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Les cadres conceptuels en comptabilité financière : enjeux et controverses

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"Les cadres conceptuels comptables et les enjeux de la réglementation comptable"

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Conceptual frameworks and the politics of accounting change

(Les cadres conceptuels comptables et les enjeux de la réglementation comptable)

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The idea of a conceptual framework for accounting is one which has been received with varying degrees of enthusiasm in the Anglo-Saxon accounting world. In the sphere of academic accounting the fashion for normative research which Watts and Zimmerman (1986, p. 4-5) observe as coming to the fore in the 1930s has largely given way to one for positive research, starting with, perhaps, the development of the idea of the efficient markets hypothesis (e.g Ball and Brown 1968). In the world of practising accountants and standard-setting, however, the conceptual framework has a more volatile history, sometimes derided but sometimes invoked when the standard-setting process is in difficulties, as the elixir which will solve all problems.

Carsberg (1984, p. 25) defines a conceptual framework as follows:

a set of basic principles that command general support and can be used to help with detailed decisions by increasing the likelihood of consistency and reducing the cost of analysis.

He goes on, then, to argue the case for a conceptual framework in standard-setting as a political tool. He says (p. 27), in relation to the US experience:

If the FASB can reach agreement on a conceptual framework, people argued, the appropriate decisions will be clearer and people with vested interests will find greater difficulty in resisting them. Thus, the first purpose in embarking upon a conceptual framework project is to facilitate decisions on controversial issues.

It seems that in the world of Anglo-Saxon accounting practice, the conceptual framework is implicated in some degree in the politics of accounting standard-setting. There is circumstantial evidence to show that when a standard-setting system is in trouble, recourse is sometimes had to a conceptual framework as a means of possible salvation.

The US conceptual framework, which is the parent of most practitioner frameworks, also serves as an example in this context. The development of a conceptual framework was advocated by the Trueblood Committee in 1973, as part of a package of measures which resulted in the creation of the Financial Accounting Standards Board as a replacement for the Accounting Principles Board as the US standard-setting body. Carsberg (p. 27) notes: 'many people regarded the Accounting Principles Board's difficulties as attributable to their lack of a formal conceptual framework'.

Another example might be the case of Australia, where, when the Government, in order to resolve a crisis in standard-setting, introduced a body with authority to approve accounting standards in 1984 (Accounting Standards Review Board), one of the first steps taken by the body was to produce a list of ten accounting 'assumptions' (Nobes & Parker 1991, p. 65) which are in effect a form of conceptual framework and relate closely to the FASB's concepts.

In the United Kingdom there has historically been little enthusiasm among standard-setters for conceptual frameworks, but the arrival of the new Accounting Standards Board in 1990 has been accompanied by insistence by the ASB that the purposes of financial statements must be thoroughly reviewed before any further standards can be issued. Tweedie & Whittington (1991, p. 96) - respectively the chairman and academic adviser to the ASB - say:

treating the symptoms rather than the disease can lead to the problems re-emerging in a different form, designed to circumvent the detailed prescriptions intended to deal with earlier forms ... a more systematic and therefore, hopefully, more effective means of treatment is to design standards to deal with the deeper issues which are common to a number of problems.

This is not to say that Anglo-Saxon interest in conceptual frameworks is always linked to crisis in accounting, nor that English-speaking standard-setters always see a conceptual framework as useful. It is not clear, for example, that the IASC's interest in a conceptual framework necessarily had its origins in any crisis. The Accounting Standards Committee (ASC) in the United Kingdom has in the past rejected conceptual frameworks. Watts (1984, p. 138) noted that The Corporate Report (1975) 'remains in limbo', while a report on conceptual frameworks prepared for the Institute of Chartered Accountants in England and Wales (Macve 1981) was dubious about their value.

