

Academic independence, freedom and ‘enlightenment’: The case of accounting research

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Abstract

This article examines the problem of academic freedom in a rather unlikely area: accounting and historical accounting research. It discusses some cases in the United States and the United Kingdom where accounting research led to controversy and tells the story of a PhD student (the author) sued for libel in 1986 for his research concerning a policy issue, the subject of public debate, and related to conflicts of interest for directors of a mutual organization (a building society) and their use of its funds. It shows how ‘managerial diversion’ was discovered, how the libel suit was successfully defended and how the law was changed. While academic independence issues have always existed and across disciplines, the case and discussion largely relate to the 1980s in the United Kingdom when universities suffered savage cutbacks in public funding and the imposition of ‘reforms’. The case study illustrates, and the article discusses these issues as they relate to the state of modern universities and the pressures on academics.

Keywords

academic freedom, academic independence, building societies, enlightenment, libel, defamation, managerial diversion

Introduction

From Giordano Bruno, who was burned for claiming the Earth was not the centre of the universe, the unknown scholars tortured during China’s cultural revolution, the recent repression of academics in Turkey to the efforts of Presidents George W. Bush and Donald J. Trump to counter views about environment issues in the United States, there is nothing new about threats to academic independence and freedom from those with the power to suppress the evidence and opinion they dislike.¹ What can we not read, not because it has been banned but because it has not been written as a result of self-censorship through fear of violence, financial ruin or death?

The need for academic freedom and independence has always been seen as crucial to the development and dissemination of knowledge and new ideas. It first emerged in the writings of Socrates, Aristotle and Plato (and in the case of the former, the trial of Hofstadter (2011: 3) and continued into the medieval church (when affiliations were out of kilter with those of the reigning monarch),

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the age of Enlightenment and the writings of David Hume, Immanuel Kant and Adam Smith. By the twentieth century, academic freedom and independence were recognized as issues confronting academics, to such an extent that the American Association of University Professors (AAUP, 1915) found it necessary to guide members. In its view, academic freedom comprised three elements, ‘... freedom of inquiry and research, freedom of teaching within the university or college; and freedom of extramural utterance and action ...’ (AAUP, 1915: 1).²

The undermining of academic freedom may not be confined to an openly hostile environment and/or confined to politically controversial areas of study, but potentially, to any situation in which powerful interests see the implications of the research as threatening in some way, raising issues about research and teaching in universities today, particularly those in the United States and the United Kingdom. It is the purpose of this article to examine these issues using a case study in historical accounting research (a more innocuous area of study is difficult to imagine!) and the various threats to academic independence in the United Kingdom I encountered when conducting research for my PhD thesis during the 1980s (Barnes, 1982), including being sued for libel. The next section discusses some other cases of accounting research in the United States and the United Kingdom leading to controversy that were influential at that time. It is followed by an outline of the research and events surrounding the libel suit and other attempts at suppression. The final section contains a discussion of academic freedom in the United States and the United Kingdom more generally, both then (the 1980s) and now.

The research that gave offence related to the ‘diversion’ of UK building societies’ funds by their top management and the evidence I uncovered. I hasten to add that the libel case was defended successfully and was, in fact, withdrawn, just before it was due to come to court. I have given many talks on the episode and its implications to PhD students and researchers but I have not written it up or ever referred to it elsewhere. Recently, I wrote an article on ‘rogue’ building societies in the 1950s and the subsequent legislation curbing their activities (Barnes, 2014) but I did not refer to the independence problems I encountered when doing the early research in the 1980s. I have tried to minimize the overlap and duplication in these two papers while also trying to ensure that this article is complete in its own right. In addition to the libel suit, the article describes various other actions taken by similarly interested parties in their attempts to compromise both my and the university’s academic independence. Ironically, at the same time this was happening, the UK government was attempting to encourage public debate concerning the future of building societies as mutual organizations with a view to new legislation as well as the deregulation of financial services more generally (Committee to Review the Functioning of Financial Institutions, Report, 1980). The PhD, therefore, provided independent and timely empirical evidence relating to the weaknesses of building societies and their managers relevant to an important public policy decision.

It should be pointed out that the Reagan–Thatcher era resulted in not only the deregulation of financial services in the United States and the United Kingdom but also the imposition of constraints on academic research and the funding of higher education in the United Kingdom. As Campbell (2007) remarked, ‘No group in society with the possible exception of trade union leaders suffered a steeper fall in status’ (p. 400).

Finally, by way of introduction, we should not be surprised that accounting research raises academic independence issues and controversy. On one hand, the accountancy profession’s history is less than virtuous; its roles in such movements as managerialism (Tyson, 1998), slavery (Fleischman et al., 2004) tax evasion and avoidance (West, 2017; Zucman, 2015) and, more recently, money laundering (Compin, 2008, Mitchell et al, 1998, 2002) are well known. On the other hand, accounting research can be used to forensically examine economic issues and propositions, that sometimes lead to political and public policy controversies and that is what this case study is about.

Accounting research leading to controversy

Has accounting research previously led to controversy, possibly to such a level as to provoke the 'victims' to resort to suppression or retribution of some kind? The contents of financial statements are potentially controversial, given their impact on a company's valuation, because of the subjectivity and estimates involved in their preparation and, as a result, their susceptibility to manipulation and fraud. The neutrality of financial statements is sufficiently problematic as to require auditors and it is well known that there have been questions about auditor independence and skepticism in practice. There is also a question as to whether accounting methodology (theory, principles, GAAP and so on) is sufficiently robust to support the objectivity and reliability of financial statements.

These were becoming pressing issues in the early 1980s in the United Kingdom (as elsewhere) particularly with the emergence of agency theory raising issues about the dependence (and independence) of auditors (e.g. Fama, 1980). The inadequacies of financial statements and historical cost accounting were exposed in two ways: by cases in which published accounts were shown to be misleading and suggestions by academics of alternative accounting methods.

