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**The Establishment of the Institute of Chartered
Accountants of India (ICAI): the First Step in the
Development of an Accounting Profession in Post-
Independence India**

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**This paper is circulated for discussion purposes only and its contents should be
considered preliminary.**

Abstract

This paper analyses the influence of culture and politics on the establishment of the Institute of Chartered Accountants of India (ICAI) using a theoretical framework, extending the work of Gray (1988) and McKinnon (1986) in which accounting change is analysed into three phases, a source phase, a diffusion phase and a reaction phase. The ICAI is established in a way which is in line with the cultural and social context of India with the ICAI set up under parliamentary charter promulgated through the parliamentary system and with government involvement in the council of the ICAI. In particular, the analysis shows the importance of the relationship between the state and the accounting profession in determining the outcome of accounting change, with in this case, the balance of power being in the hands of the Government.

Keywords: accounting profession, accounting change, culture, politics, India

The Establishment of the Institute of Chartered Accountants of India (ICAI): the First Step in the Development of an Accounting Profession in Post-Independence India

Introduction

Culture and politics have been identified within the international accounting literature as important factors influencing the development of accounting systems in different countries and a need for more in depth historical investigations of the influence of culture and politics on accounting change in countries with different cultural and political systems has been highlighted. (Samuels and Piper, 1985; Bindon and Gernon, 1987; Bloom and Naciri, 1989; Meek and Saudagaran, 1990; Wallace and Gernon, 1991; Belkaoui, 1994).

This study analyses the influence of culture and politics on the first steps in the establishment of an indigenous accounting profession in post independence India. The Institute of Chartered Accountants of India (hereafter ICAI) was formed in 1949. The notion of culture used in this research is that from the anthropological literature which recognises that culture is essentially about ideas and values, it is not a matter of race and it is learned, not carried in our genes. Although involving some subjectivity, the concept of culture can be described in terms of its different elements which include religious beliefs, rituals, ideologies, techniques, knowledge and values. (Kroeber and Kluckhohn, 1952; Ortner, 1986, 1991; Strathern, 1987; Clifford, J. and Marcus, G.E., 1986; Clifford, 1988; Marcus and Fischer, 1999; Alexander and Seidman, 1990, Vincent, 1991; Watson, 1991; Layton, 1997; Moore, 1997; Barnard, 2000; Kuper, 2000).

Political processes too are expected to be important in all phases of any accounting change. Accounting and accounting change is subject to political pressures and processes, in two main senses: Firstly, that Government is involved (either implicitly or explicitly) in accounting regulation and accounting change. Secondly that accounting regulation and accounting change are the outcome of interactions between different parties interested in and affected by accounting (Zeff, 1972, 1978; Burchell, Clubb and Hopwood, 1985; Watts and Zimmerman 1986, 1990). Interested parties will therefore try to influence accounting change with some being more successful than others.

The research is also informed by the accounting history literature, in particular that related to the sociology of professions. Within the sociology literature there have been two main approaches to the study of professions, a functionalist based view of

professions and a more critical, conflictual view of professions and it is this latter view of professions that is used in this paper. In the more critical view of professions, professions are viewed as self interested occupational groups who act in ways to promote themselves and their members in order to gain rewards associated with being a profession. These include both financial rewards and other more intangible benefits such as prestige, status and influence (Kedslie, 1990; Chua and Poullaous, 1993, 1998, 2002; Walker and Shackleton, 1995, 1998; Shackleton, 1995; Macdonald, 1995; Larson, 1997; Abbot, 1998; Macmillan, 1999; Anisette 1999, 2000; Carneige and Edwards, 2001).

This second view of professions has been used in the accounting literature to study the development of accounting professions. Within this body of work, key themes that have been identified include the study of closure in different socio-economic and political contexts, understanding the state-profession relationship including the importance of senior bureaucrats in the development of accounting professions and imperialism and accounting professions. In particular, Chua and Poullaous, (1993) call for more historical analyses of specific accounting professionalisation projects in different economic, social and political conditions and identify some key concerns that need further investigation. These include a more nuanced study of closure with the recognition that there are many levels of closure, some more effective and appropriate than others, an analysis of the state-profession axis and an analysis of both intended and unintended outcomes within the process of professionalisation.

Within the accounting history literature there have been studies of various accounting professions in the Anglo-Saxon context, for example studies of accounting professions in the UK, USA and Australia (Kedslie, 1990; Chua and Poullaous, 1993, 1998, 2002; Robson et al, 1994; Walker and Shackleton, 1995, 1998; Shackleton, 1995; Preston et al, 1995; Lee, 1985, 1997; Carneige and Parker, 1999; McMillan, 1999; Carnegie and Edwards, 2001; Walker, 2004). Recently there have been some studies of accounting professions in developing countries. (Anisette, 1999, 2000; Dyball and Valcarcel, 1999; Susela, 1999; Yapa, 1999; Uche, 2002; Sian, forthcoming) but little work has been done on the development of the accounting profession in India. This research seeks to redress this, with a study of the development of the first steps in the development of an indigenous accounting profession in India post independence.

This article proposes a theoretical framework, based on the work of Gray (1988) and McKinnon (1986) to analyse the influence of culture and politics on accounting change in India. The theoretical framework proposed extends the previous work by Gray

and McKinnon by incorporating Gray's accounting values and factors that are likely to initiate accounting change, into the model proposed by McKinnon and by adding a historical component to Gray's work. The article follows the process of change from the initial proposal to set up the ICAI to its establishment and operation in its first years. The most important factors initiating the change and the main institutions and factors affecting the process of accounting change will be identified in this research, both factors and institutions from within the accounting system and from outside the accounting system.

In the next section the theoretical framework will be outlined, followed by an overview of the social, cultural and historical context of India at independence. The establishment of the ICAI will then be discussed and analysed using the theoretical framework proposed.

The Theoretical Framework

The influence of culture and politics on the establishment of the ICAI in India is analysed using a theoretical framework based on the work of Gray (1988) and McKinnon (1986). Gray (1988), following Hofstede (1980), defined culture as the value system shared by major groups of populations. He suggested a theoretical framework linking accounting and culture within which the impact of culture on accounting values could be assessed. (Gray, 1988). In particular, Gray suggested that professionalism would influence the nature of authority for the accounting system, the degree of uniformity preferred would influence the way in which the accounting system was applied, the amount of conservatism preferred would influence the measurement practices within the system and the degree of secrecy preferred would influence the extent of disclosure in the accounting system.

McKinnon (1986) proposed a theoretical model, based on social systems theory for studying accounting change and development. Using the model, McKinnon analyses five key accounting changes in Japan into three phases, a source phase, a diffusion phase and a reaction phase and explanations for the change events are provided in terms of four major aspects: intrusive events, intra-system activity, trans-system activity and the environment.