This paper will argue that change in accounting in general and standard-setting in particular involve a political process; in this context it is not clear that it is useful to

attempt to introduce a conceptual framework; but evidently such a framework takes on a political role. It will then go on to speculate that in practice the generation of a conceptual framework is likely first to be time-consuming, but if created to be ignored and fall into disrepute. It will note that only very shadowy concepts such as the true and fair view are likely to be accepted, and then only because of the very flexibility of the concept.

Politics of accounting change

Theory which sets out to explain or discuss what functions accounting serves and how it operates has only become a focus for accounting researchers relatively recently (Watts and Zimmerman [1986]) and has been characterised by a move from a situation where debate on accounting innovation was seen to take place, at least ostensibly, amongst those concerned to find the 'best' accounting to one where economic motivations are recognised (Zeff [1978] etc.) and by a growing exploration of accounting from a sociological perspective (Burchell et al [1980]). These two strands of enquiry into the factors which influence accounting and the operation of accounting are not unrelated, but it may be useful, at least initially, to review them separately.

Zeff [1972] had researched the standard-setting process in several countries and noted in relation to the United States that although the profession was formally involved with developing and promulgating accounting standards, this process had emerged during the 1930s in the wake of reforms of the capital markets. The Securities and Exchange Commission after considering the possibility of setting standards itself decided to leave to the profession the task of establishing principles for which there was 'substantial

authoritative support' (Accounting Series Release no. 4). Zeff observed that the profession's activity in this area was sometimes heavily influenced by business (often through the agency of the Financial Executives Institute - FEI) and by government (sometimes by the SEC on its own account, sometimes through the tax regulators and the Administration in general).

As regards government intervention he cites accounting for investment tax credits as a case where the Administration thought that its economic policy, as expressed through fiscal incentives, would be frustrated by the financial reporting of it and therefore intervened to change the accounting.

He noted also that the FEI intervened sometimes by making representations directly to the profession and sometimes by making representations to the SEC. A few years later Zeff [1978] expressed the view that the involvement of the FEI in the standard-setting process (through its membership of the Financial Accounting Foundation) was an important development in the acceptance of standards. However, he noted also that the arguments used by business in debating standards had begun to change: business had ceased to refer to 'good' accounting and instead was discussing the economic consequences (such as reduction in the reported level of earnings) to corporations of proposed accounting changes.

Zeff's analysis appears to support the idea that development of accounting principles takes place in a political arena where those with economic and other interests seek to influence the outcomes of regulatory debates. The profession was anxious to secure for

itself the right to specify what is generally accepted accounting, but that in specific instances the SEC might intervene in order to satisfy its own interests, or the government might do the same in support of economic or other issues or businesses might bring pressure to bear, either directly or indirectly through the SEC or government because they felt their economic well-being was threatened. It does not appear unreasonable to suppose that the mechanisms which Zeff saw operating in the United States might be replicated elsewhere.

Further analysis of standard-setting in the United States was done by Watts and Zimmerman. In their 1978 paper they demonstrated that there was a correlation between lobbying by corporations in relation to proposed accounting standards and the likely impact on the earnings measurement of the corporation. Watts and Zimmerman's arguments are sited in the United States economy and depend in part upon management's compensation being directly related to earnings, either in terms of bonus or in terms of stock options whose market price responds to reported earnings. In an economy where management compensation was less directly geared to measured earnings, the benefit from lobbying would be less, but their research backs up Zeff's contention that management may have an interest in influencing individual accounting issues.

In a later paper (Watts and Zimmerman [1979]) the authors advance the hypothesis that accounting prescriptions operate to reduce agency costs in the capital markets - they increase the reliance that investors put in managers by providing a monitoring process. The value of prescriptions (and audit) will vary from company to company: 'agency costs,

in turn, are, among other things, a function of the amount of corporate debt outstanding and of the relative share of equity owned by the manager'. The assumption underlying the discussion is that of a background in the United States capital markets - i.e. an active public market in both stock and debt, and Watts and Zimmerman appear to assume that the monitoring which satisfies the equity market is the same as that for the debt market.

