



# Knowledge mandates in the state–profession dynamic: A study of the British insolvency profession



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## ABSTRACT

At the beginning of the 21st century, the British Government was faced with significant policy decisions to make in the field of corporate insolvency. The impact of the American rescue culture and the acceptability of failure, the development of international insolvency laws within the European Union and localized problems inherent in current insolvency practice provided the impetus for legal reform. Using the work of Halliday (1985, 1987), this paper seeks to understand how professional knowledge and authority impact upon the state–profession relationship and the development and deployment of state policy. The British Government reacted to the global and local pressures with a shift to codification and prescription, greater enforcement of the legal system and an attempt to control and institutionalize insolvency practitioners' moral authority. However in spite of radical reforms, insolvency practitioners' services were retained and their private, expert knowledge systems and authority valorized over corporate management. Insolvency practitioners' localized knowledge, the capacity to disguise moral authority as technical expertise and their networks and coalitions with senior members of Parliament and capital providers, resulted in an interpretation and implementation of legislation that has not seen the dramatic shift in practice that the reforms had envisaged. Despite the reforms being triggered within the global institutional sphere of corporate failure, the institutional sphere of corporate failure, at least in Scotland, retains a local definition, with business rescue packages derived from professionals' social intelligence, their daily micropractices and localized networks.

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## Introduction

Critical studies of the accounting profession and professionalization projects have come to define much accounting research since the late 1970s. In adopting this approach, the profession, its technologies and outputs are explored within a wider economic and socio-political context, taking account of the structure of underlying power

relationships (Larson, 1977; Willmott, 1986, p559). Inevitably, the role of the state and state agencies becomes an integral part of understanding the processes of professionalization and in particular how “the interests and strategies of professional elites are constrained or enabled by wider, societal institutions such as state agencies and rules of property ownership” (Chua & Poullaos, 1993, p693). The state can intervene in professional life especially where the activities of a profession impact upon the public interest or the general welfare of its citizens, which typically occurs in complicated fields (Mills & Young, 1999). Studies of the state–profession dynamic may therefore usefully highlight social and political issues, the distribution of power in

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society and the state's position in adjudicating on competing interests (Yee, 2012).

Some early writers recognized that governments may employ professions or professional ideology as a legitimate means of rectifying perceived or actual deficiencies in the economy (Carr-Saunders & Wilson, 1933). Indeed as states have become overburdened, they have sought out alternative ways to manage the competing demands placed upon them (Halliday, 1987). In the case of the accountancy profession, legitimacy may be sought by the state through the ideological discourses of the 'public interest' (Robson, Willmott, Cooper, & Puxty, 1994), through the aura of independence (Halliday & Carruthers, 1996; Sikka & Willmott, 1995b), or through accounting techniques and practices (such as external auditing) in the regulation and governance of organizations (Arnold & Sikka, 2001). Underpinning state dependency is the profession's claims to superior and technical knowledge (Jones, 2010; Sikka, 2008; Sikka & Willmott, 1995a). Thus, professions, "in contrast to government workers ... offer the appearance of expert knowledge and technical efficacy" (Halliday & Carruthers, 1996, p409). It is these claims that are the focus of the current study.

Within accounting literature, 'knowledge' has historically been studied as a 'strategic resource', primarily in the context of intra- and inter-professional battles over jurisdictional rights (Dyball, Poullaos, & Chua, 2007; Sugarman, 1995; Walker, 1988, 1995, 2004a, 2004b). Covalleski, Dirsmith, and Rittenberg (2003), Walker (2004a) and Evans and Honold (2007) utilize the work of Abbott (1988), who describes the necessity of maintaining and controlling an abstract system of knowledge in order to maintain and defend a professional jurisdiction and to penetrate other professional jurisdictions. Accounting techniques (of which knowledge is embedded), their mobilization and infiltration thus provide a means for claiming jurisdictions (Loft, 1986) and securing high economic rewards in exchange for specialist knowledge (Richardson, 1988, 1990).