Although it is difficult for an outsider, say an academic, to question auditor independence and the accounting judgements and methodology involved in individual cases, there were instances in the late 1970s and early 1980s. The leading exponent was Abraham J. Briloff, who, by this time, was doing this regularly. Briloff was both an accounting practitioner and an accounting professor at City University of New York rising to become Distinguished Professor Emeritus. In his PhD thesis, 'The Effectiveness of Accounting Communication' (also the title of his book published in 1967 and later extended in 1972, Briloff, 1967, 1972), he cited real cases to support the argument that, instead of exercising their professional judgement, accountants sheltered behind GAAP and colluded with companies to produce misleading financial statements, failing to perform their economic role and meet, what he called, their 'sacred covenant' with society. From 1966 onwards to well into this century, Briloff regularly wrote articles for *Barron's*, usually about a chosen company based on publicly available information:

When a Briloff piece was published in *Barron's*, the immediate reaction from the company criticized was almost always to angrily protest that their accounting was completely proper and consistent with generally accepted accounting principles. That response puzzled me, because the articles seldom alleged otherwise. Instead, they pointed out how the rules allowed misleading reports, and how the company in question had produced such. (Norris, 2013)

In 1976, Briloff was sued for \$37.5 million by Reliance Insurance in respect of its IPO and its subsequent accounts but, after summary judgement, the case was thrown out (Foster, 1987).

Another US campaigner was Kenneth MacNeal, not a university teacher but a practitioner. In *Truth in Accounting* (MacNeal, 1939), he disputed historical cost accounting and advocated a system involving present values to replace it. He argued that conservatism and realization principles were a barrier to understanding and, since insiders had information about real and market values, this placed them at an advantage over outsiders. Price Waterhouse and the American Institute of Accountants (later to become the American Institute of Certified Public Accountants) attempted to prevent its publication (Zeff, 1982: 545) but it was eventually published by the University of Pennsylvania Press. Although not welcomed and ridiculed by reviewers,³ *Truth* was rediscovered in the late 1960s and republished in 1970 as a classic by Scholars Book Company.⁴

Ray J. Chambers was similarly critical of, and at times clashed with, the accountancy profession, but nevertheless contributed to the advancement of accounting theory in a number of ways, such as his 'blueprint' (Chambers, 1955) which 'might well have served as the starting point for a

decision-usefulness theory of financial accounting' (American Accounting Association, Committee on Concepts and Standards for External Financial Reports, 1977: 12) and his advocacy of accounting for inflation by means of a system he developed (Continuous Contemporary Accounting and known as CoCoA). CoCoA was not accepted or adopted in practice much to his disappointment and frustration (Persson, 2013). Nevertheless, these efforts were influential in the efforts at inflation and changing purchasing power accounting in various countries in the 1970s.

A number of financial scandals in the United Kingdom in the late 1960s⁵ raised questions about the objectivity of accounting and auditors' independence and led to Edward Stamp, Professor of Accounting at the University of Lancaster, to criticize professional practice for the lack of theory underpinning financial statements (the most public being Stamp, 1969, 1970, also see Brief, 1984). Stamp was also critical of the academic accounting profession for not pursuing this. In his view, 'academic accountants are, or should be, the intellectual leaders of their profession', they were not fulfilling their role and that accounting education was 'anti-intellectual' (Stamp, 1968, reproduced in Stamp, 1984, A3). Although Stamp's impact on the reform of the academic accounting profession is less clear, his public spat with Ronald Leach, President of the Institute of Chartered Accountants of England and Wales ('ICAEW') at the time, led the pair to move the profession to establishing a system of accounting standards in the United Kingdom, probably the most important development in financial reporting in the twentieth century. Stamp was also a co-author of the Corporate Report (ICAEW, Accounting Standards Steering Committee, 1975), a highly influential document representing the British conceptual accounting framework. There were no major attempts to suppress his work, mainly because Stamp worked with, rather than against, those he criticized and campaigned against. Edward Stamp had, more than anyone, the greatest impact on accounting practice and theory in the United Kingdom during the 1970s and early 1980s until his death in 1986. His last completed task was the joint authorship of the NCB report (Curtis et al., 1985) mentioned next (Mumford, 1986).

Probably the most famous case concerns not the work of an individual but the involvement of a group of accounting academics in one of the most significant political events in the United Kingdom in the twentieth century: the 1984–1985 miners' strike, which pitted the most powerful trade union at the time (the National Union of Mineworkers, 'NUM') against an equally powerful prime minister, Margaret Thatcher. The strike, described as 'the most bitter industrial dispute in British history',⁶ was in response to the National Coal Board's ('NCB') announcement that it was to close 20 collieries causing a loss of 20,000 jobs. The NUM claimed the government had a long-term strategy to close more than 70 pits. The accounting issue that concerned the academics was the use of absorption (or full cost) accounting by the NCB in its calculations as opposed to opportunity (or marginal costing) to justify the closure of unprofitable pits. Marginal versus absorption cost accounting for plant closures is a well-known issue in management accounting.⁷ The accounting academics argued that the NCB were wrong for using absorption cost accounting to decide whether or not a pit should be closed down (Berry et al., 1985). Their comments attracted a considerable amount of publicity and, in the light of public feeling, the NCB asked a team of 'eminent and independent' (Sikka et al., 1995: 126) accountants to examine the arguments (Curtis et al., 1985). They did not support the Berry et al. (1985) assertions and, instead, accepted the NCB's accounting procedures and approach.⁸

The case study

This case study involves the use of accounting and financial information to examine economic hypotheses. The data are used by the researcher for the purpose intended: for financial control and to reveal conflicts of interest for regulatory purposes.

