacted” (ICAA, 1964b, p. 2) and, as a result, “the Institute was not yet in a position at 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” (ICAA, 1964b, p. 2). 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” (ASA, 1964, p. 3; also see ICAA, 1964a, p. 11). The ensuing discussion, as indicated in the notes, led to the recording of the view that “the profession was more likely to succeed on the basis of what the profession was doing in the field of education and research than on the basis of what the profession thought of itself” (ASA, 1964, p. 3).

During the discussion on accounting research, consideration was given to the establishment of a joint and relatively independent research foundation which, according to Graham (1978, p. 61), “was first raised” in Canberra by representatives of the Society. 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” (ASA, 1964, p. 4). While acknowledging this position, the following concern was reflected “… 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” (ASA, 1964, p. 4).

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. 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” (ICAA, 1964b, p. 3; also see ASA, 1964, 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” (ICAA, 1964b, p. 3)\textsuperscript{14}. The notes also indicated that the proposed joint research foundation, once formed, would be “open to the receipt of funds from industry and commerce” (ICAA, 1964b, p. 3).

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Turning to the Institute’s Recommendations, Mr Kelynack outlined the Institute’s progress on “a number of projects still on hand” (ASA, 1964, p. 4). The Institute’s representatives were advised that the Society was “already working on problems in some of these areas” (ASA, 1964, p. 4). It was considered “desirable to avoid an overlapping of effort and the possibility of conflicting pronouncements” (ASA, 1964, p. 4). Therefore, the two bodies “agreed that, notwithstanding the possibility of establishing a joint research foundation, the projects of the Institute, which were under way, should be completed” (ASA, 1964, p. 4).

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” (ASA & ICAA, 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 (ASA & ICAA, 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 on its findings. Following further discussion it was agreed that the Society’s General Council should be asked whether the Institute’s General Council could be consulted in future on the possibility of joint action on the promulgation of any part of the Society Committee’s report.

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 these particulars 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” (ASA & ICAA, 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” (ASA & ICAA, 1964, p. 2).

In accordance with a key decision taken at the first conference, a joint report on the formation of an “accountancy profession research foundation” was received and considered at the second
conference. The report, dated 30 September 1964, was prepared by Messrs J. K Little and C. W. Andersen of the Institute and Society respectively. It was agreed “that the report be submitted to the General Councils of the two bodies with the recommendation of this conference that it be adopted for implementation and with the further unanimous recommendation that it be adopted without delay” (ASA & ICAA, 1964, p. 3). The authors 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 short step from this to some form of Securities and Exchange Commission (Little & Andersen, 1964, p. 1).

The report 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 & Andersen, 1964, p. 1) while “the two bodies would participate in this proposal on a 50/50 basis in regard to costs” (ASA & ICAA, 1964, p. 3). The report indicated that the research foundation would be “primarily financed jointly” by the two bodies (1964, p. 1). It was recognized that more was to be achieved through 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” (1964, p. 1). Little and Andersen added that “the existing organisation of the profession and the multiplicity of authoritative voices result in confusion in the public mind” (1964, p. 1). Hence, it was acknowledged that joint and decisive action was necessary on key technical issues.

Key outcomes

The most tangible outcomes stemming from these deliberations are readily apparent in the publication of the Society’s Committee on company failure and the joint sponsorship of an accountancy profession research foundation. Both of these key outcomes are detailed 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 overall response to the profession’s crisis in public confidence, it has not

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15 Professional accountants were informed of the conduct of the joint conferences (see, for example, The Australian Accountant, July 1964) 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, The Australian Accountant, February 1965, p. 61).
been possible to identify and access the specific outcomes of any significance 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” (ICAA, 1964a, p. 11). Rather, evidence of any key outcomes has not been identified based on available surviving records. Notwithstanding, the Institute 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 (ASA, 1966). The 47 page publication issued by the General Council is entitled *Accounting Principles and Practices Discussed in Reports on Company Failures*. The report was published “as a result of an examination of the findings of inspectors on certain company failures” (p. 1). The report’s “Introduction” referred to the announcement made in the June 1964 issue of the Society’s journal, *The Australian Accountant*, of General Council’s concerns over the contents of the reports of inspectors appointed by various State governments which had “reflected on the validity of published financial statements” (1966, p. 4). The introduction also stated that the report “discusses many matters of importance to the profession, suggests various courses of action which might be taken by the Society and mentions ways in which the position of the accountant, whether in public practice or engaged in commerce and industry, might be strengthened” (1966, p. 4). The report acknowledged the importance of these matters to the accounting profession as a whole 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” (ASA, 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