In the framework proposed in this research, based on the work of McKinnon (1986) and Gray (1988), the accounting system is viewed as part of the whole social system in the country of study, including the authorities, which formulate the regulations, the institutional environment within the system, and interactions among all the different

parts of the system (McKinnon, 1986). The accounting system is neighbored by other systems, such as the economic, financial and political systems, which affect and are affected by the accounting system. All systems operate within the culture of the country, which affects both the interactions among different parts of the accounting system and the interactions among the accounting system and its neighbouring systems. The framework is shown in diagram 1.

Insert diagram 1

Accounting changes can be broken down into three phases, a source phase, a diffusion phase and a reaction phase. The source phase encompasses the factors or events causing change to occur (McKinnon, 1986). These are expected to arise from outside the accounting system and consist mainly of exogenous processes (Gray, 1988). The most important factors in relation to the establishment of the ICAI in India will be identified in this research.

The diffusion phase of any change looks at how change is dispersed and accommodated within the system. This will encompass both intra-system activity, activity between the different components of the accounting system and trans-system activity, activity between the accounting system and its neighbouring systems. Both intra-system activity and trans-system activity are expected to consist of mainly endogenous processes (McKinnon, 1986). This research will identify the main regulatory authorities in relation to accounting in India and discuss the most important interactions between these institutions in relation to the establishment of the ICAI. The analysis will include a consideration of accounting values within the accounting system, in particular relating to the authority for accounting regulation.

Trans-system activity will also be involved in determining how change is accommodated within the accounting system. It is expected that, in any country, the social systems that are most likely to affect the accounting system are the legal system, the political system, government activity, the corporate system, the economic system, the financial system and the international system and this research will identify and discuss the most important in relation to India.

The reaction phase of any accounting change encompasses how the accounting change will finally be incorporated into the accounting system and looks at how the accounting system is modified subsequent to the diffusion phase of the change. Again, it

is expected that both intra-system activity and trans-system activity will be important in this phase and this phase is expected to consist of mainly endogenous processes (McKinnon, 1986). As for intra-system activity, the main institutions involved in the reaction phase of the change will be identified in this research.

The environment or cultural and socio-economic context of the country affects all systems and all phases of change as described above. Important cultural values in India will be identified in this research but we recognise the complexities and subjectivities involved in this, as identified within the anthropological literature.

The proposed framework is used to inform and guide the research and to facilitate and structure the analysis of the relationships between key interest groups involved in accounting change and the influence of culture and social context on the process of change. The framework is not used in an overly rigid way, thus leaving space for unexpected outcomes and responses (Chua and Poullous, 1993).

Data for the analysis of the establishment of the ICAI comes from several sources: semi-structured interviews with parties interested and involved in accounting, undertaken in 1998, parliamentary reports and debates on the Chartered Accountants Act, 1949, and the Chartered accountants Amendment Act, 1955, the journal of the ICAI, the Chartered Accountant which has been published monthly since July 1952 and books on the establishment of the ICAI. Details of the data sources are given in appendix 1.

The next section provides a brief overview of the social and cultural values in India and of the historical context of India.

The Cultural, Social and Historical Context of India

Key aspects of the social and cultural system in India have been identified to be the family unit, kinship and caste system and hierarchy. The members of a single family and their relations with each other make up the family unit which is the basic social unit in India. The most common residential unit is the joint family, usually consisting of three or four patrilineally related generations all living together and co-operating for social and economic benefit. This can, perhaps, be traced back to the rural, agrarian economy in India, in which few individuals could achieve economic security without being part of a strong family group which co-operated together. Indeed, the family unit is also seen in the business community with a large number of family run companies, who prefer to use loan finance rather than equity finance, despite a well established regional stock

exchange, the Bombay Stock Exchange, which has been in existence before independence. (Heitzman and Warden, 1986; Kuppuswamy, 1990; Ahuja, 1994)

There is respect for elders and authority, with key decisions made by, usually, the elder males in the family. Not only are there strong kinship ties between immediate members of a joint family, there are also strong kinship ties between members of the extended family and caste members. Within this system, the role of the individual is less important than the family as a whole and subordinate to the needs of the family and collective decision making is seen, leading to a highly collective society. The hierarchy is also seen in other organisations such as the civil service and companies. Official position is very important and the basis for prestige (Heitzman and Warden, 1986; Kuppuswamy, 1990; Ahuja, 1994).

Social hierarchy is formally seen in the caste system. Castes are ranked, named, endogamous (in-marrying) groups, membership in which is achieved by birth. There are many thousands of castes and subcastes in India and each caste is part of a locally based system of interdependence with other castes. Many castes are traditionally associated with, and are linked in complex ways, to networks of caste members all over the country. There is also, often, a link between caste, occupation and economic prosperity. (Srinivas, 1966; Mandlebaum, 1972)

The universal cultural variables identified by Hofstede in relation to India are supported by the social and cultural values outlined above. India was identified as having large power distance, strong masculinity, weak uncertainty avoidance, weak individualism and a long term orientation (Hofstede, 1984, 1994) and, as described above, hierarchy or large power distance seems to be the most important of these cultural values within the Indian context. This mix of cultural values does not indicate clearly the nature of the accounting system in India, in relation to the work of Gray (1988). The values indicate that the accounting system in India is likely to show secrecy. In addition, there is likely to be a combination of legal and professional regulation giving authority to the accounting system and a mixture of measurement practices, some conservative and some not. In addition, the cultural values do not indicate how uniformly the accounting system would be applied in practice. However, due to the importance of hierarchy / power distance in India, we hypothesise that legal regulation is likely to be important in India. This is also indicated by the choices made by the India and the Indian Government post independence.

The history of India post independence has been widely discussed by many historians. Key themes that emerge in the period 1947 to 1960 include the poor state of the Indian economy at independence and the implementation of a mixed economic system in the immediate years following independence. India gained independence in 1947 from the British, after a long period of colonisation. At independence, India's economy was very underdeveloped with low per capita income, poor economic growth and a predominantly agrarian economy with little industrialisation. With a few notable exceptions such as the Tata group and the Birla group who ran successful Indian businesses, industry in India was dominated by British firms either directly or through managing agencies. Indeed, at independence, what little Indian industry there was, produced low technology, low productivity, low wage and labour intensive goods and was concentrated in only a few selected areas such as textiles. There was little production of capital goods, lack of infrastructure industries and lack of modern banking and insurance (Panikkar, 1974,; Spear, 1978; Kumar, 1982; Kulke and Rothermund, 1990; Rothermund, 1993; Brass, 1994; Brown, 1994; Wolpert, 1997).

The Government of India, led by Jawarhalal Nehru, introduced a mixed economy into India, in which there was a role for both private and public enterprise and in which socialist ideals were operated within a secular democracy. The key elements of the economic system that were implemented soon after independence included central planning of the economy, the establishment of a mixed economy with a large public sector alongside a private sector controlled by licensing and a nationalised banking system, Legal regulation and Government policy resolutions were widely used to introduce the new elements of the economic system and new government bodies, such as the National Planning Commission, were set up to oversee these (Panikkar, 1974; Spear, 1978; Kumar, 1982; Kulke and Rothermund, 1990; Rothermund, 1993; Brass, 1994; Brown, 1994; Wolpert, 1997).