Background – UK building societies

Until 1986, all UK building societies were mutual organizations, similar to the mutual Savings and Loan Associations ('S&L') in the United States. As non-profit organizations devoted to the promotion of home ownership, they received large tax benefits enabling them to offer effectively subsidized lending and borrowing terms to their members.⁹ However, mutuality brought about an 'accountability vacuum' in which top management was able to run societies in their own interests rather than those of their members. This was particularly so as directors were not permitted to share directly in the monopoly profits the societies were creating, providing them with an incentive to divert funds or use them for their own purposes (Barnes and Ward, 1999). These ideas had been applied earlier in relation to US mutual S&Ls by Nichols, (1967, 1972) when he wrote 'The problem facing management in the mutual is the conversion of its power into personal gain of some form' (Nichols, 1972: 5) and referred to it as 'managerial diversion'.¹⁰

This was also the case in the United Kingdom. During the 1950s in the United Kingdom, there was a shortage of housing, particularly in London. Enterprising property developers recognized they could profit; some set up building societies of their own or joined existing ones as directors and used them to fund their own property development projects. They were also able to arrange for the society to offer generous mortgage terms to their buyers and arrange for the society's officers not to look too closely at the quality of the security and a borrower's ability to repay the loan. With more information now publicly available, I was able to estimate the scale of the activity (Barnes, 2014). In 1960, there were 681 building societies of which 26 were 'rogue' societies that granted a significant part of their total funds as large loans to their directors and associates or companies they owned. These amounted to around 6 per cent of the movement's total lending.¹¹

The use of their funds to provide bridging finance for developers could bring down a society if a large transaction went wrong. This happened at the case of the State BS (Chief Registrar of Friendly Societies (CRFS), 1960).¹² As a result of discovering that building societies could be used in this way, the UK government quickly introduced new legislation, the *Building Societies Act 1960*, to curb what was referred to as 'undesirable lending' (CRFS, 1956).¹³ This was done by means of creating stringent rules relating to a class of lending that the Act called 'special advances'. These were large loans (initially, over £5000 but this figure could be revised in line with house prices) to individuals and all loans to companies. Total special advances could not exceed 10 per cent of total advances at any point in time.¹⁴ Particulars of the special advances were required to be shown in a society's annual return ('AR11'), that is, the aggregate of special advances and the amount of each advance to a limited company, identified by means of its registered number. The AR11 was also required to state particulars of advances to any director, manager or secretary of the society or any company in which they had an equity interest of over 2.5 per cent or of which they were a director or officer. The idea behind the special advances provisions was not just to limit these in total but also to provide some control over them by the CRFS and, as they were publicly available, raise members' awareness. In some instances, this worked but in other cases, the lending practices still went unnoticed.

The research

To test the hypothesis that society directors would divert funds for their own and/or their associates' business purposes, I decided to examine the special advances information contained in societies' AR11s for the years 1981–1982 for two societies taken at random: the Britannia BS and the Alliance BS. These were publicly available at the offices of the Chief Registrar of Friendly Societies ('CRFS') in London. I then examined the financial statements, annual returns and other information these companies were required to deposit with Companies Registration

Office in Cardiff and London. I discovered that a group of companies owned and run by a firm of property developers, Bernard Clarke and Partners, were receiving most of the special advances granted by the Britannia BS. In 1981–1982, three Clarke companies received £409,000 from the Britannia BS and in 1983 £502,000 was outstanding (*Hansard*, 2 March 1983).

I also found that the Leek and Westbourne BS (later renamed the Britannia BS) had taken over the Lion BS in 1964. At the end of 1959, the Lion BS had lent £4.3 million to just seven groups of borrowers out of its total funds of £5.3 million. Most of these were property companies owned by the directors of the Lion BS, all members of the Thrush family, property developers and owners of many other businesses including insurance, merchant banking and casinos (Barnes, 2014). The other large recipient of the Lion BS's funds was the group of companies owned by Bernard Clarke and Partners, including Bernard's brother, Dudley Clarke, who was the Lion's official solicitor. I also discovered from public records that the CRFS had investigated the situation in 1958 and 1962 because its special advances exceeded the statutory limit and were to companies owned or connected to its directors. What the CRFS did not realize was that the Lion BS effectively continued as a branch of the Leek and Westbourne BS/Britannia BS. In fact, the Lion's head office became their regional office and the two managers responsible for the lending, rather than being removed, were promoted and continued to grant Bernard Clarke companies large special advances.

The libel suit

While my hypothesis and the evidence I obtained may have been in line with current thought, including that of policymakers (that a building society may be run by its directors in their own interests and not in those of its members), they were not popular with building societies. I reported my findings in respect of the Britannia BS and Bernard Clarke and Partners to the CRFS. It transpired that, while the Chief Registrar knew of the lending practices at the Lion BS in the 1960s, he did not realize that it had continued unabated to that day. He said that he would 'investigate' the matter. As after about a year I had not heard from him, I enquired with the CRFS as to the outcome of the investigations. As it would not provide any details, I decided to provide *The Sunday Times* with the story (Levene, 1983) and ask the Britannia BS at its next annual general meeting (AGM) about the outcome. At the AGM, I asked some prepared questions about the loans under 'Any other business' to Sir Hubert Newton, at that time the Britannia's chairman of its board of directors and chair of the meeting. At the end of the meeting, he announced that the Britannia BS was to sue me for libel. The libel suit arrived in the mail a few days later.

'Britannia BS v. Barnes and the BBC' was a somewhat unusual libel suit as it simply related to a report by the local radio station, Radio Stoke (the Britannia BS's head office was near Stoke) that I was to attend the Britannia's AGM later that day to ask whether the CRFS had completed his investigation into the loans granted by the Britannia BS to the Clarke companies. I did not even speak on the radio programme. The report was repeated throughout the day causing a small 'run' on the society.

After discussions with its lawyers, the BBC decided to fight the case, not to issue an apology or a correction to their report, and that they would defend both their report and me. (It was their usual practice to defend anyone who had provided them with a good story.) As is common in libel cases, the case focused on the everyday meaning of the words used, in this case the word 'investigation'. Both sides agreed that the word 'investigation' implied illegality; hence the news report implied illegality at the Britannia BS in respect of the loans.¹⁵ After examining my material, the BBC libel lawyer concluded that we had a reasonably good defence which was, for the time being anyway, worth defending but he would not wish us to go to court as the decision would be decided by a jury and was, therefore, unpredictable. He suggested, therefore, that I should look for similar information about the Britannia BS and give it to the press.