Zeff's analysis indicates that the process of accounting change is a political one and is likely to involve the profession, the capital markets, government and business, but different actors step forward in relation to different issues. Watts and Zimmerman suggest that corporate lobbying is related to potential economic effects of accounting principles and that accounting principles are an important component in the relationship between providers of finance and businesses, so that any change in structure and attitudes should lead to pressure for change in accounting.

Accounting and the social

The political nature of the accounting process is also pursued from the stance of understanding social interactions. The exploration of the intertwining of accounting with its social environment is at an early stage and many accountants still 'see accounting as having the potential for a basic technical neutrality, a potential which was seen as being protected by an overriding professional interest' (Hopwood [1985a]). Researchers concerned with accounting and the social, however, offer 'a more explicit view of the relationship which accounting has to social interests ... rejecting any technical or even

professional neutrality. Accounting from this perspective did not merely facilitate the articulation of particular interests but it emerged from the active pursuit of interested endeavours' (Hopwood [1985a]). Thus, although approaching from a different theoretical base, there is a similar conclusion as to the political nature of the process from which accounting emerges.

In this context the idea of accounting change, or understanding how accounting changes, is inextricably bound up with trying to understand how accounting interacts with the environment in which it operates. Burchell et al [1980] provide a framework for analysing the interaction of accounting with society, noting that 'no longer seen as a mere assembly of calculative routines, it now functions as a cohesive and influential mechanism for economic and social management'.

The authors make the point that although accounting has a 'mission' identified by pronouncements such as the US conceptual framework, research suggests that its product is neither automatically useful to nor used by those to whom it is addressed - or at least for the purposes which its mission suggests. 'The roles which (financial accounting and reporting) serve are starting to be recognised as being shaped by the pressures which give rise to accounting innovation and change rather than any essence of the accounting mission'.

A further elaboration of the interaction of accounting with its environment is provided by Hopwood [1985b]: 'although accounting has important symbolic properties and is implicated in the management of changes in legitimacy in society at large ... it is more

than a mere symbol. Accounting can penetrate into organisational functioning. It can create a particular visibility. It can facilitate the construction of a particular significance. It can shape the ways in which arguments can be mobilised and the information and bodies of expertise which are deemed relevant for their resolution. It can serve as a means of transferring power and influence, allowing what was hidden to be observed and enabling constraints to be imposed on economic action’.

External to the company it is conceivable that the visibility-giving nature of accounting provides a focus for an even wider range of interests. Managements typically wish to know as much as possible about competitors while preserving their own secrecy, the capital markets may wish for more visibility or visibility of a different nature. The state will probably in itself house a number of competing interests: as tax gatherer, as pursuer of a particular form of economic and social order, as exerciser of an accumulation of statutory obligations, many of which may be in opposition to each other. Any person or group who has any interest in corporate activity has a potential interest in the way in which corporate activity is made visible.

Equally those who are responsible for the visibility system, accounting, have an interest in preserving that particular method of making visible and in extending its function. The existence of professional bodies creates organised groups who have an interest in developing its functioning, not necessarily just as a response to technical demands but to enhance their standing, increase their power, or in response to manoeuvring by other professional organisations or the state etc. For example the creation of a standard-setting body in the United kingdom is seen (Zeff [1972]) as arising in part from public pressure

for more uniformity in financial accounting, built up by newspapers, being met by a response first from one professional body then the others to protect their members' interests and forestall possible government intervention (which would have diminished the power of the professional institutions).

Once accounting is institutionalised the institutions take on a role of their own which is not necessarily related to accounting, but which will bear upon the way in which accounting is shaped. 'At best the roles of accounting and the practice of accounting would appear to have a rather equivocal relationship' (Burchell et al [1980]).

Given the many potentially interested parties, it would seem likely that any change would affect many groups, calling therefore either for considerable consensus as to the acceptability of the change, or for powerful forces behind the change to overcome opposition from those whose position might be (in their eyes) disadvantaged by the change.