Foreign investment after independence was needed but India feared that, if not controlled, this might lead to foreign interests running businesses in India for their own benefit. This was to be avoided as India had just gained independence from the British and therefore state control of foreign capital and investment was considered very important. In addition, India also entered into policies which protected Indian businesses from international competition. These included import restrictions, high tariffs, import substitution and production for the domestic market rather than for exports and as time progressed, foreign interests were subject to more and more controls (Panikkar, 1974,;

Spear, 1978; Kumar, 1982; Kulke and Rothermund, 1990; Rothermund, 1993; Brass, 1994; Brown, 1994; Wolpert, 1997).

Strong Government involvement was also seen with social reform being addressed, again using legislation. Key social reforms took place soon after independence with the outlawing of untouchability introducing quotas for ex-untouchables in government services and the passing of laws improving the rights of women in Hindu Succession Act (1955) and the Hindu Marriage Act (1956). The Hindu succession Act gave women equal rights with men in the matter of succession to property and the Hindu Marriage Act gave women protection and rights in marriage and divorce

The use of statutory regulation was widely used to implement social and economic change in India and strong Government involvement was seen in all areas of social and economic life post independence in India. Thus it is expected that this will also be seen within the accounting system with a strong role for Government and statutory regulation in relation to the nature of the authority for the accounting system.

The Establishment of the Institute of Chartered Accountants of India

The establishment of the ICAI can be broken down into broadly two periods, the diffusion phase from 1930 to 1949 and the initial reaction phase from 1949 to 1955. The first period covers the period to the establishment of the Institute in 1949 including the tracing of the antecedents of the institute before independence. The second period covers the immediate years following the establishment of the Institute.

The identification of the diffusion and reaction phases may not always be straightforward and exactly when one phase ends and another begins is not always clear-cut in practice. In reality, the reaction phase may include some events which themselves could be studied as independent changes and there maybe some overlap between the phases. Furthermore, the reaction phase of one event may become part of the source or diffusion phase of another event. Indeed, no framework is likely to be able to capture the totality of the complexities seen in practice and this is a limitation of this and any other framework. Nevertheless, for purposes of structuring the analysis, the split into diffusion and reaction phases appears to be useful in this study.

From the theoretical framework and the social, economic and political context of India, we hypothesise that legal regulation and the Government are expected to be important influences on accounting change in India. During the research, the main

regulatory institutions within the accounting system are identified to be the Government (Ministry of Commerce) and the Indian Accountancy Board (IAB) pre independence and the ICAI post independence. With regard to trans-system activity, the accounting system is most influenced by the parliamentary system, British ideals and institutions and the taxation authorities within the Ministry of Finance and the latter is the most important trans-system activity in relation to the establishment of the ICAI (Interviews with senior company personnel, members of the accounting profession and civil servants; Report of the parliamentary committee on the Chartered Accountants Bill, 1948; Indian parliamentary debates on the Chartered Accountants bill, April 1949).

The Establishment of the ICAI in the Period from 1930 to 1949 - The Diffusion Phase

The ICAI was set up in 1949, soon after independence, via the Chartered Accountants Act 1949. However, the process to set up the Institute of Chartered Accountants of India can be traced back to before independence, in particular to the 1930's and the establishment of the Indian Accountancy Board (IAB), which was one of the main institutions involved in the establishment of the ICAI.

Auditors in India had been required to register with local governments since 1913 and were known as registered accountants. The IAB was set up in 1932 by the Government of India using powers given to it under the Companies (Amendment) Bill 1930. The role of the IAB was to advise the Governor General on all matters of administration relating to accountancy and auditing and to assist him in maintaining the standards of qualification and conduct of persons enrolled on the register of accountants. (Kapadia, 1972; interviews with senior civil servants)

It was intended by the accountants on the IAB that the IAB would, in time, develop into an autonomous accounting profession in India, very much along the lines of the British model with an accounting profession independent of the Government and other interested parties. This had not occurred by the time of independence and at independence, the first aim of the Indian accountants was to set up this up. The initial strategy of the Indian accountants on the IAB was to establish an independent accounting institute, the ICAI, run by an elected council. However, the process of change was influenced by the Ministries of Commerce and Finance and what emerged was a very different institutional set up. The ICAI was given a parliamentary charter and was set up under the Chartered Accountants Act 1949. (Kapadia, 1972, The Chartered Accountants

Act 1949; Indian parliamentary debates on the Chartered Accountants Bill, April 1949). The accounting profession has therefore been subject to legal regulation in India since it was set up and the Chartered Accountants Act has defined the role and duties of the profession. The accounting profession in India today is still governed by the Chartered Accountants Act, which has been amended periodically since 1949.

The Activities of the ICAI from 1949 to 1955 - The Reaction Phase

The ICAI was set up within six months of the Chartered Accountants Act 1949 becoming law in May 1949. The Council of the ICAI was set up, with elected representatives from the membership of the ICAI and nominated representatives from the Government and the corporate sector as represented by the chambers of commerce, in November 1949. The Council held its first meeting on 15th November 1949 and elected G.P Kapadia, an important figure in the establishment of the ICAI, as the first president of the ICAI.

In the first years, the Council of the ICAI undertook to establish a strong, competent secretariat and set up processes to deal with examinations, education, professional ethics and discipline. They implemented their own accounting qualifications based on examination and articleship, very much on the British model but did not adopt British accounting qualifications directly. The ICAI had a statutory basis and Government backing and gained some authority from this. However, they still needed to persuade the wider community of their expertise and credentials in relation to accounting. In particular they had to demonstrate to the Government and the wider interest group that the ICAI was indeed the leader of a reputable professional with strong procedures and processes which regulated their members strongly and were indeed an important professional body. This had several purposes: to establish a strong professional reputation and status, demonstrate their competence and integrity in regulating accounting and chartered accountants and to pre-empt any undue interference by the Government in their affairs. In addition, they wanted to prevent the development of any rival accounting profession, in particular the development of the cost and works accounting profession.

The ICAI was able to set up its functional structure and undertake its day to day activities with little interference from the Government. There were still interactions between the ICAI and the Government. Government officials were invited to attend key functions of the ICAI for example its annual conferences and the Ministries of Commerce and Finance were represented on the Council of the ICAI. In the early years of the ICAI,

there was much support for the ICAI and a lot of optimism that the ICAI would indeed create a strong, semi-independent and ethical accounting profession from the Government, the corporate sector and other parties interested in accounting (Indian parliamentary debates on Chartered Accountants bill, April 1949; Indian parliamentary debates on Chartered Accountants Amendment Bill, April, 1955; Editorials, Chartered Accountant, 1952-1960).