This worked well as I was supported by Ken Weetch, at that time Labor MP for Ipswich who, as an economist, had a particular interest in building societies. When he heard I was being sued for libel, he offered to help by suggesting I draft parliamentary questions for him to ask designed to weaken and expose the Britannia BS's position. The answers, if newsworthy, then would be passed to Tony Levene at *The Sunday Times*. This I did by focusing on the special advances section of Britannia's AR11s. By checking these with the companies' register of charges at Companies House, I found so many errors relating to special advances that Britannia BS had omitted or incorrectly reported, they had to submit revised AR11's for the years 1975, 1976, 1978, 1979 and 1982 (*The Sunday Times*, 15 April 1984). At one stage, Ken Weetch asked whether the latest changes were the final ones, to which the minister stated in his parliamentary answer that there were more to come (see, for example, *Hansard*, 4 and 29 November 1983).

I discovered that the Britannia BS had also lent millions of pounds to the Berger property empire, which had been involved in the State BS scandal. In just one year, 1981, it had lent four Berger companies £1.139 million out of a total £1.431 million worth of special advances to all companies (Barnes, 2014). The Berger property empire was one of London's largest landlords. It involved two publicly quoted companies (Reliable Properties plc and Palmerston Investments plc) and about 400 interlocking companies, all of which bought rented property to sell when vacant. At that time, it was notorious for allowing property to fall into disrepair and encouraging tenants to leave. There had been many complaints to the local authorities, marches and demonstrations run by the Berger Action Group against the Berger companies and TV exposés (Kirch and Wolmar, 1983). Loans of this kind were what the CRFS had described as 'undesirable lending', hardly appropriate for a mutual organization devoted to the promotion of home ownership.

After about a year and just before the time when the two sides were to exchange documents relevant to the court case ('exposure') the Britannia BS and its lawyers requested a meeting with the BBC and me. At that meeting, Sir Hubert Newton asked if we would agree to the Britannia BS withdrawing its libel action with no publicity. The BBC was happy to agree to this. I was less enthusiastic but, as I had little choice, agreed but, jokingly, on one condition. Sir Hubert Newton was also President of Stoke City Football Club who at that time played in the English First Division along with Nottingham Forest whom I supported. I agreed to the decision on the condition that I would be a guest of Sir Hubert's at the forthcoming match between the two sides in Stoke. I was invited; Nottingham Forest won. A few months later, we met again and I showed him the critical letter from the CRFS which stated that they were 'investigating' the matters that I had written to them about. Sir Hubert agreed that, if the case had come to court, the Britannia BS would have lost.

Other attempts to interfere. I duly completed the research. Tom MacRae, Professor of Accounting and Finance at Bradford Management Centre, what is now Bradford University School of Management, and David Llewellyn, Professor of Money and Banking at the School of Business and Economics at Loughborough University (who was from time to time a consultant to building societies and between 1986 and 1993, was a director of the Halifax Building Society) were the two external examiners for my PhD submission. It was awarded but Professor Llewellyn requested that I remove the chapter on managerial diversion and my research into special advances.

While writing the PhD thesis, I wrote a number of academic and practitioner articles relating to inefficiencies and weaknesses in controls leading to failures. (I actually identified certain societies which I considered vulnerable and which subsequently failed.) Professor Richard Briston, at that time editor of the *Journal of Business Finance and Accounting* ('*JBFA*') told me that each time the journal published a paper by me on building societies (three between 1982 and 1985: Barnes 1982, 1985 and Barnes and Dodds, 1983), he was called and lambasted by Mark Boleat, at that time the

secretary of the Building Societies Association ('BSA'), the movement's trade association. At one stage, Boleat asked Briston to send copies of my papers for him to approve before publication in *JBFA*. Of course, Briston did not agree to the request. In contrast to the *JBFA* experience, I wrote a paper on the ethical issues including some of the findings relating to 'managerial diversion', which was submitted in turn to two academic journals (*Journal of Academic Ethics* and *Journal of Financial Crime*). Although both journals were devoted to these types of ethical issues, the paper was rejected by the editors without even being sent to reviewers.

Other instances of interference included threats by those involved in the libel action to complain to the Bank of England about my research (I had been awarded a small grant from the Bank of England to fund travelling expenses when conducting my research). I was also told by administrators at the University of Wales that it had been accused of misappropriating public money by supporting my research. The view of my Head of Department at the time was that if I chose to conduct that kind of research, I had to accept the consequences – hardly overwhelming support.

Research and funding issues in universities

The morals of the story are obvious; nevertheless, a few points should be made. Knowledge and truth can only be advanced by means of a marketplace in which ideas (together with the empirical evidence to accept or reject them) are permitted, and protected where necessary, for them to freely compete. Not only is academic independence a necessary condition for such a free marketplace to exist but an academy of scholars is also required, who are free and able to criticize both their own ideas and those of others. The idea of a well-functioning market (whether there are prices and quantities or not) is that resources are allocated where most needed. Imperfections in the market leading to misallocation are well known and in practice, almost bound to occur. In an academic market such as envisaged here, the interaction between supply and demand, and therefore output, are nevertheless obstructed by influences, say by those with a vested interest.

Political interference

Political interference in academic research, or the way it is disseminated or interpreted, is well known and not confined to the natural sciences (see, for example, Hofstadter, 2011). There is one example that was highly politically motivated, at the highest level and particularly 'close to heart' as at the time as I worked in a UK economics department and my research directly related to deregulation. In March 1981, 364 'leading economists' in the United Kingdom published a statement criticizing Margaret Thatcher's economic policies. This caused a huge amount of publicity but in response, Patrick Minford, Head of the Economics Department at Liverpool University at the time and a supporter of Milton Friedman's monetarist policies in the United States, wrote a letter to *The Times* defending the Government. Thatcher immediately wrote a letter to Minford to congratulate him.¹⁶ Minford's department was later to become highly influential in crafting the 1980s Conservative Government policies on inflation, monetarism and unemployment. The department received considerable additional funds for research in contrast to other more prestigious institutions at the time that were critical of the government's policies which received funding cuts. In 1996, Minford received a CBE for services to economics.¹⁷

There has been considerable debate about who best should make decisions about government funded research: whether politicians and civil servants aware of society's needs or the experts who are familiar with the practical issues. Whilst there may be conflicts of interest for both sides, the general principle in the United Kingdom has been that these decisions should be made by researchers rather than politicians and is known as the 'Haldane principle'.¹⁸