Some commentators have recognized the limitations of earlier studies of the profession in not considering *how* professions act upon the state to achieve closure and indeed the *effectiveness* of closure achieved (Chua & Poullaos, 1993, p692, *italics added*). Thus they suggest that Weberian studies suffer from a predisposition towards intra and inter professional competition and collaboration (thereby marginalizing the role of the state) and neo Marxist research presupposes a given distribution of interests, failing to adequately account for change in economic and social structures and how state policies are structured by the context in which they are developed (Chua & Poullaos, 1993, p692–693; Flood, 1995). Thus the two constituents "mutually influence, help create and are shaped by each other" (Chua & Poullaos, 1993, p695). Sugarman (1995, p227) suggests an approach to professional studies that is more sensitive to cultural and political factors. Thus even jurisdiction focused studies might usefully encompass struggles between professions over ideas and ideologies, conceptions of society and the influence of professions upon the state and civil society.

Halliday (1987) asserts that professional studies have become one dimensional by allowing professions to pursue

only the macrosociological role of legitimization of monopoly and the "abnegation of public responsibility for private gain" (p3). The effect is an incomplete or mischaracterization of professions' contemporary significance for the state. An understanding of how professionals (as the principal repositories of knowledge) participate in the political sphere is essential to understanding both the state–profession dynamic and the state's capacity to rule (Halliday, 1987, p19). As professions move from the formative to the established stage of professionalization, the preoccupation with monopoly diminishes and in its place, the profession recognizes its potential to contribute to the management of tensions faced by democratic states (Halliday, 1987, p345). The knowledge mandate of a profession becomes of central importance in determining the optimal relation between knowledge and power in modern democracies (Carr-Saunders & Wilson, 1933, cited by Halliday, 1985, 1987). According to Halliday (1987, p19), "the call for professional commitment to government may mean either a refinement of representative government or its circumvention".

The following study recognizes the close coupling of professional knowledge and power. In doing so, the paper contributes to the literature by addressing the ambiguity surrounding 'knowledge' in the professionalization literature, both in terms of the state's valuation of expert knowledge and, as highlighted by Chua and Poullaos (1998), the underlying scepticism with regard to the functional properties of the accounting profession. Thus the research recognizes the need for further enquiries on the role of knowledge and authority in defining the state–profession relationship and further their impact upon society and civil matters. This leads to the following research questions: Firstly, how do professional knowledge and professional authority influence the (re)construction of state–profession relationships and secondly, in what ways do professional knowledge and authority come to bear upon the development and deployment of state policy.

Whilst prior studies of the accounting profession have addressed accounting regulations (Cooper & Robson, 2006), the audit function (Carpenter & Dirsmith, 1993; Power, 1997) including auditor independence (Robson et al., 1994) and the internal audit market (Covalleski et al., 2003) and more recently, the market for corporate taxation (Hasseldine, Holland, & Van der Rijt, 2011), there is a dearth of research on the insolvency field (see Cooper & Joyce, 2013; Flood, Abbey, Skordaki, & Aber, 1995; Flood & Skordaki, 1995; Halliday & Carruthers, 1996; Walker, 1995, 2004a, 2004b). Accordingly, the empirical focus of this paper is upon the British insolvency profession. The insolvency field is an important specialized sub-field of accountancy. The insolvency industry is categorized by the Office of National Statistics as part of 'accountancy services', contributing £562 million directly to national Gross Domestic Product (GDP) and £177 million indirectly in 2008.<sup>1</sup> There are fewer than 2000 insolvency practitioners (IPs) in the UK and the majority of these are regulated by

<sup>1</sup> [http://www.r3.org.uk/media/documents/policy/policy\\_papers/insolvency\\_industry/R3\\_Value\\_of\\_Industry\\_Summary\\_Report\\_16th\\_April.pdf](http://www.r3.org.uk/media/documents/policy/policy_papers/insolvency_industry/R3_Value_of_Industry_Summary_Report_16th_April.pdf)

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