There were a few criticisms of the accounting profession made by some politicians. For example, some criticisms were made that chartered accountants were giving clean audit reports where they should not and some criticisms of the independence of the auditing profession. These criticisms were not widespread and the Government showed strong support for the ICAI whenever criticisms were made. (Kapadia, 1972; Editorials, Chartered Accountant, 1952-1960). However, there were instances of Government involvement in the activities of the ICAI which affected the ICAI in this initial reaction phase. In the 1950's the Government became involved in the issue of reciprocity and recognition of foreign qualifications and these led to changes to the Chartered Accountants Act, 1949.

Analysis of the Establishment of the ICAI using the Theoretical Framework

The establishment of the ICAI from the 1930's to the 1950's can be broken down into source, diffusion and reaction phases, using the theoretical framework as follows:

The Source Phase

The ICAI was set up in 1949, very soon after independence. The ideal of an autonomous and independent profession was inherited from the British at independence in 1947, together with many other institutions such as the legal system and the parliamentary system. At independence, an autonomous accountancy profession was not in existence. However, the groundwork for an independent profession, based on the UK model, had been put in place with the establishment of the Indian Accountancy Board (IAB). This Board had been set up in 1932 to advise the Government on all issues relating to accounting and auditing, including the registration of Indian auditors.

The IAB was set up in 1932 and continued in existence until 1949. The first two IAB's were appointed in 1932 and 1935 and were composed of entirely nominated

members. The third, fourth and fifth IAB's were partly elected by registered accountants and partly nominated by the Government. The elected members of the IAB were, by and large, senior Indian accountants and the nominated members of the IAB were British accountants, representatives of industry and commerce and government officials. The nominated members were intended to redress any shortcomings in the balance of the IAB. For example, it was expected by the British, that, despite carrying out more than half of the audit work in India, British accountants and British firms would not be elected on to the IAB due to nationalism in the country in the 1930's and 1940's. It was considered appropriate by the Government that British accountants should be represented on the IAB, and the Indian accountants on the IAB concurred with this, perhaps due to the amount of work carried out by these accountants, and this was ensured through the nomination on the IAB (Kapadia, 1972; Chakravorty, 1994).

After independence, the Indian accountants on the IAB argued strongly for an independent, autonomous accounting institute and profession, very much along the line of the ICAEW in the UK (Kapadia, 1972; Chakravorty, 1994; Interviews with senior representatives of the accounting profession). The senior accountants on the IAB made their views known to the government representatives on the IAB but no immediate action was taken. However, when informal discussions took place between the Indian accountants of the IAB and the Government representatives on the IAB, a difference of opinion arose. The Government representatives on the IAB were more cautious about the establishment of a completely independent accounting institute and decided to consider carefully the question of whether to set up an accounting institute and what form this institute should take if it was considered appropriate to have an accounting institute.

The members of the IAB continued to argue their case to members of parliament, government ministers and government officials and in 1948 persuaded the Government to allow the establishment of an accounting profession, headed by a professional accounting institute. Although the British model would have been the model preferred by the Indian accountants, the Government were not amenable to this and proposed a quite different institutional framework, that of an accounting institute set up under statutory legislation, promulgated by Parliament with government and corporate sector representation on the council set up to head the institute. The British accounting model was not the most appropriate model in the social and political climate of India at this time. As outlined earlier in the paper, strong Government involvement was seen in all areas of social and political life, such as corporate regulation, economic planning and regulation of social

affairs through government ordinances and legal regulation and thus an independent profession was not a possibility at this juncture in India. Furthermore, when considering both nation specific and Hofstede's universal cultural variables and accounting values as proposed by Gray, a completely independent accounting profession is not indicated. Gray's accounting values predict a mixed system with both legal and professional regulation but the dominance of power distance within the social and cultural context of India would indicate that legal regulation is likely to be more important than professional regulation. This is indeed what is seen. Thus closure on the UK model whereby practising accountants band together and evolve into an accounting profession headed by an institute through a variety of closure techniques is not seen. Instead, more akin to the accounting profession in France (Bocqueraz, 2001), closure is achieved with the direct involvement of Government and through legislative means, albeit against the initial intentions of the Indian accountants on the IAB.

A combination of endogenous and exogenous activity is seen to combine to initiate change. The Indian accounting profession, represented by the Indian accountants on the IAB was instrumental in changing the accounting system but were not able to do this without the authorisation and approval of the Government. The Ministry of Commerce had to be persuaded by the IAB that an independent accounting profession was important. One of the main reasons that persuaded the Government to support the development of an accounting profession came from outside the accounting system. This was the perception in the Government, that accounting was an important tool for economic development and that accountancy had a pivotal role to play in economic development. (Kapadia, 1972; interviews with senior government officials). In particular, some of the key aims of the government at independence was rapid economic growth together with social development leading to a fairer distribution of wealth amongst the population. The perception held at this time was that accounting could help facilitate both these aims by allowing the provision of more comparable information across the corporate sector thus facilitating decision making. It was also thought that the provision of information within the accounting system might help encourage the private sector to act in ways congruent to the governments aims rather than just for private gain and that a stronger audit framework would help to monitor the actions of directors and perhaps curb abuses within the corporate sector. Finally, it was also perceived that accounting might also provide information for national central economic planning purposes. (Report of the parliamentary committee on the Chartered Accountants Bill, 1948; Report of the

Company Law Committee, 1952; Report of the Company Law Amendment Committee, 1957).

The Diffusion Phase

In the diffusion phase of the change, the ICAI was set up under the Chartered Accountants Act 1949. Both intra-system activity and trans-system activity is seen in the diffusion phase of the change. The most important intra-system activity is identified to be mainly between the Government and senior accountants on the IAB. The most important trans-system activity is identified to be between the Ministry of Finance and the accounting system and this is detailed in the analysis. Trans-system activity is also seen between the parliamentary and international systems and the accounting system with the accounting profession set up under an Act of Parliament and with the relationship between Britain and India and the role model of the British accounting profession influencing the Indian accounting profession but these are not as important as the Ministry of finance in determining the outcome of the change (interviews with senior members of the accounting profession and senior civil servants; Kapadia, 1972; Indian parliamentary debates on Chartered Accountants Bill, April 1949).