It should not be thought that accounting does not have a political dimension, although it may not be so clear-cut. As long ago as 1978, Solomons (1978) made the point that accounting was not apolitical when he wrote:

Today to judge from current discussions of the standard-setting process, accounting can no longer be thought as nonpolitical. The numbers that accountants report have, or at least are widely thought to have, a significant impact on economic behavior. Accounting rules therefore affect human behavior. Hence, the process by which they are made is said to be political. (p. 66)

Since that time, there has been considerable research into the economic consequences of financial reporting changes and the connection to the political has been established. The most obvious relatively recent case is the change of accounting policy by standard setters in response to pressures at the time of the 2007–2008 financial crisis.¹⁹

Business interests and large donors pose a similar threat to academic independence, not only directly but also from within universities over-concerned with attracting funds. There have been scandals of universities being found out for accepting research funds from dictators or regimes with extremely poor human rights records, such as Saudi Arabia and Iran.²⁰ A case closer to home for me was the acceptance by the University of Nottingham of £3.8 million from British American Tobacco to fund a centre for ‘corporate social responsibility’.²¹

It is sometimes argued that libel laws, particularly those in the United Kingdom, are a form of censorship.²² Not only do they help to protect the rich and famous from public scrutiny, silencing critics and the press because of the crippling high costs of mounting a defence, but also denying the public access to the full picture and restricting public debate and scientific evidence (Cohen, 2013, pp. 299–303). It is also argued that unrestricted access to online information and social media has helped to expedite the fall of dictators, although in many cases they were replaced by even greater tyrannies and a denial of public access to the Internet. It also means that, we who have access, although perhaps feeling more informed than ever before, do not live in an unprecedented time of freedom but are subject to ever-tightening structures on what we say, think or do. Although there are no meaningful official statistics in the United Kingdom, it appears from yearly data that Sweet and Maxwell have from time to time provided,²³ the number of libel cases has significantly increased since the early 1980s, particularly business-related cases against newspapers designed to stifle public opinion on disreputable business practices.

Pressures in the 1980s in the United Kingdom. Financial pressures leading to the dependence on external funding of UK universities dates back to the mid-1980s, a period when they were assaulted (according to Gombrich, 2013: 7, ‘murdered’) by savage cutbacks in public funding, the implementation of meaningless ‘reforms’ based on free market principles and the embrace of ‘managerialism’ (Locke and Spender, 2011). The Thatcher Government (1979–1990) changed universities enormously, effectively breaking up what it regarded as a cosy cartel. From 1979 onwards, it cut the overall grant to universities in real terms, changing the basis of allocation of funds to the number of students, thereby forcing universities to compete for students.^{24,25} While the growth in student numbers over the period was large (about 50%), the level of public funding per student fell beyond what would have been expected from economies of scale alone: from £8500 in 1985 to £4800 by 1997, research money bore the chief brunt of the cuts. Funding was cut so dramatically in July 1981 that it created financial instability and raised the possibility of the bankruptcy of some of the newer universities, so the government was forced to return some of the money under a ‘restructuring fund’. Also, in order to help pursue its policies, the government introduced a ‘new blood scheme’ to replace higher paid, tenured academics with younger lecturers on short term

contracts (Scott, 1989: 200), together with the removal of academic tenure in 1987, which had protected those on permanent contracts from being made redundant, and a Research Assessment Exercise ('RAE')²⁶ to evaluate universities to decide the share of government funds based on the quality of research undertaken.

The effect of the financial cutbacks on research was enormous. Between 1981 and 1987, 30 per cent of alpha-rated research projects had been rejected for want of funds (Jenkins, 1989: 274) prompting a 'brain drain'.²⁷ The cuts forced institutions to operate as businesses rather than academic enterprises leading to the closure of unprofitable departments and the rationalization of subjects (Scott, 1989: 206) particularly in unfashionable areas such as theology, sociology, philosophy, psychology and economics. In the case of philosophy departments, MacDonald Rees (2009) writes:

During the 1980s, there was a massive financial squeeze on university funding, which resulted in the closure of many small departments as uneconomic, including half-a-dozen philosophy departments in traditional universities. Since then, university managements have become even more cost conscious, and departments which do not perform satisfactorily in terms of recruitment of students or research productivity have either been closed, or merged with larger units. (p. 8)

The exposure to the 'market pressures' of the late 1980s had other effects, notably the promotion of 'relevant' subjects and an emphasis on the importance of 'value for money' and 'practical implications' when assessing research proposals.²⁸ Although academics were not told what to research, it was obvious what was in their interests. To compete successfully for funding, it was necessary to identify a topic that was attractive to donors and convince them of its practical value. In areas such as finance, accounting, marketing, human relations and other management-related and similarly applied subjects, funding for research from industry and commerce was expected, particularly compared with those subjects which may not be able to offer such tangible or obvious benefits. What is more, if an academic was unable to obtain research funding in such an applied area as management, this was an indication of his or her research inability and/or non-commitment to the subject – the market test. Appointments and promotions were decided on it (Radice, 2001).

To give an example, when I joined the University of Nottingham Department of Industrial Economics ('UNIE') in 1988 (before it formed the basis of the University of Nottingham Business School) despite difficult financial times elsewhere, UNIE was remarkably prosperous. Its finances were strongly supported by a research centre which looked into certain types of managerial transactions and funded by a consortium of firms from finance and commerce. Although I am sure the centre had academic independence in a sense, it would have been risking continued support if it embarked on research that was contrary to its sponsors' objectives and agenda or was likely to embarrass them in some way (say, the exploitation of inside information relating to these transactions by managers).

The emphasis on relevance also led to the expansion, or the creation, of new business schools, often by simply transferring academics from failing departments to expanding ones; incidentally, releasing them from the stringencies of the 'cuts'. Many of those in the more traditional and 'less practical' branches of the social sciences, moved to management-related areas, for example, economists to business finance and strategic management, psychologists to human relations, sociologists to teach organizational behavior and so on. Many 'left wing intellectuals' repositioned themselves as pragmatic business school teachers.²⁹

To those in the more 'relevant' areas (notably accounting and finance), academic independence and the possibility of controversy were minor problems. While it may have been necessary to change presentation or emphasis (relevance, etc.), these were not usually constraints and would have negligible effects on the conclusions. A researcher does not usually know precisely where an

investigation will lead, the issues to be confronted or, of course, the outcome. While many academics avoided controversial areas of research, in my view, this was unnecessary as long as the RAE requirements could be fulfilled (Barnes, 1990).

