



Balancing the books

Coming from an unusual background that combines academic work with professional practice, **Professor Charles Richard Baker** brings qualitative methods and a broad perspective to the public accounting field

Could you introduce your professional background? What prompted your interest in the regulation and structure of the public accounting profession?

I am an academic who has also spent a considerable amount of time working in the professional worlds of public accounting and banking (12 years). Therefore, I consider myself to be a fairly untypical academic, given my relatively lengthy experience in the business world. My doctoral dissertation at the University of California, Los Angeles (UCLA), completed in 1974, focused on the management strategy and practices of one office of a major public accounting firm in Los Angeles. I had a unique opportunity to observe practising audit managers and partners in their daily lives. My dissertation utilized the qualitative methodology of participant observation, which was virtually unheard of and was not used in accounting research prior to that time.

In undertaking my research, I was fascinated by the ability of the partners and managers to balance the needs of their professional practices in terms of meeting the expectations of their clients and abiding by the standards of the public accounting profession. People outside this world have little understanding of the stresses inherent in the role public accountants play in society.

You focus particularly on ethics, legal liability, independence and comparative regulation. What does independence and comparative regulation mean in terms of public accounting?

Independence is arguably the cornerstone of the auditing profession. Without it, there is little purpose for a public accounting profession. However, since the early 19th Century the profession's structure has been influenced by the fact that it is the client (i.e. the company under audit) who pays the auditor. This means there is an inherent conflict of interest in the public accounting profession, in that the purpose of the audit is to add credibility to the financial statements of the company, and yet the auditor must necessarily become close to the client to perform the audit properly. This balancing act requires considerable professional integrity on the part of the auditor, an integrity which goes well beyond that found in most other professions, where the interests of the client are paramount.

You are one of very few leaders in qualitative accounting. Do you think this field is underrepresented?

I have been using qualitative research since my doctoral dissertation. Since that time, its use in accounting has become widespread in countries such as

the UK, Australia and New Zealand. However, qualitative research is virtually unused in the US and the so-called 'top-tier' research journals in accounting will not publish qualitative accounting work. In fact, it is not considered to be research by these journals, and yet many of the issues faced by policy makers in the accounting profession would benefit from the deeper understanding it can provide.

What are the main aims and objectives of your current research?

I have moved somewhat away from my primary interest in ethics, legal liability and comparative regulation to look more closely at the historical origins of public accounting as a profession, particularly in a comparative context. The public accounting profession is not the same everywhere and its historical origins differ substantially between countries.

Can you summarize the key challenges in the regulation of public accounting? How does your work aim to tackle these?

The key challenge facing public accounting is the same today as it was in 1974 – balancing serving the client against providing increased credibility to financial statements. Despite many attempts to legislate solutions to this problem (e.g. the Sarbanes-Oxley Act in the US), this is still the main challenge. I do not see my research as resolving this challenge; there is a structural issue inherent in the regulation of the profession. Nevertheless, in my opinion public accountants do a remarkably good job. Some researchers have argued that auditors are complicit in corporate fraud, but apart from a few exceptional instances, I do not believe this to be the case and challenge those who disagree to produce evidence to support their views.

Finally, what would you say has been your major success?

My principal success has been to become a full professor at a mid-level US university, despite choosing a line of research that is not favoured by the American academy.



Understanding a unique role

New – and old – perspectives on public accounting are being explored using innovative approaches in the [Willumstad School of Business](#) at Adelphi University, New York

AUDITORS ARE A crucial part of the contemporary financial world. While in some respects their origins lie further back, the development of a modern public accounting profession has been underway since the early 19th Century. The role and the professional structure in which it operates have adapted and grown in response to various economic, political and legal changes. If we want to understand how important public accounting is now, we need only consider the consequences when it goes wrong – think of the financial frauds in the US in the early 2000s.

Despite this, many people are unaware, or very imperfectly aware, of the history and context – legal, ethical, business and otherwise – of public accounting and the auditing role. This cannot be said of Professor Charles Richard Baker, from the Willumstad School of Business, Adelphi University, New York. He is a certified public accountant and an experienced practitioner as well as an academic researcher, and his interests lie very much with the wider world in which auditors work.