Burchell et al [1980] take the view that 'the conditions for accounting change are complex indeed. Whilst both technical and conceptual developments are required, to be influential they have to root themselves in a dynamic constellation of issues which constitutes the accounting context. In that constellation, both practice and the roles and functions which it serves and is seen as serving are subject to change as new issues emerge, new linkages to accounting (are) established and new needs for the standardization of accounting practice arise. With so many of these pressures emerging from institutions which at least claim a broader social significance, the roles which can be associated with accounting

change can be different from those which subsequently might be implicated with its actual operation and use.'

Burchell, Clubb and Hopwood [1985] expand the idea of an 'accounting constellation' being a probable condition of change, in studying the rise and fall of the value-added statement in corporate reporting in the United Kingdom. They came to the conclusion that the statement came into being 'out of a complex interplay of institutions, issues and processes'.

In general terms they propose that change will emerge when a whole series of factors converge and produce change through their interaction. The factors will not necessarily be the same for every change and will frequently have no overt connection with accounting. 'We are concerned to emphasise the potential multitude of different actors acting on accounting in purposive ways in an array of different arenas, each having specific, often non-overlapping and sometimes conflicting interests in the accounting practice they are utilising and only partial knowledge of both its consequences and the resistance that its use will engender'.

Their analysis is genealogical, tracing in this case sequences of events in the 'arenas' of accounting standards, macro-economic management and industrial relations and information disclosure, and concentrating on the agencies of the government, the trade unions, the accounting profession etc. This approach is contrasted with the more traditional one of treating accounting as separate from its environment:

Looking outside the Anglo-Saxon accounting world, Scheid and Standish (1988, p.13) claim that:

the French have not needed a major research breakthrough to tell them that accounting standards are driven by political interests and bargaining. The ideas that lay behind the creation and constitution of the Conseil [National de la Comptabilité] made that clear from the outset.

The literature cited above proposes that accounting cannot be seen independently of the environment within which it operates, and that in any forum where accounting change is proposed, interest groups will come forward to attempt to influence that change. The objectives of the interventions by such groups will probably relate to the impact which they expect the change to have on their best interests, and is unlikely to be motivated simply by a desire for 'better' accounting. Put another way, the forum where accounting change is debated is likely to be one interest groups act in a political manner to maximise their own benefits.

An example of this in the United Kingdom in recent times is that corporate preparers of accounting reports are lobbying against any requirement to amortise goodwill or brands against profits, because this would damage their perceived profitability. A recent survey by financial analysts from a securities house (Smith and Hannah 1991, p. 2) observed:

The message was clear in the 1980s - fund managers wanted companies to deliver earnings per share growth above all else ... The task facing many chief executives was how to achieve this, year after year, when their

underlying business performance was dull or needed reorganisation or was overshadowed by a recent acquisition. The answer that many came across involved complex accounting procedures which allowed the all-important eps growth to be reported.

Role of the conceptual framework

Evidently if one accepts that accounting change takes place in a political arena, it follows that participants in the process cannot be assumed automatically to support the idea of 'better' accounting. Prima facie the 'strong' view of the political nature of accounting change implies that there is no role for a conceptual framework in the standard-setting process; time spent in trying to create a conceptual framework would be time wasted, since the outcomes of the standard-setting process would be determined by the pressures from the respective interested parties and not by a desire to move towards an ideal model of accounting. A conceptual framework would have no practical application, and could only ever serve as an analytical framework for criticising accounting practice.

Scheid and Standish (1988 p.10) claim this on behalf of the French process, in contrasting the US attitude with what they perceive as the French approach:

This ... points to the second notable difference between English-speaking and French perceptions. These are respectively that accounting standards are derivable from fundamental general propositions in and of themselves exhibiting a quality of truth or, at any rate, persuasive force and, in the French case, that there is no particular advantage from investing extensive effort in the discovery of possibilities of accounting truth as a basis for

resolving dispute, unconnected from the process of standardisation.