While not agreeing with Thatcherism, I have to confess to supporting the effects of the new financial pressures on accounting and management-related academic research at least, although, of course, the time pressures imposed by the RAE's (e.g. a specified expected minimum number of publications in a specified and relatively short period of years) were quite ridiculous. These pressures only really threatened those without ideas and/or lacking the ability to conduct original research; they were not a threat to those who had, irrespective of their political persuasion or the controversial nature of their research.³⁰

Pressures in modern universities

These changes had other effects; notably, the pressure on academics to 'publish or perish' or, more appropriately, 'publish or lose your job'. The effect was to create an incentive for academics to look for 'safe', fashionable areas where the data were accessible, the probability of publication high and the necessary number of acceptances achievable.³¹ To quote Briloff, 'Doctoral students pursue esoteric statistical calculations that have little relevance to the problems of today' (Hennessey, 1985: 18). In the late 1970s and early 1980s, efficient market studies were particularly popular (the most popular of all in the United States, according to Abdel-Khalik and Ajinkya, 1979) the data were publicly available, there was an established methodology and a theory on which to hang results.³² Undoubtedly, this must have been (at least at the margin) at the expense of more challenging, innovative and valuable work where it would be left to the ablest researchers to recognize the trade-offs and take the risks.³³ The expansion of higher education over recent decades has not only increased the number of researchers, it has widened their span of ability and raised the demand for publication outlets. We now have a burgeoning number of new journals, many of which are online only, some of which charge authors to publish with the inevitable scams involving fictitious or non-existent reviewers.³⁴

Consider the incentives for editors of (established and reputable) academic journals with relatively minor commercial incentives, minute budgets (if they exist) and probably beholden to their reviewers and their agendas, in comparison with those of the editors of newspapers and the media who would be looking for stimulating and, therefore, probably controversial items to boost and interest their readership.³⁵ Similarly, consider the incentives involved in respect of faculty appointments arising from the increased economic and other pressures. Say, the choice between an applicant able to publish the requisite number of papers in non-controversial areas and, say, a 'maverick'³⁶ (or in Kant's terms 'enlightened', Kant 1784) perhaps more able and more likely to publish in higher ranking journals but also liable to raise controversial issues. Stamp (1983) recognized the dilemma, 'A great university cherishes awkward buggers, and is distinguished by having the courage (as well as the self-confidence) to turn a deaf ear to their detractors' (p. 4). He went further, arguing that academic independence required supportive University Presidents (in the UK Vice Chancellors) and Departmental heads. In his opinion, a President or Vice Chancellor should not have tenure and that 'most of his time ought to be spent in making sure that the right background conditions are available so that creative intellectual activity can flourish' (Stamp, 1983: 5).

There are other aspects to academic independence and free speech in universities today extending beyond academic research and its dissemination. A summary of some recent incidents is provided by Williams (2016: 3–21) who paints a sorry picture of modern universities in the United States and the United Kingdom. In her view, the intellectual environment is suffocated by consensus and conformity. Williams writes (2016):

it is not a fear of libel which curtails debate; rather, it is the reluctance of many academics to say anything controversial at all. More problematic, particularly in the social sciences, is a growing sense that there are some views that just cannot be expressed. (p. 79)

In her view, ‘academic justice’ (fairness, equality, respect and sensitivity) dominates in which boycotts and restrictions such as ‘speech codes, codes of conduct, safe space initiatives, equality and diversity statements or even, ironically, policies on academic freedom’ persist (Williams, 2016: 195). She talks of intolerance by students (of any political incorrectness, the inattention to the rights of minorities, however small); peer pressure on publications and the directions of the discipline; management’s attention to students’ needs as customers’; and government funding demands to which academics have responded with obedience and obsequiousness.

Final remarks

Academic freedom is vulnerable as academics have little more than their own conscience and integrity to rely on in defending it, usually at great personal cost. Although most academic independence issues are likely to (and do) occur in the natural and some of the social sciences, the exploits of MacNeal and Briloff in the United States, Stamp in the United Kingdom and the NCB case illustrate that where accounting-related economic consequences are sufficiently significant, they will attract controversy leading to problems concerning academic freedom. While the case study and most of the other academics’ ‘exploits’ mentioned here occurred in the 1980s or earlier, they raise the question of whether modern universities remain as tolerant and ‘enlightened’ when they and a nation’s economy have become so mutually dependent.

Their work also demonstrates how accounting academics can conduct this kind of work without access to inside information. In my case, the discovery of conflicts of interest and the accompanying regulatory failures relating to loans to the Bernard Clarke group of companies should have been a relatively minor matter and not led to such an extreme form of retribution. Nevertheless, the case illustrates the lengths to which organizations (in this case the Britannia BS and the building societies movement) would be prepared to go to suppress independent and objective research if critical. More importantly, it also illustrates the lengths to which those within universities would be prepared to go to avoid controversy arising from research. Fortunately, by the time I was completing the building societies research, despite the Thatcher government’s attempts to abolish tenure for university academic staff, I had a permanent lectureship with tenure at a good university and was not dependent on external funds. Had I not had that security, I may not have been able to proceed unaffected. But then that was the purpose of academic tenure.

I have argued that, while there were severe financial pressures imposed on them by government in the 1980s, providing an incentive for universities to develop teaching and research in ‘relevant’ subject areas, fortunately accounting was not one. I have also shown that, while the Thatcher government did impose political or ideological pressures where it considered necessary in pursuit of government policy, generally, it did not interfere in academic freedom but allowed market forces to run their course and provide the necessary incentives. In my opinion, and I have tried to show, the pressures that did occur, which are still present today, come from universities and academics themselves in terms of their obsequiousness towards, and interpretation of, the perceived needs of sponsors and affected institutions.