Baker is the author of more than 70 peer-reviewed articles and has been a member of the editorial board for seven journals. He was also employed in public accountancy and banking for 12 years. His research focuses on the regulation of the public accounting profession, in particular comparative systems of regulation, ethical issues, independence and legal liability. Most recently, he has turned his attentions to the historical context, comparing different public accounting traditions and approaches. Baker is also associated with pioneering the use of qualitative research methods in the accounting field.

A TIME AND A PLACE

Baker says that auditors work in a ‘unique structure and role’ and face potentially tremendous pressures

from competing directions. They must reconcile their duty to clients with their professional standards and responsibilities. Understanding the nature of this role, how it came to take the form it has, and how it differs between different countries, is not only interesting in itself but valuable. The same can be said for investigating professional standards and their regulation. This is especially the case at a time when public concern regarding financial ethics is at a peak.

In recent research, Baker has worked to clarify and illuminate public accounting through comparative studies of different traditions, especially those of the English-speaking world and continental Europe (represented primarily by France), and put these data into a useful historical context. Baker explains: “Accounting history helps to illuminate the fact that very little is new. Most people are relatively unaware of the past and believe that current challenges are unique”.

In the UK, the growth of the auditor was largely a private enterprise concern. Audited public accounts were for the benefit of shareholders. The state had little involvement and regulation was mostly undertaken by professional bodies, in line with the ‘laissez faire’ tradition. The common law of tort was used when there was recourse to the law. The rest of the Anglophone world generally followed this approach.

France, with its Roman/civic law tradition and its different attitude towards state intervention, was more inclined to enforce statutory regulation and to see auditors as being primarily responsible for upholding the public interest, rather than working for those being audited. Much of continental Europe followed this approach, to a greater or lesser extent.

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FROM AN OCCUPATION TO A PROFESSION

Some accounting historians suggest that the formation of professional bodies such as the Institute of Chartered Accountants in England and Wales (and an equivalent body in Scotland) marked the establishment of accountancy and auditing as a profession, rather than an occupation, in the United Kingdom.



EARLY AUDITING

In France, the demand for external auditing came early – and from the state – during the reign of Louis XIV, in the 17th Century. More often than not, auditing in France has been regulated by legislation and government decrees, with auditors being regarded at least in part as agents of the state.

STATUTORY REGULATION

Clearly, differences such as these are significant, but the effects are not always as obvious or straightforward as anticipated. Constant shifts in political stance have led to changes of approach within these countries. At times when economic growth is the priority, regulation can loosen, while after a financial cataclysm regulation tightens. Some outcomes can be surprising; for example, Baker states that in France auditing regulations tend to favour small practices over large multinational accountancy firms through the requirement to have joint-audits (i.e. two or more auditors).

Auditing standards are, however, converging, and not just through the efforts of the EU. Both the UK and the US have been moving closer to statutory regulation of the auditing profession for some time. Baker identifies the greatest landmark in modern international public accounting as: “The enactment of the Securities laws in the US in the early 1930s, which required audited financial statements to be issued to shareholders of listed companies.” He points out that the UK had enacted something similar as early as the 1850s, but that this was repealed until the mid-20th Century. “Arguably, the requirement to issue audited financial

statements to shareholders of listed companies marked the point at which the auditing profession became recognized as playing a significant role in modern society,” he states.

NOT JUST BROADER, BUT DEEPER

While Baker’s recent focus has been on contextual research, his career was founded on using qualitative methodology in a field where it was almost unknown, and where it is still underused in many circles today. Baker believes that adopting it more widely would be advisable: “Many of the current issues faced by policy makers in the accounting profession would benefit from a deeper understanding provided through qualitative research.”

Baker does not believe that his research will cure all the ills of public accounting, such as they are. “The question of the conflict in the role of the public accountant remains to be resolved,” he asserts. However, he does believe that for the most part auditing is already performed well. Certainly, his elucidation of the nature and history of the auditor’s role can only support and enhance this, not least by helping to evaluate differing regulatory approaches.

REGULATION AND STRUCTURE OF THE PUBLIC ACCOUNTING PROFESSION

RESEARCH INTERESTS

- The public accounting profession
- Qualitative accounting
- Financial ethics
- Legal liability
- Comparative regulation
- Historical origins of public accounting
- The auditing role

KEY COLLABORATORS

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primary research interests concern the regulation of the public accounting profession, with particular focus on comparative systems of regulation, history, ethical issues, independence and legal liability. A prominent advocate of qualitative accounting research, Baker received the Bender Award for Outstanding Body of Work in 2008.