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17 The specific inspectors’ reports that were examined by the committee are listed in the Appendix to the publication (ASA 1966, pp. 46–47).
profession has received in recent years as a result of company failures” (ASA, 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 (1966, p. 42)

The report endeavoured to draw a distinction between problems of accounting measurement and problems of financial and management policy (1966, pp. 5-8 & 45-46; also see Clarke et al., 2003, p. 50 and Clarke & Dean, 2007, p. 124). The latter problems, “which concern parties who are not members of the profession” (1966, p. 5), were argued to be the reason for “much of the criticism levelled at the companies under investigation” (1966, p. 22) and were considered to fall “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” (1966, p. 7). According to Clarke et al. (2003, p. 50), reference to the “apparent deficiencies of management” (1966, p. 7) or rather “bad management”, has become a perennial defence invoked by the Australian accounting profession during crises. Notwithstanding, the report recognized the “numerous instances … where accepted accounting principles were not followed” (1966, p. 24) by the companies under investigation (Burrows, 1996, p. 15; Clarke & Dean, 2007, p. 124). Given these deficiencies, the report referred to the publicity devoted to accounting principles following the failures as indicating “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” (1966, p. 24)18.

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 (ASA, 1966, p. 29).

Notwithstanding this threat, the General Council expressed its 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” (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

18 Further explanation by the profession was considered to be a vital component of its educative role (1966, p. 31).
importance to the profession” (1966, p. 31). As explained further below, 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.

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 & Braddock, 1965). 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 (ASA, 1986).

In their announcement, Boehme and Braddock 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” (Boehme & Braddock, 1965, p. 318). 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 & Braddock, 1965, p. 318; also see Zeff, 1973, p. 47). Four trustees were appointed to the Foundation, comprising the two national presidents who made the joint announcement, as well as C. H. Joscelyne and K. C. Davies, representing the Institute and the Society respectively (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. 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 & Braddock, 1965, p. 318). The Society appointed two professors of accounting (L. Goldberg and R. Mathews) to the Accounting and Auditing Research Committee while the Institute did not appoint any accounting professors among its prominent representatives. Chambers’ strong public criticism of the state of accounting practice may have deterred his appointment to this Committee even though at the time he was a prominent accounting professor at Australia’s oldest university.
The joint advertisement which sought applications 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 Accounting and Auditing Research Committee, which appeared in the June 1967 issue of *The Australian Accountant* (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” (ASA, 1966, p. 29) and to avert the threat of the government assuming the responsibility for developing and issuing accounting and auditing pronouncements.

Across a period of four decades, 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 in 2006, respectively (Deegan, 2010, pp. 13 & 21). Disbanded in July 2006, the Foundation had emerged approximately 40 years earlier as a joint institutional response aimed at repairing the profession’s then existing legitimacy which had been weakened as a result of the crisis.

In the following section, the responses of the professional accounting bodies are analysed using the theoretical perspectives adopted. In what follows, attention is paid to answering the other two research questions of this study.

**Discussion of key outcomes**

It is posited that corporate failures, with related adverse implications for financial reporting and auditing, may constitute a negative signal of movement for the accounting profession as argued by Carnegie & Napier (2009) in respect to the corporate collapses of the early 2000s, including mostly notably Enron and WorldCom. Following the corporate collapses in Australia in the 1960s, public criticism of accounting principles, especially by inspectors, combined with the evidence provided in inspectors’ reports of the apparent inability of the profession to ensure compliance with accounting principles, was not only particularly strong but was also sufficiently high profile. The Australian accounting profession was perturbed by the confrontation which emerged with the public but was initially tardy in responding to genuine criticisms. This negative
signal of movement, represented by the “vast gulf between the public’s expectations and the profession’s performance” (Birkett & Walker, 1971, p. 131), had at least the potential to hinder or even divert the professionalization trajectory of accountants in Australia in the early to mid 1960s. Accounting’s ongoing professionalization project in Australia was facing a crisis of confidence as further evidenced by suggestions of the formation of an SEC-style regulator. The status of accounting as a relatively autonomous profession had been put at risk. The negative signal of movement translated to unfavourable impacts on the profession’s legitimacy and gave rise to the need to repair its then existing legitimacy. It will be recalled that Suchman (1995) identified three primary forms of legitimacy: cognitive, pragmatic and moral. Each is discussed in turn as follows in answering the study’s second research question pertaining to the forms that were addressed by the accounting profession in taking the actions identified.