What happened to the new building societies legislation (the policy implications of the research) and the other parties in the law suit (the Britannia BS and the Clarke group of Companies)? The UK Government issued a Green Paper in 1984 (HM Government, 1984) proposing the deregulation of societies’ powers and demutualization and, as expected, the *Building Societies Act 1986*

widened, within certain limits, their borrowing and lending powers and the business they could conduct. It barely considered conflicts of interest and ‘undesirable lending’, the notion of special advances was abolished and a society’s annual return ceased to be a public document (for a discussion, see Barnes, 1988). Because of its lending leading up to the financial crisis, the Britannia BS was in financial difficulties and would have failed had it not been taken over by the Cooperative Bank in 2009 (Kelly, 2014) – which then failed as a result of the merger. The Clarke group of companies also failed, going into receivership in 2014 and found to be insolvent.³⁷

Some personal reflections: having taken on and beaten one of the largest financial institutions in the country at the time (the Britannia BS), contributed to the debate on the future of building societies and the drafting of the new Act (although my suggestions were largely rejected) relating to how conflicts of interest should in the future be regulated (including drafting the Labour Party spokesperson’s speech opposing the Bill, *Hansard*, 19 December 1985. Also see, Barnes, 1988), by the late-1980s I felt that, while I had won the battles, I had somehow lost the war. On the other hand, having experienced it, I had been able to research an area in which I believed there were genuine (regulatory) issues. I was not dependent on, or constrained by, those involved (building societies) and I had enjoyed the pleasure of discovering a significant event in the history of the building societies movement (‘rogue’ societies in the 1950s) and the scale of the abuse at the Lion BS that had effectively continued at the Britannia BS unnoticed by its top management and the regulator. The issues regarding conflicts of interest and the ‘myth of mutuality’ had not only been flagged up (Barnes, 1984) but their effects demonstrated. I had learnt the value of academic freedom and independence. I never looked back, developing an expertise and interest in financial crime, becoming a consultant, investigator and expert witness and developing courses and programmes in fraud risk management and forensic accounting.

The section on accounting research leading to controversy was primarily concerned with the influences in the 1980s. Have there been critics since and if so or not why? Obviously, this is outside the scope for this article, but I would offer a few thoughts. I do not see the distinguished academics of the post-1980 period in the United Kingdom being involved in this way; the only person with a reputation in the area in recent times in the United Kingdom is Prem Sikka, Emeritus Professor at the University of Essex.³⁸ Perhaps, this is because the 1980s also saw the demise of normative-deductive accounting and radical alternatives to historical cost accounting advocated by MacNeal, Chambers and others and the rise of positive accounting. Nevertheless, it is strange that independence is not a greater problem for academic researchers. Perhaps they are deterred from this kind of research because of the pressures on academic independence highlighted in this article.

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Notes

1. We may add many other relatively recent examples to the above from many other countries including Chile in the 1960s (Garretón and Pozo, 1984), Australia (Gelber, 2008), Russia (Kondrashov, 2015), India (Havergal, 2016), Hong Kong (Johannes et al., 2016) and even the United Kingdom under Margaret Thatcher in the 1980s (Campbell, 2007).

2. The AAUP (1915) continued, university and college teachers had a social role to ‘impart the results of their own and of their fellow-specialists’ investigations and reflection, both to students and to the general public ... without fear or favor’ (p. 3) and that their conclusions were ‘not echoes of the opinions of the lay public, or of the individuals who endow or manage universities’ (p. 3).
3. One wrote ‘There is just enough truth in some of the author’s contentions to make the book dangerous’ (cited in Zeff, 1982: 542).
4. The Scholars Book Company was founded by another distinguished but similarly frustrated accounting academic, Robert Sterling. For his criticisms and frustrations with the accounting establishment generally, and the US Financial Accounting Standards Board in particular, see Sterling (1990).
5. Notably the AEI – GEC merger aftermath and the Pergamon Press scandal (Stamp, 1985).
6. news.bbc.co.uk/onthisday/hi/dates/stories/march/12/newsid_3503000/3503346.stm
7. See, for example, <http://pediaa.com/difference-between-absorption-costing-and-marginal-costing/>
8. It is interesting that, despite not discussing the pros and cons of the accounting arguments, Sikka et al. (1995: 126) expressed disappointment that Edward Stamp, one of its authors, did not come out in their support and, as a result, doubted the strength of his moral principles.
9. The tax benefits included a reduced corporation tax rate, what was known as the ‘composite rate’ (a system simplifying the payment to the tax authorities of tax deducted at source by building societies providing them with advantageous tax treatment), and the tax exemption of profits arising from the sale of gilts, together with the tax-deductibility of mortgage interest payments by borrowers. Most of these benefits were ended around or following the 1986 Act.
10. Alfred Nichols was a well-respected but little-known academic in the Department of Business Administration at the University of California, Los Angeles, and may well also have had academic independence problems but, unfortunately, there is no record and he is deceased.
11. Until their demutualization in 1986, building societies were referred to as a ‘movement’ as it implied mutuality.
12. ‘BS’ is used throughout to denote ‘Building Society’.
In 1985 the title Chief Registrar of Friendly Societies was changed to ‘Building Societies Commissioner’. This represented the raised the status of the office commensurate with the increased importance to the regulation of the new building societies.
13. The 1960 Act and the existing Building Societies Act were consolidated into the *Building Societies Act 1962*.
By this, the CRFS meant (1) loans to companies or individuals related to, or associated with, directors of the building society which had been granted by virtue of that connection and/or (2) loans that were insufficiently secured. In some cases, there may be an overlap between the two. It did not stretch to, for example, the condition of a property affecting its occupation on which a loan was secured.
14. If they did not exceed the 10 per cent limit at the beginning of a financial year, a building society could make new special advances of up to 10 per cent of all new advances during that year. If they exceeded 10 per cent but were less than 25 per cent, then new special advances were limited to 2.5 per cent of new loans in the following year and if they exceeded 25 per cent then no new special advances were permitted.
15. It is significant that a *Sunday Times* report of 13 March 1983 (page 53) stated:

As a result of the recent *Sunday Times* article on the relationship between the Britannia Building Society and the Bernard Clarke group of companies, the Chief Registrar of Friendly Societies ordered an investigation into all loans to the Clarke companies

16. For Margaret Thatcher’s own account of the episode, see Thatcher (1993: 138).
17. For a summary, see <http://www.patrickminford.net>
18. R.B. Haldane, who from 1909 to 1918, chaired committees and commissions which recommended this policy (HM Government, Ministry of Reconstruction, 1918).
19. More specifically, the changes implemented by the FASB on 10 October 2008 and 9 April 2009 and the IASB on 13 October 2008 giving banks more discretion in the use of non-market information and reclassifying non-derivative financial assets (Barnes, 2011; Laux and Leuz, 2009).