Analysis of Intra-System and Trans-System Activity within the Diffusion Phase

Intra-system activity is seen in the diffusion phase with interactions between the Ministry of Commerce and the IAB. The Ministry of Commerce was directly involved in the establishment of the accounting profession in India at independence. In response to representations by the IAB for an independent accounting profession, they considered the idea carefully. During this time members of the IAB met with members of the government, senior officials of various government departments and members of parliament and argued strongly for an independent accounting profession. These representations were successful to some extent and early in 1948, the Ministry of Commerce agreed, in principle, to the establishment of an accounting institute to head the Indian accounting profession. However, they clarified that the institute would not be totally independent. Thus the Government took the initiative in the establishment of the accounting profession very early on and dictated the terms on which the accounting profession would be set up. The aims of the Indian accountants were modified and their

initial strategy had to be amended to incorporate the wishes of the Ministry of Commerce. Instead of the establishment an accounting profession independently of the Government, what was arranged was a very different institutional framework. This included the establishment of an accounting institute under parliamentary charter with its role and powers specified using legislation and with involvement of government representatives on the council of the institute. This is in line with the cultural and social context of India which indicates that strong government involvement in accounting is expected in addition to regulation by an accounting profession.

The authority of the institute therefore was not reliant on its own status and reputation developed over a period of time using a variety of strategies to gain monopoly and overtake other competing would be accounting professions. Instead, the authority of the institute and accounting profession came, in some part, from statutory authority and Government backing and approval. Thus, although not an intended format, the accounting profession was able to set up and gain some credibility through the direct involvement of the government in the accounting profession. The Indian accountants had to accept this and revise their initial professionalisation strategy. They had to work with the Ministry of Commerce's proposals and try and minimise the involvement of the Government as far as possible. (Kapadia, 1972; interviews with senior representatives of the accounting profession).

In 1948, the Ministry of Commerce prepared a memorandum on a scheme for an autonomous association of accountants in India and requested feedback on their ideas. In particular, they requested feedback on issues such as what the name of the institute should be and whether foreign qualifications should be recognised (Kapadia, 1972). The Ministry of Commerce also set up an expert committee to review the establishment of the accounting association. They did not set up the expert committee themselves, instead, they asked the IAB to set up the expert committee, which they would approve. The expert committee was set up on 1st May 1948 by the IAB, approved by the Ministry of Commerce on 13th May 1948, who also set the committee's terms of reference. These were to examine the tentative scheme for an autonomous association of accountants in India, proposed by the Ministry of Commerce and to indicate whether the institute could be set up by amendments to existing laws or whether new legislation was necessary.

During their review of the Ministry of Commerce's proposals for the establishment of the accounting profession, the expert committee of the IAB made a detailed study of the constitution and working of foreign autonomous associations of

accountants outside India. In particular, they studied the workings of the ICAEW in the UK and the Society of Certified Public Accountants of New York. They were also in frequent contact with the Ministry of Commerce on the proposals they were considering to discuss the proposals before they were finalised (Kapadia, 1972; interviews with senior representatives of the accounting profession). Thus the Ministry of Commerce exerted indirect influence over the recommendations made by the expert committee, particularly on the issue of reciprocity and recognition of foreign qualifications through informal discussions during the expert committee review (Kapadia, 1972; Editorials, Chartered Accountant, 1952-1960).

There were two main areas of contention between the proposals being considered by the expert committee of the IAB and the wishes of the Ministry of Commerce. The first related to the name of the institute. The IAB had suggested that the name of the Institute might be “The Institute of Chartered Accountants of India”. The Ministry of Commerce was concerned about using the name “chartered accountant”. They argued that this might cause some problems with the British accounting profession, since the name might be deemed to be too similar to that of the ICAEW in the UK. In particular, after consultation with the Ministry of Justice, they argued that the term charter had become associated with a British royal charter and thus should not be used by the IAB for the proposed institute. In addition, some Indian accountants who had travelled to the UK and qualified with the ICAEW raised some objections to the use of the term “chartered accountant”. These accountants argued that this might cause some confusion in the corporate sector, as to which institute accountants had qualified with. The British qualified accountants wished to be distinguished from accountants qualified in India as they expected that they would have higher status and hence gain more work than Indian qualified accountants (Kapadia, 1972; interviews with senior representatives of the accounting profession; Indian parliamentary debates on the Chartered Accountants Bill, April 1949).

The IAB was able to successfully argue that the name “Institute of Chartered Accountants of India” was appropriate and that no confusion would arise with this name (Kapadia, 1972). The name was of great importance to the IAB due to the perception of quality, prestige and status that had become associated with the term during the colonial period and the preference for audit work to be carried out by chartered accountants in during this period. Any other term, in the IAB's opinion would signal a lower status profession and this was not at all desirable. At the request of the IAB, the Ministry of

Commerce obtained further advice from the Ministry of Justice, who advised that the proposed accounting institute could be set up under a parliamentary charter. Thus the Ministry of Commerce were finally persuaded that the name of the proposed institute could be the Institute of Chartered Accountants of India.

The second issue was the issue of reciprocity and recognition of foreign qualifications. The Indian accountants on the IAB had indicated that they wished to recognise foreign qualifications and foreign institutes on a mutual recognition basis. The Ministry of Commerce was unsure whether recognition would be given to the Indian institute by the British accounting profession and the Board of Trade in the UK and did not want the Indian institute to withdraw recognition for British qualifications. This was due to concerns that if the ICAI stopped recognising British accounting qualifications, goodwill between the Indian Government and the British authorities might be lost (Kapadia, 1972). On this issue, the Ministry of Commerce was able to influence the IAB's proposals so that the condition of mutual recognition was dropped. (Kapadia, 1972; Editorials, Chartered Accountant, 1952-1960)

The expert committee set up by the IAB submitted their report on the scheme of autonomy proposed by the Ministry of Commerce together with a draft of possible legislation in July 1948. The main recommendations included that a professional accounting institute, called the ICAI, should be set up by a special act of parliament, called the Chartered Accountants Act. The members of the institute would initially be the registered accountants, Indian auditors registered under the British regime, renamed as chartered accountants. The role of the ICAI would be to set examinations for membership to the ICAI, regulate the training of its members, regulate certificates of practice given to its members and exercise disciplinary procedures over its members. The affairs of the ICAI would be managed by a Council consisting of fifteen elected representatives, one nominated representative of the corporate sector and three nominated representatives of central government. The council of the ICAI and the accounting profession would be completely autonomous, free from control from the central government, except in a small number of matters which would be agreed and specified in the Chartered Accountants Act. The council of the ICAI would have the power to recognise foreign qualifications, usually on a reciprocal basis, if it was satisfied that such recognition was in the interests of the country and of the profession.

The Indian accountants tried to restrict outside involvement in the institute and tried to minimise the perceived adverse effects of the institutional form that had been imposed on them and retain as much control over the admission, educational and disciplinary requirements of accountants as was possible in this scenario and climate. For example, they obtained an informal agreement that Government involvement in the new institute would be kept to a minimum and that it was not the Government's intention to be involved in the day to day operation of the new institute.