Cognitive legitimacy

Cognitive legitimacy relates to taken-for-granted cultural accounts. In studies on organizational legitimacy, both pragmatic and moral legitimacy rely on discursive evaluations. Cognitive legitimacy, on the other hand, is difficult to assess separately and is the long-term outcome of all other forms of legitimacy. Accordingly, this latter form of legitimacy has not been independently assessed in this study. Notwithstanding, 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 or the Society or both 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. Nevertheless, the long-term survival of the two major accounting bodies and their relative self-regulatory status indicates that cognitive legitimacy was maintained. It is consistent with the view that the accounting profession on the whole had not severely breached its social contract and, therefore, had not dissipated cognitive legitimacy at any stage under this period.

Pragmatic legitimacy

Attention is now turned to pragmatic legitimacy which relates to engaging in self-interested determinations with what constituents want before acting. This form of legitimacy, as indicated earlier, can take three forms: exchange, influence and dispositional (Suchman, 1995). Concerning exchange legitimacy in the context of this study, the support for particular policy initiatives based
on the expected value of those policies to constituents involved at least the four identifiable
groups: members of professional accounting bodies, financial statement users, company inspectors,
and government. The professional 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 affect 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. The Society
report sought, among other things, to defend the profession from what was regarded as unfair
criticism which should have been targeted instead at company management. Through the
mechanism of the Foundation, a clear value was being placed on the consolidation, dissemination
and refinement of accounting principles. These foreshadowed technical pronouncements were
evidently perceived as possessing value to financial statement users in that they were intended to
improve the reliability of financial reports. Company inspectors, would be expected to perceive
value in meaningful efforts to analyse circumstances surrounding the lack of application of
generally accepted accounting principles and in consolidating, disseminating and refining
accounting principles. Government was also taking a watchful role as the propensity of the State
to legislate, thereby potentially embracing the advent of a new regulatory body, would be
influenced by the accounting profession’s actions. While an SEC-styled regulatory agency was
not formed following these corporate failures, government company regulators, according to
Rahman (1992, p. 295), “have shown keen interest in company financial reporting since the
company collapses of 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, in what amounted to
an inconsequential move to deflect criticism onto “incompetent and unscrupulous management”,
was largely ineffective. As these Recommendations were based on English Recommendations
which had not been specifically prepared in response to any similar crisis in accounting in
England and Wales, the “solution” was not seen as related to the “problem”. Gaining adequate
public acceptance of future recommendations on accounting principles was perceived as linked to
the need to speak with one voice on such matters (Little & Andersen, 1964). 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 had resulted in “confusion in the public mind” (Little & Andersen,
This whole-of-profession approach to enhancing the quality of financial reporting and auditing, adopted with the assistance and support of eminent members within the profession (Boehme & Braddock, 1965, p. 573), persuasively signalled to all constituents the putting aside of intra-professional rivalry between the Institute, with its exclusivist strategy, and the Society, with its inclusivist strategy in the name of the collective professional good. This heralded joint action offered at least scope for minimising or deterring unexpected failures and related losses in future.

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 at heart. 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 (ASA, 1964, p. 4). The public interest at the time, however, appears not 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”. Hence, what was perceived as “good for business” was good for constituents outside the profession and was, therefore, in the public interest.

Moral legitimacy

Attention is now turned to moral legitimacy which concerns actions 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 forms: consequential, procedural, structural and personal. Consequential legitimacy relates to being judged by what is accomplished. The initiatives that the Institute and the Society ultimately mounted, both collectively and individually, demonstrated to constituents that the profession became diligent in responding to continuing criticism, providing some reassurance that past inadequacies would be avoided or minimized to the extent possible. By co-operating in the face of crisis and by taking considered action, the Institute and the Society exhibited a level of cohesion not previously witnessed, which showed that the professional bodies were able to act unilaterally. As a result, the profession was able to demonstrate sufficient accomplishment and maintain its autonomy post-crisis.
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 do 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 of members or of the 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. While the processes followed were evidently not socially unacceptable, the processes adopted were essentially closed rather than open. Accordingly, based on surviving evidence procedural legitimacy 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-optation. 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, meaning there were no pre-existing, broad-based consultative models on which to draw. Therefore, evidence of structural legitimacy was sparse. The following statement in the Society’s 1965 Annual Report confirms the introspective nature of the deliberations of the professional bodies and the lack of formal co-optation: “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. In this study it has not been possible to derive reliable evidence to adequately assess the charisma of key participants of the profession but, as previously noted, the committees and panels established by the two bodies were composed of eminent members, who were drawn widely from professional practice and business as well as academia. Given their seniority, 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 the difficult issues involved.
In summary, a number of aspects of Suchman’s (1995) legitimacy typology have been shown to be of relevance in enhancing an understanding of the actions taken by the accounting profession with the intention of repairing its legitimacy following the early 1960s crisis. Evidence of pragmatic legitimacy was discerned as explained. Elements of exchange, dispositional and influence legitimacy were evidenced in the individual and collective actions of the Institute and the Society. Moral legitimacy, however, was not fostered to the same degree. Evidence of consequential legitimacy only is apparent. Cognitive legitimacy, however, was essentially not undermined as subsequent experience has confirmed. Accordingly, the actions taken in response to the negative signal of movement, which translated into the need to repair its then existing legitimacy, have been shown to have involved a focus primarily on the key forms of pragmatic legitimacy and consequential legitimacy.

