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A STUDY OF THE US GAAP – IFRS CONVERGENCE PROCESS: INSTITUTIONS AND INSTITUTIONALIZATION IN GLOBAL ACCOUNTING CHANGE

Lisa Baudot

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**ÉTUDE DU PROCESSUS DE CONVERGENCE ENTRE LE PLAN
COMPTABLE AMERICAIN ET LES NORMS IFRS :
INSTITUTIONS AND INSTITUTIONNALISATION AU SEIN DE
CHANGEMENT GLOBAL EN COMPTABILITE**

Thèse présentée pour l'obtention du

PHILOSOPHÆ DOCTOR (PH.D.) IN BUSINESS ADMINISTRATION

et

**DOCTEUR EN SCIENCES DE GESTION
DE L'ÉCOLE DOCTORALE
« ECONOMIE, MANAGEMENT, MATHEMATIQUES DE CERGY »
ED 405**

ESSEC BUSINESS SCHOOL

Soutenue publiquement le 25 juin 2014 par

Lisa KARASIEWICZ BAUDOT

Jury

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*Lisa Karasiewicz Baudot
Paris, 28th April 2014*

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List of Acronyms

AICPA	American Institute of Certified Public Accountants
ASC	(U.K.) Accounting Standards Committee
CESR	Committee of European Securities Regulators
DP	Discussion Paper
EC	European Commission
EITF	Emerging Issues Task Force
ESMA	European Securities and Markets Authority
FAF	Financial Accounting Foundation
FASAC	Financial Accounting Standards Advisory Council
FASB	Financial Accounting Standards Board
FVA	Fair Value Accounting
G4	Group of Four (Standard Setters)
G20	Group of Twenty (Finance Ministers and Central Bank Governors)
GAAP	U.S. Generally Accepted Accounting Principles
HCA	Historical Cost Accounting
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRAC	International Financial Reporting Advisory Council
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards

List of Acronyms (continued)

IOSCO	International Organization of Securities Commissions
JFSA	Japanese Financial Securities Agency
MoU	Memorandum of Understanding
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
TTIP	Trans-Atlantic Trade and Investment Partnership

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Résumé Substantial en Français

1 Structure et Signification de la Thèse

« La transnationalisation de notre monde, parfois hâtivement étiquetée « globalisation », ne concerne pas seulement les marchandises, les capitaux ou les personnes. La transnationalisation n'est pas non plus simplement un discours même s'il présente des dimensions discursives. Avec d'autres, nous croyons que notre monde qui se transnationalise est aussi défini par une puissante dynamique de réorganisation. Dans l'ensemble, ce dont nous sommes les témoins est une redéfinition profonde des cadres structurant l'action et des références normatives et cognitives. Notre monde en transnationalisation est un monde où les règles du jeu institutionnelles sont en importante mutation." (Djelic & Sahlin, 2009 : p175)

Un des exemples plus éloquent de la redéfinition des cadres et jeux de référence peut être vu dans le passage de la comptabilité en tant que phénomène national relevant des règles étatiques à la comptabilité comme un phénomène transnational avec un champ et une étendue de plus en plus mondialisée (Tamm Hallstrom, 2004; Botzem & Quack, 2006; Loft et al., 2006; Humphrey et al., 2009; Sebastien & Humphrey, 2012). Le développement de la comptabilité au niveau national a eu lieu à une époque où les préparateurs et les utilisateurs de l'information financière faisaient partie de la même juridiction (Nobes, 1983). Vers la fin du XXe siècle, l'environnement économique a changé considérablement avec des investisseurs à la recherche d'opportunités d'investissement et de croissance à travers le monde entier. Avec ce changement d'environnement, certains ont soutenu que le niveau national pour la comptabilité ne faisait plus de sens et ont plaidé pour des pratiques plus normalisés et harmonisés (Nobes, 1985; Thorell & Whittington, 1994). Finalement, la comptabilité comme un phénomène ne représente pas seulement la pratique de la comptabilité et des acteurs qui la pratiquent, mais s'étend aussi à l'élaboration des règles et des normes comptables (institutionnels), y compris les processus qui permettent leur élaboration et leur contrôle (Cooper & Robson, 2006).

L'élaboration de normes comptables avec un champ et une étendue plus large est en cours de façon significative depuis les années 1970 quand la vision d'un ensemble commun de normes comptables est né, dans une certaine mesure, de l'effort européen de créer un marché unique (Hopwood, 1994; Thorell & Whittington, 1994; Tamm-Hallstrom, 2004). Depuis, l'organisation d'un ensemble de normes comptables

communes a progressé de la consolidation des normes à l'échelle européenne au remplacement des normes partout dans le monde par un ensemble de principes comptables internationalement reconnus (Botzem & Quack, 2006; Street, 2006; Camffermann & Zeff, 2007). Dans sa forme contemporaine, nous assistons à un ensemble commun de normes comptables venant atteindre un niveau encore plus élevé d'agrégation en réunissant les deux principales et concurrentes normes comptables mondiales (Tweedie & Seidenstein, 2005; Arnold, 2012).