The Ministry of Commerce reviewed the report of the expert committee and approved the recommendations included in the report. They then prepared a circular on the proposals to set up the ICAI and circulated this to all government departments. At this stage, trans-system activity played an important role in the processes of the proposed accounting institute. The Central Bureau of Direct Taxes within the Ministry of Finance raised objections to the proposals due to recommendations on the disciplinary process. They were unhappy that the ICAI should have complete autonomy to conduct disciplinary proceedings with regards to income tax matters. They argued that it would be too much to expect a relatively new profession to correctly deal with disciplinary matters due to issues such as vested interests and independence. Indeed, other professions with much older traditions and histories than the accounting profession. For example the legal profession was regulated by the courts and was not self-regulating. In addition, investigation of cases of professional misconduct in income tax matters by the Council of the ICAI might involve the Council in being given confidential information about assesses which was not desirable and against the Income Tax Act 1922 (Kapadia, 1972; Indian parliamentary debates on the Chartered Accountants Bill, April 1949).

The Central Bureau of Direct Taxes also made some general arguments to tighten control over the accounting and auditing profession. These suggested that the list of persons prevented from being chartered accountants should be expanded to include anyone who had been dismissed from public service and anyone upon whom a final order of penalty had been imposed, under the income tax laws. They also argued that the definition of audit and the scope of audit needed to be more tightly defined so that auditor negligence could be more easily determined, that auditors of private companies should possess the same qualifications as auditors of public companies and that the involvement of accountants in cases of under payment of tax should be classed as gross negligence (Kapadia, 1972; Indian parliamentary debates on the Chartered Accountants Bill, April 1949).

The IAB were particularly concerned about the Ministry of Finance objections. They wanted as independent an institute as possible which would deal with all matters relating to the institute, including all disciplinary proceedings and income tax related issues. This was particularly important since income tax work accounted for over 70% of the revenue of practising accountants. The IAB defended their proposals arguing that autonomy was important for the profession. It was, therefore, not possible to accept government involvement in professional misconduct matters as this would seriously affect the standing and reputation of the profession. They also raised the issue that the Ministry of Finance had previously, informally, agreed to an autonomous profession and were now being unreasonable by withdrawing their agreement. Finally they also argued that other similar accounting professions in the world had similar powers to that proposed for the Indian accounting institute proposed by the IAB and these were suitable models to follow. Particular reference was made to the accounting professions in the UK and USA (Kapadia, 1972; Indian parliamentary debates on the Chartered Accountants bill, April 1949).

The Ministry of Commerce considered the viewpoints of both the IAB and the Ministry of Finance, before drafting the Chartered Accountants Bill. This Bill included most of the recommendations made by the expert committee of the IAB with the exception of their recommendations on the disciplinary process. On this issue, the Ministry of Commerce initially accepted the Ministry of Finance's suggestions and gave the Central Bureau of Direct Taxes and the Ministry of Finance powers to deal with disciplinary matters that related to income tax (Kapadia, 1972).

The Chartered Accountants Bill was introduced into Parliament on 1 September 1948 and was referred to a select committee for review on 1 February 1949. The IAB were unhappy with the disciplinary provisions in the Chartered Accountants Bill as they considered that the proposals would undermine the independence and autonomy of the accounting profession and the Institute, which would govern the accounting profession. The provisions also indicated a lack of trust in the accounting profession which would be detrimental to the interests of the accounting profession (Kapadia, 1972; Indian parliamentary debates on the Chartered Accountants Bill, April 1949). Thus there was direct conflict between the IAB and the Ministry of Finance with IAB considering that control over disciplinary matters by the Ministry of Finance was unacceptable and the Ministry of Finance considered that ICAI control over income tax cases was unacceptable.

Meetings were held between Kapadia, a senior member of the expert committee of the IAB (later the first president of the ICAI) and the Minister of Commerce and the chairman of the Central Bureau of Direct Taxes to try and resolve the conflict. Initially, these meetings were not successful. It appeared that the Bill might not be promulgated, as agreement could not be reached on the disciplinary issue. However, the negotiations continued again outside of the formal parliamentary system used to review and promulgate the chartered accountants bill (Kapadia, 1972). Kapadia finally met with the Finance Minister and a compromise was reached. The Institute would be given powers to deal with all disciplinary issues, through its disciplinary committee. However, the disciplinary process would be monitored by government representatives on the Council of the Institute. In addition, all disciplinary proceedings relating to income tax matters and other public interest matters would be subject to approval of the high courts who would be able to alter any penalties imposed by the Institute (Kapadia, 1972). The IAB were not happy with this compromise but accepted that it was probably the best that they could hope to achieve at this point in time and had to accept involvement of both the Ministry of Commerce and the Ministry of Finance in their activities.

The importance of informal interactions in the determination of the outcome of the professionalisation project is seen to be much more important than the formal interaction between interested parties within the parliamentary system used to promulgate the Chartered Accountants Act, 1949. The importance of the interaction between the Government and the IAB, is also seen to be crucial in determining the outcome of accounting change and the development of the accounting profession in India. In this case, two different government departments influenced the process of accounting change.

The Bill then passed through the select committee review and the parliamentary debates with little further change. The only changes made were to protect the rights of accountants who had obtained Indian accountancy qualifications before independence but were not registered accountants and auditors who had been given the right to undertake audits before registration of auditors was required. These were not major changes to the Bill and it was given parliamentary assent and became law on 1 May 1949. The Chartered Accountants Act 1949 created a statutory accounting profession and accounting institute in India (Kapadia, 1972; Indian parliamentary debates on the Chartered Accountants Bill, April 1949).

The Reaction Phase

The Institute of Chartered Accountants of India came into existence in November 1949, in line with the provisions of the Chartered accountants bill 1948 and was headed by a council. The membership of the council included accountants who were elected, government representatives, including senior officials of the Ministry of Commerce and the Central Bureau of Direct Taxes in the Ministry of Finance and a representative of the corporate sector. The Council was headed by a president who was chosen from the elected members of the council and was, usually, a senior accountant from the larger auditing firms in India. (Kapadia, 1972; The Chartered Accountants Act 1949; interviews with senior representatives of the accounting profession and senior government officials)

The initial reaction phase of the establishment of the ICAI was seen from 1949 to 1955. In this phase, the ICAI set up its operational structure and established itself as an important regulatory body within the accounting system. During this period, the Government was again involved in influencing the ICAI and amending the Chartered Accountants Act 1949 in relation to the issue of the recognition of foreign qualifications. Thus, intra-system activity (activity between the regulatory institutions within the accounting system) is seen in the reaction phase between the Government and the ICAI and is discussed below. The main activity that took place in initial reaction phase was intra-system activity and significant trans-system was not seen.

The Ministry of Commerce was an important influence on the ICAI in the reaction phase of the change. The Ministry of Commerce was represented on the Council of the ICAI and attended many of its functions. In their speeches at this time, the Government stated that it was their intention to allow the ICAI to operate with as much autonomy and independence as possible. However, since accounting had economic and social consequences, they would have to become involved in accounting regulation sometimes, but would try and keep this to a minimum. (Kapadia G.P., 1972; interviews with senior representatives of the accounting profession and senior government officials, Editorials, Chartered Accountant, 1952-1960).