20. For example, the acceptance by the London School of Economics (LSE), of a donation of approximately \$2.4million from the Gaddafi International Charity and Development Foundation, a charity controlled by the dictator's son, Saif. The LSE was previously on record for praising the Gaddafi Foundation as 'committed to the promotion of civil society and the development of democracy', <http://www.investigativeproject.org/2698/british-universities-bag-dictators-money>
See also Simcox (2009: 21–30) who showed how over the previous 30 years British universities commonly accepted donations of between £150,000 and £8 million from organizations linked to autocratic and corrupt regimes.
21. See the editorial in Thorax (2001), Vol 56, No 1, by John Britton and Alan Knox entitled 'Nottingham University and British American Tobacco' available at <http://thorax.bmj.com/content/56/4/249.full>
22. While in the American courts, the burden of proof rests with the person who brings a claim of libel, in the British courts, the author has the burden of proof, and typically loses (Moore and Murray, 2012).
23. See https://www.sweetandmaxwell.co.uk/about-us/pressreleases/Defamation_Cases_annual%20survey_0709.pdf
24. The distribution of the grant was conducted by the University Grants Committee ('UGC'), later to be replaced by the University Funding Council ('UFC'); the UGC was manned by academics, the UFC by businessmen.
25. The UGC received an annual sum of money from Government which it allocated to the universities. In 1987, the Thatcher Government replaced the UGC with the University Funding Council (UFC) which was manned not by academics but businessmen.
26. The RAE was conducted periodically, for example, every three or five years, and graded each university department according to the quality of its research based on a peer assessment of individual academic members' publications over that period.
27. Jenkins (1989) writes:

In 1984 more than a thousand scientists and engineers emigrated to the United States ... By 1986 Oxford and Cambridge could no longer realistically hope to attract an American academic with more than one child approaching college age. An American turned down one of Cambridge's most desirable chairs because his salary was five times that on offer. (pp. 273–274)
28. When Lord Chivers, chairman of UFC, launched an 'enterprise in education' initiative in 1987, he even pointed to the need to make history 'relevant' (Scott, 1989: 205).
29. An excellent example was Paul Hoch, one of two academics recruited to teach management when UNIE decided in 1988 to branch out into management studies and set up an MBA. Hoch held a PhD in theoretical physics from a US university, but when he returned to the United Kingdom he developed an interest in its role in society through, for example, the formation of university-owned companies and for which he had been awarded a fairly large grant from the Economic and Social Research Council. His past was somewhat different; radicalized by the Vietnam war, he joined the student protest movement of the late 1960s and 'on one occasion caused hilarious consternation during lunch in the Senior Common Room at the London School of Economics by removing the totemic portrait of Lord Robins from the wall and placing gently but not reverently on the floor' (Griffith, 1993: 27. Page number required). Griffith also remarks that he was wholly uncompromising in upholding his political principles and his subsequent arrest at a student demonstration leading to imprisonment and, at one stage, deportation, 'was not surprising'.
30. According to Greenaway and Haynes (2003), studies suggested that both the quantity and the quality of university research improved in many areas as a result of the turmoil of the mid-1,980s, and in most areas the United Kingdom ranked either second (to the United States) or first in bibliographic analysis of publications outputs.
31. For example, in the case of money laundering and securities fraud, confining themselves to legal analysis or attitudinal questionnaire research rather than the analysis of cases and practice. It should also be pointed out that in the United Kingdom, accounting academics were not at the forefront in the push for corporate governance reform in the late 1980s and early 1990s.

32. Impetus for this also came from the establishment of the Center for Research in Security Prices ('CRSP') at the University of Chicago and its development 'CRSP data tapes' and their availability for academic researchers in the 1970s and 1980s. For a discussion, see Whitley (1986).
33. It is significant that the early textbooks on creative accounting were not written by academic accountants but by journalists (Griffiths, 1986), financial analysts (Smith, 1992, who was later dismissed by Phillips and Drew, his employers at the time, for writing it) and lawyers (McBarnet and Whelan, 1999).
34. Scholarly Open Access ran a blog that listed questionable journals and publishers until it was recently taken down (December 2016). It had been run by Jeffrey Beall since 2008, an academic librarian at the University of Colorado in Denver. 'Beall's List' contained over 1000 'potential, possible or probable predatory scholarly open-access publishers'.
See <https://clinicallibrarian.wordpress.com/2017/01/23/bealls-list-of-predatory-publishers/> for an archived copy before it was taken down, accessed 20 February 2018.
35. While the threat of a law suit may be a fairly everyday occurrence for some editors (it was for the BBC at the time of my case which was inundated with actions and the threat of them, according to its in-house lawyer at the time, Glen del Medico) who would balance the probability of success of a libel suit and the accompanying costs against both the longer and shorter term commercial effects on its circulation and reputation.
36. Sikka et al. (1995) refer to them as 'intellectuals'. I disagree. There are many accountants (even in academia) who could be described as intellectuals but have no inclination in their work to look for accounting misstatements and ethical lapses. It also does not follow that someone who criticizes the actions of others is an intellectual in the usual meaning of the word.
37. Companies House documents available at: <https://www.gov.uk/government/organisations/companies-house>
38. Throughout his career, Sikka (2008, 2009) has been a critic of ethical practices of many large corporations and the accountancy profession and is joint founder of the Offshore Watch website devoted to exposing global financial corruption.
See <http://visar.csustan.edu/aaba/jerseypage.html>

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