Divergent organizational strategies

Attention is 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 preferred to work behind the scenes with the guiding support of an international public relations consultant “to improve its image” (Birkett & Walker, 1971, p. 114). The Institute also preferred to respond, as appropriate, to future criticisms of the profession (that is, those arising from mid 1964) which would necessarily arise in the relative calm of the after-crisis period. It chose not to 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.

Alternatively, the Society, as the less exclusive body, seemed to be more sensitive to addressing the specific criticisms of accountants and the profession. The Society report on company failure sought to focus on problems associated with accounting measurement, even though the report highlighted that practitioners were largely not to blame for the collapses and argued that the failures were mainly due to management excesses and oversights. While this position did not suit
the elitist public practice stance of the Institute given the body’s decisions, the Institute was, based on the available evidence, evidently sufficiently comfortable with this response, providing it was generated by the Society alone as the less exclusive body. The Institute, with an exclusivist strategy, was evidently not content to formally acknowledge any shortcomings of members or any deficiencies in its Recommendations, consistent with a view that a professional body at the top of the pecking order does not need to give credence to criticism by directly responding to it. Notwithstanding, the Society report was, according to Birkett and Walker (1971, p. 133), “the most tangible evidence of recognition by the profession that company failures were a phenomenon warranting detailed research”.

In summary, the crisis stimulated the Institute and the Society to speak with one authoritative voice on key technical issues. Commencing with their 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. Taking this whole-of-profession approach was such a major development at the time that it is recognized in this study as constituting a signal of movement in its own right towards occupational ascendancy.

**Conclusion**

This Australian study has drawn upon largely untapped evidence in endeavouring to provide fresh, theory-informed insights into the responses of the professional bodies to the early 1960s crisis of confidence in the profession. It has sought to address the key responses made 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 professional bodies to a crisis. It has explored the nexus between the literature on accounting’s professional project and Suchman’s (1995) legitimacy typology based on the premise that the professional project constitutes a quest for legitimacy. The study has, therefore, endeavoured to make a contribution to the synthesis of different yet compatible theoretical perspectives within the professionalization literature specifically during a period of crisis.

Negative signals of movement may threaten accounting’s ongoing professionalization project and are associated with a weakening of legitimacy. The negative signal of movement which arose in the early 1960s had the potential to divert, or at least hinder, the professionalization trajectory of
accountants in Australia. Recognising the different organizational strategies of the Institute and the Society and the related intra-professional rivalry which at the time was deeply rooted, dating back to 1907, the accounting profession was shown to ultimately respond to such threats to its professional status by taking actions aimed at repairing its then existing legitimacy. By means of individual and collective action following a series of joint conferences, the two major professional bodies were able to set aside their rivalry in agreeing to speak, for the first time, with one voice for the profession in Australia. Solidarity in the form of co-ordinated individual action and collective action was regarded as being of greater importance than division or inaction during this period of crisis. This new found co-operation lead to speaking with one authoritative voice on key technical issues through the mechanism of the Foundation and is portrayed in this study as a signal of movement towards occupational ascendancy. According to Suchman’s (1995) typology, the moves to repair the profession’s then existing legitimacy has been shown to relate primarily to augmenting the three forms of pragmatic legitimacy as well as consequential legitimacy as a form of moral legitimacy. These actions were evidently successful as no government regulatory authority was established in Australia in the aftermath of the 1960s crisis.

Conducted almost 50 years after the company collapses of the 1960s, this study has permitted reflection on the long-term ramifications of the actions that were taken at the time and also reflects developments in the literature, particularly addressing the use of theoretical perspectives for analysis. This study 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 further historical research of the genre in other countries or regions in order to augment an understanding of how the profession responds to crises. Such investigations would enable further testing and refinement of Suchman’s legitimacy typology across time and space. Set firmly in the archive, such historical research “may provide the greatest insight into both the present and the future” (Carnegie & Napier, 1996, p. 31) and may also assist in developing the literature on “comparative international accounting history” (Carnegie & Napier, 2002).
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