In the reaction phase, on the whole, the ICAI was allowed to set up its own secretarial and committee structure with little interference from Government and hence the fear of strong Government involvement in the day-to-day affairs of the ICAI was unfounded. The ICAI was able to operate as a fairly autonomous body in most cases (Kapadia, 1972; interviews with senior representatives of the accounting profession;

Indian parliamentary debates on the Chartered Accountants Amendment bill, April 1955; Editorials from Chartered Accountant, 1952-1960).

However, wherever the Government perceived that there were issues of wider public interest or where they felt that the Government's interests might be affected, they did become involved in the activities of the ICAI. The main issue in the reaction phase was the issue of reciprocity. In this issue the Government via the Ministry of Commerce, was able to impose their wishes on the ICAI.

As discussed in the diffusion phase, the ICAI were keen to be recognised by the ICAEW and other UK professional accounting bodies on a mutual recognition basis. The Government was keen that the ICAI should continue to recognise the ICAEW and other foreign professional accounting bodies without any conditions attached to this recognition. Indeed, in the diffusion phase, the Government had put pressure on the ICAI to include provisions to recognise foreign qualified accountants, in particular British accountants (Kapadia,1972).

Initially, the ICAI asked the Ministry of Commerce to help in negotiations with the UK authorities in relation to the recognition of the ICAI. In response, the Ministry of Commerce initiated discussions with the British Authorities on the issue of reciprocity. However, they were not successful and the ICAI was not given mutual recognition status. Instead, accountants qualified with the ICAI were given practicing rights in the UK but this fell far short of the mutual recognition desired by the ICAI. At this stage, the ICAI wished to withdraw their recognition of professional accounting bodies that did not recognise the ICAI or its qualifications. The Ministry of Commerce was concerned about this as they perceived that their interests and negotiation position on other issues might be affected, if goodwill with the UK authorities was lost over the issue of reciprocity. They therefore put pressure on the ICAI to continue to recognise British professional accounting bodies and their qualifications both at meetings of the council of the ICAI and in written letters to the council of the ICAI (Kapadia, 1972, Indian parliamentary debates on the Chartered Accountants Amendment Bill, April, 1955).

The ICAI did succumb to this pressure but not totally. The ICAI proposed issuing regulations on reciprocity, which allowed the recognition of foreign qualifications, but with conditions. These included that the foreign qualified accountant must be resident in India, that recognition would be for 5 years, that the accountant would not be allowed to vote or become a member of the council of the ICAI, that membership of the ICAI would cease if the accountant ceased to be resident in India and that recognition would usually

be given only if there was recognition by the foreign accounting body of the ICAI (Kapadia, 1972).

This was a compromise between the ICAI's position and the Government's position. Many members of the ICAI, including council members, felt that they had given in to the Government by allowing foreign accountants to be recognised by the ICAI without a reciprocal arrangement rather than showing a strong, independent stance. However, they also recognised that the Government did have powers to regulate the ICAI under the Chartered Accountants Act and the Government had indicated that they would override the ICAI if necessary. Hence, the ICAI accepted that they had had little choice in bowing to the will of the Government, since their position might well have been weakened further, if the government had insisted on full recognition of UK qualifications with no reciprocal measures at all (Kapadia, 1972, Indian parliamentary debates on the Chartered Accountants Amendment Bill, April 1955).

Despite the actions of the ICAI, the Government was not happy with the reciprocity provisions and in 1955 amended the Chartered Accountants Act to give the Government the right to specify those foreign accounting qualifications which would be accepted in India against the wishes of the ICAI (Kapadia, 1972, Indian parliamentary debates on the Chartered Accountants Amendment bill, April 1955). Thus in the reaction phase the ICAI was given some autonomy to carry out its activities. However, Government was shown to be active and more influential than the ICAI on issues which the Government considered important.

The reaction phase shows the power relationship within the state-professional axis in India. On issues that were not important to the Government, such as operational structure, they let the ICAI progress with little interference. However, on any issues which had wider implications to the Government, in this case, relations with the UK, then the Government acted quickly and unequivocally to force the ICAI to act as they wished and were prepared to change legislation in order to achieve this.

Summary and Conclusion

This paper traces the development of the accounting profession in India post independence, and in particular, the establishment of the ICAI. The establishment of the ICAI can be analysed, using the theoretical framework proposed into three phases, a

source phase, a diffusion phase and a reaction phase, with culture and politics influencing in all phases of the change.

In the source phase of the change, the colonial history of India played an important part in the establishment of the ICAI. The ideal of an independent accounting profession and institute based on the British model was introduced into India, as were many other British institutions pre-independence. The first step towards achieving such an accounting profession was the establishment of the IAB pre-independence and this was done by the British Government in 1930. After independence, the IAB quickly took the initiative in proposing the establishment of an independent accounting profession and institute. Had it not been for senior members of the IAB arguing for an independent professional accounting institute along the lines of the ICAEW in the UK, the ICAI may well not have been set up as quickly as it was. Thus, change to the accounting system, in this case change in professional organisation, was initiated by the accounting profession itself, rather than by institutions outside the accounting system. However this would not have been possible through the efforts of the accounting profession, as represented by the IAB, alone. The establishment of the ICAI was only possible due to the involvement of important institutions outside the accounting system, in this case the Ministry of Commerce and the reasons for the involvement of the Government were related to economic growth and social development and these were concerns which came from outside the accounting system.

The diffusion and reaction phase of the change were composed of intra-system activity and trans-system activity. Intra-system activity occurred between the Ministry of Commerce and the accounting profession, as represented by the IAB before 1949 and the ICAI after 1949, in the diffusion and reaction phases of the change. The main trans-system activity occurred between the Ministry of Finance and the taxation authorities and accounting regulation and this was mainly in the diffusion phase of the change. Within trans-system activity the involvement of the parliamentary system and international influences were also seen, but these interactions were less important than the involvement of the taxation authorities within the Ministry of Finance in the process of accounting change.

The establishment of the accounting institute and profession took place with the co-operation of both the Government and the accounting profession as represented by the IAB. The IAB persuaded the Government that an accounting institute and profession was needed at independence. They were able to do this due to the perception by the

Government that accounting was seen to be an important tool for economic and social management. Accounting was therefore expected to facilitate economic growth and development, which was one of the most important priorities of the Government at independence. Once agreement had been reached on the need for an accounting profession, the Government and the IAB worked closely together to set up the ICAI and strong government involvement was seen in the process of establishment the ICAI and its operation after it was set up. This included preparing a scheme for the establishment of the accounting institute and profession, setting the terms of reference for the IAB and helping to resolve problems raised by the Ministry of Finance. The senior Indian accountants on the IAB too influenced the establishment of the accounting profession and institute, including initiating the change, preparing a report on the establishment of the accounting institute, including a draft of the Chartered Accountants Bill, which they submitted to the Ministry of Commerce and negotiating a compromise between what they proposed and what the Ministry of Finance proposed on the issue of the disciplinary process. The state profession axis (Chua and Pollous, 19) was therefore extremely important in determining the outcome of the path of professionalisation and of accounting change, with two sets of Government departments becoming involved in the process of accounting change. In addition, informal interactions between the two government departments and senior India accountants were important in determining the outcome of the professionalisation project, more so than interactions within the formal parliamentary process for promulgating the Chartered Accountants bill.