A 'semi-strong' view might be that, while the standard-setting process is political, a conceptual framework has a role as a political tool, but should be understood in that light. Its possible use in this way is the very advantage claimed by Carsberg (1984) for a framework: he said that 'people with vested interests will find greater difficulty in resisting [appropriate accounting decisions]'.

At a practical level the existence of a conceptual framework could restrict the freedom of interested groups. Where the possibility exists to negotiate a solution to an accounting problem, a negotiator would presumably welcome some independent yardstick which would support the case being advanced, but also fear a yardstick which would damage the case. Where a negotiator cannot determine in advance whether a yardstick will benefit or hinder the case, it seems likely that he will prefer that there should be no yardstick - and preserve full freedom of manoeuvre.

In a standard-setting context this view is supported by Bromwich and Hopwood (1983) who say:

It is difficult to see what incentives can be given to other bodies with interests in accounting standards to accept a conceptual framework when such an acceptance amounts to a reduction of their power in society as a result of the consequent narrowing of their right to comment.

If the position is that accounting change is a political process, and that a conceptual

framework would restrict the freedom to intervene of interested parties, a standard-setter would then have to take a policy decision as to whether to abandon any idea of pursuing a conceptual framework or deliberately to pursue it in order to simplify future debate.

Usefulness of the conceptual framework

The alternative policy is to pursue a conceptual framework, despite the potential objections, with a view to reaping the possible advantages. Carsberg (1984) identifies the following advantages:

The first purpose in embarking upon the conceptual framework project is to facilitate decisions on controversial issues. A second purpose is the avoidance of wasted effort in the standard-setting process. If no agreed statement of concepts is available, standard-setters tend to spend a lot of time in conceptual discussion in relation to each individual project ... furthermore, without a common point of reference, decisions may be inconsistent from one project to the next. A third purpose ... is to lessen the need for a large number of detailed standards ... An agreed conceptual framework should enable practitioners to make decisions on more issues themselves.

However, if it is believed that vested interests are very strong within the standard-setting process, one might predict that an attempt to work with a conceptual framework would meet various problems. First that the process of agreeing a framework would be long drawn out and difficult, second that once agreed it might well be ignored in the standards which are subsequently issued, and third that its existence would not avoid the need for detailed standards.

Some standard-setters have chosen to avoid a framework, on the basis that the process of creating the framework would itself take too long. For example, Leach (1981), reviewing the first ten years of the ASC observed that 'if we had held up the issue of standards [in order to agree a conceptual framework] we should have wasted precious years'.

As regards the effectiveness of existing frameworks, one can only again use the FASB conceptual framework as evidence in that other frameworks have been put in place too recently for it yet to be possible to assess their performance and impact. However, looking the the US project, it took from 1973 and the initial work of the Trueblood Commission to 1978 just to issue the first US concepts statement, and this did not go very far beyond what Trueblood had already suggested. The FASB had considerable difficulties in particular with the concepts for recognition and measurement and continued to work on the project until 1985.

It is very difficult to measure to what extent the existence of the US conceptual framework has impinged upon the standard-setting process. There is very little positive evidence that the FASB has relied upon the framework to persuade interested parties of the relevance of individual standards: the framework does not figure in the rhetoric surrounding the process. One might deduce from this that the framework is not considered to be an effective argument.

A recent assessment of the FASB (Burton and Sack 1990, pp. 117-120) produces a table of FASB activity:

Year	Major Standards	Minor Standards	Amendments & Modifications
73/74	1	2	0
75/76	6	5	0
77/78	2	5	3
79/80	4	7	9
81/82	2	18	7
83/84	1	7	3
85/86	2	5	2
87/88	3	3	4
89/90	1	0	3

The authors comment:

Part of the skew in the production of 'major' standards can be explained by the Board's devotion of resources to the Conceptual Framework project in the early eighties. Still, it seems clear that for one reason or another, it is more and more difficult for the Board to deal with major issues.

It would seem that the conceptual framework had the effect of tying up standard-setters in the way which Leach suggested, and without delivering any benefits in the terms of better accounting. Burton and Slack went on to say: 'The Board must demonstrate its commitment to the development of applicable standards rather than pure principles' in order to survive, otherwise 'the leadership role will of necessity be handed top someone else'.

Walton & Wyman (1988, p.70) consider the question of whether a conceptual framework reduces the need for specific standards (as Carsberg suggests it should). They say: 'some of the answers may be inferred from the US experience, and they are not cause for optimism'. They point out that the first four statements concepts had been issued by December 1980, and during that first seven years of the FASB's life 44 standards were issued, while in the next seven years 52 were issued. These included standards such as 'Financial reporting by Cable Television Companies' and 'Reporting a Change in

Accounting for Railroad Track Structures’.

The authors comment:

At a technical level, choosing between accounting alternatives often involves conflicts between competing considerations, for example the difficulty of measuring pension obligations overriding the liability concept, or a concern with prudence overriding deferred tax assets. But it is not clear that the existence of a formal framework helps clarify such issues, and it is possible that it raises theoretical issues which are not a problem in practice.

It is impossible to provide firm evidence of the failure of the US concepts statements to help the standard-setting process, but there is also an absence of any evidence to show that it has helped positively, and it seems that the probability is that the conceptual framework has not in fact been useful in reducing the areas open for discussion or making US statements more acceptable to those affected by them.

True and fair view

Perhaps almost as a footnote, it may be worth considering the case of the true and fair view. It might be argued by those in favour of some form of conceptual framework that the British notion of a true and fair view is a kind of conceptual framework which requires that accounts preparers and auditors ensure that published statements are not misleading. They might suggest that the continued use of the true and fair view in the United Kingdom, and its export to the rest of the EC through the Fourth and Seventh Directives is evidence that some form of conceptual framework can be made to work in

a practical context.

This case rests upon whether or not the true and fair view is considered to imply any conceptual standards. The notion is notoriously undefined either by British statute, jurisprudence or European statute. A recent review of the true and fair literature (Walton, 1991) concludes that, for the United Kingdom at least, the term simply means that the accounts have been prepared in accordance with generally accepted accounting principles, and does not imply any appeal to external or higher concepts.

Its acceptance with the European Community is analysed by Parker (1989) who concludes:

Whilst it is at first sight surprising that the Continental European countries have accepted such a concept it is clear that what they have really imported is a form of words which they are translating and applying so as not to disturb unduly what already exists. Perhaps this is the fate of all indefinable concepts.

This seems to lend support to the idea that a well-defined concept would have been rejected absolutely within the forums where harmonisation was hammered out, and the true and fair view only survived because it was flexible and could be adapted - it did not too much endanger the existing balance of interests.

Conclusion

This paper has set out to consider the place of a conceptual framework for financial

reporting purely within the context of accounting change in general and the standard-setting arena in particular. It specifically does not consider whether a framework can explain existing practices, or is helpful in terms of developing a theory of financial reporting or any other potential role which a framework might have.

The argument has been advanced that standard-setting takes place in a political arena where vested interest will have a significant impact upon outcomes. The political nature of the process is supported by researchers who have analysed the lobbying of those whose economic interests are overtly affected by accounting decisions, and also by those who see accounting as being inextricably involved in social and organizational processes, where individual accounting decisions may not necessarily be taken because of their accounting effects but rather because of their impact upon wider social relationships.

It has been suggested that in reality the political nature of the process of accounting change is such that either there is no effective role for a conceptual framework and energy should not be wasted in pursuing such a goal, or a conceptual framework becomes a political tool which can be wielded by participants in the process. However there is no evidence so far to show that in practice a conceptual framework is an effective political tool.

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