The accounting institute that was set up was very different to the initial autonomous profession proposed and intended by the Indian accountants at independence. The ICAI was not set up in a way that was similar to the ICAEW or any other British professional accounting institute. Instead, it was set up in line with the cultural, political and social context of India, both in the processes used to set up the ICAI and in its structure. The ICAI was given parliamentary charter and set up using statutory legislation, the Chartered Accountants Act, 1949, promulgated through the parliamentary system. The Chartered Accountants Act 1949, contained regulations for the operation of the ICAI. For example, the Act specified that the Institute would be headed by a Council, the structure of the Council, elections to the council, the examinations process and the disciplinary procedure. What was set up was a semi-independent accounting institute which gave professional authority to the accounting but set up under statutory legislation and with government representation on the council of the ICAI giving statutory authority

to the institute. Thus both statutory control and professional control are seen to be important in India, very much in line with what is expected with the cultural and social context of India. In particular, it can be seen that the initial strategy of trying to set up an independent accounting institute was not congruent with the social and political context surrounding India at independence. At this time statutory regulation and regulation by Government agencies was widely used to regulate economic and social life and an independent accounting profession was not consistent with this. The professionalisation strategy therefore had to be modified and indeed the final outcome for the accounting profession was a very different structure to that initially intended.

As well as strong Government involvement in the process of accounting change, strong government involvement was seen in the structure of the newly formed ICAI and accounting profession. The ICAI was headed by a council, and regulated by the Chartered Accountants Act 1949. The Council was made up of both accountants who were to be elected and non- elected members who included government representatives from both the Ministry of Commerce and the Ministry of Finance and representatives from the corporate sector. Thus, the Council included government representatives who could monitor the development of the accounting profession and make suggestions where they considered this to be important and appropriate and indeed override the institute, using legislation if necessary.

In the reaction phase, the ICAI was allowed to develop its own functional structure and to regulate the accounting profession with little interference from the Government. However, again as expected with the cultural, political and social context of India, the ICAI was not given total autonomy. The Government continued to influence the ICAI and the accounting profession in areas such as reciprocity which it considered to be important and of wider interest than just to the accounting profession. To some extent, the Ministry of Commerce and the ICAI worked together to deal with the issue of reciprocity with the ICAI requesting the Government to negotiate with the British authorities on their behalf. However, when there was a difference of opinion between the Government and the ICAI on the issue of reciprocity, the Government were able to influence the actions of the ICAI. They were able to force the ICAI to soften their stance on the issue of reciprocity. Finally when the ICAI did not promulgate regulations which were acceptable to the Ministry of Commerce, the Ministry of Commerce exercised its powers and initiated an amendment to the Chartered Accountants Act, using the Parliamentary system. This increased Government powers to ensure recognition of

foreign qualifications. This again shows that both Government control and professional control are important in the accounting system in India. However, in practice, the Government retained greater control and influence over the accounting system than the ICAI.

The analysis shows that the cultural and social context of the country and that political processes are important in influencing accounting change and the theoretical framework proposed is shown to be useful in analysing the establishment of the ICAI. In particular, the relationship between the state and the accounting profession is seen to be important in determining accounting change, and in this case, this is complex with the involvement of two different Government departments. Furthermore, the appropriateness of closure strategies to the socio-political climate is shown with the initial proposal by the Indian accountants not being consistent with the regulatory mechanisms prevalent in the country and hence leading to the outcome of the change process being very different to that intended. Finally, informal interactions between the different parties interested in the outcome of accounting change are seen to be more important in determining the outcome of change than the formal processes within which change is promulgated.

The analysis raises some criticisms of the theoretical framework. These criticisms include the fact that culture is a complex notion and identification of the different facets of culture can be difficult and can involve some subjectivity, and that, as with any framework, the process of accounting change is complex and any framework cannot completely capture this complexity. In addition, in the establishment of the ICAI, the source of the accounting change comes from both within the accounting system and from outside the accounting system and not just from outside the accounting system as initially posited in the framework. The IAB within the accounting system were important in setting the change in motion but without Government involvement in the change, the ICAI may not have been set up. Thus a mixture of endogenous and exogenous processes took place to start the accounting change. Furthermore, the initial reaction has been deemed to end in 1955, after the first major change to the Chartered Accountants Act, 1949. However, the accounting profession has changed and developed from 1949 to date and thus the whole period could be taken to be part of the reaction phase. In the longer term, several changes took place to the accounting profession. Two major changes were the development of another accounting institute, the Institute of Cost and Works Accountants (ICWAI) and the establishment of a standard setting process by the ICAI. Thus, to some extent, judgement and interpretation have to be exercised in determining

the length of the reaction phase appropriate for the analysis of each change. Finally, both intra-system and trans-system activity are not always seen in both the diffusion and reaction phases of the change.

Despite the criticisms, the framework does appear to be, on the whole, helpful in analysing the influence of culture and politics on the process of accounting change. Further research is now needed on the influence of culture and politics on accounting change which investigates the development of the accounting profession in India. In particular, the state-profession axis, the use of appropriate closure strategies and how these develop over time in response to changing circumstances and unintended developments and informal interactions within the process of professionalisation maybe useful. Major changes that might be usefully studied include considerations of inter-professional rivalry with the Institute of Cost and Works Accountants of India and the implementation of the standard setting process by the ICAI. In addition, there has recently been research imperialism and accounting (Chua and Poullaous, 2002, Anisette, 1999, 2000, 2003) and it may be that further studies of the development the accounting profession in India both pre and post independence may contribute to this topic of research too.

Appendix 1

Parliamentary reports and debates reviewed

Report of the parliamentary committee on the Chartered Accountants Bill, 1948,

Indian parliamentary debates on the Chartered Accountants Bill, 1948

Indian parliamentary debates on the Chartered Accountants (Amendment) Bill 1955

Summary of Interviewees

3 representatives from multinational companies in India

3 representatives from Indian companies

3 representatives of Stock exchanges (2 from stock exchanges and 1 from Securities and Exchange Board of India)

1 representative from an International accounting firm

2 representatives from Indian accounting firms (also former presidents of the ICAI)

34 representatives of the Indian accounting institutes (2 from the ICAI, 1 from the ICWAI and 1 from the ICSI)

2 Indian academics

2 representatives from the Department of Company Affairs

1 representative from the tax authorities

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