Étant donné un certain nombre de récentes décisions contradictoires sur des projets de normalisation qui avaient pour but l'uniformisation de l'environnement normatif au travers des frontières, il peut sembler que la notion contemporaine d'un ensemble commun de normes comptables « est morte » (WAR, Avril 2014). Dans le même temps, avec les négociations menées dans le cadre d'un partenariat transatlantique de commerce et d'investissement (TTIP) entre les États-Unis et l'Union Européenne (CRS, Juillet 2013), la question de normes communes, y compris celles régissant les marchés financiers, continue à s' (ré-) affirmer comme centrale pour les questions de gouvernance transnationale. En ce sens, l'uniformisation des normes comptables semble critique et inévitable à long terme sachant que la mondialisation des marchés continue. Donc, maintenant plus que jamais, notre compréhension de la façon dont les règles comptables (institutionnelles) sont réorganisées et (re) produites peut être étendue.

Cette thèse a pour objectif de développer cette compréhension en explorant plus d'une décennie d'efforts du Financial Accounting Standards Board (FASB) et de l'International Accounting Standards Board (IASB) pour produire un ensemble commun de normes comptables qui seraient acceptées pour la régulation du marché dans le monde. Pour ce faire, elle examine comment un processus de changement de comptabilité (institutionnelle) – souvent appelé un processus de convergence - a évolué au sein de l'espace de normalisation comptable. Plus largement cette recherche examine le rôle que les institutions et les acteurs politiques jouent dans le processus de convergence entre l'IASB et le FASB, ainsi que leur rôle dans le processus par

lequel les instances chargées de la normalisation s’y prennent pour atteindre une prise de décision collective sur un standard très contesté.

Afin d’analyser ces sujets, cette thèse commence par une introduction générale, se poursuit avec trois chapitres représentant des articles autonomes et se termine par une conclusion générale. L’introduction générale traite de l’importance de la régulation transnationale et de la convergence des normes comptables, examine de manière plus large les dimensions théoriques de cette étude, souligne la stratégie de recherche globale et reprend les principales conclusions et observations. Les trois articles distincts, mais liés, qui présentent les principales contributions théoriques et empiriques de cette thèse sont présentées dans chapitre I par chapitre III.

Une première étude empirique examine l’évolution du processus général de convergence des normes comptables au cours de la période de 2002 à 2011. Une deuxième étude empirique explore les aspects spécifiques du processus de convergence d’un standard spécifique, la norme sur la constatation des revenus, entre 2002 et 2008. Sur la base de ces deux études, je propose trois documents de recherche qui répondent à un éventail de questions connexes. Les documents sont intitulés comme suit:

- I. GAAP convergence ou Convergence GAP: Unfolding ten years of accounting change
- II. On the construction of transnational accounting policy : Dynamics of negotiating order between « space cadets » and « dinosaurs »
- III. The rhetoric of justification : The process of constructing what’s « just » in global accounting standards

Finalement, cette thèse se termine par un dernier chapitre présentant les contributions théoriques et empiriques de cette recherche, les limitations reconnues et les pistes de recherches futures. L’introduction générale et la conclusion sont conçues pour fournir au lecteur un synopsis complet des trois documents.

1.1 La régulation transnationale et l’environnement comptable

La dernière décennie a été témoin d'un nouveau débat sur les délimitations floues des activités réglementaires- le concept de réglementation transnationale étant au cœur du débat. Les activités qui ont lieu dans « l'espace de la comptabilité réglementaire » (Young, 1994) n'y font pas exception. Dans ce cadre, les activités actuelles de la profession comptable mondiale (c'est-à-dire les "Big 4") ainsi que des organismes comptables comme la Fédération Internationale des Comptables (IFAC) et l'International Accounting Standards Board (IASB) sont représentatifs des processus de réglementation transnationale (Botzem & Quack, 2006; Loft et al., 2006 ; Humphrey et al., 2009). La notion d'un processus de réglementation transnationale se réfère à un ensemble complexe d'activités réunissant le global et le local et agissant pour structurer et contrôler les interactions sociales au-delà, entre et au sein des frontières nationales (Djelic & S.-Andersson, 2006). Un tel processus est conçu pour faciliter la poursuite d'un intérêt commun entre de nombreux acteurs distincts, tant publics que privés, d'une multiplicité de nations (Djelic & S.-Andersson, 2006). En tant que tel, les processus transnationaux visent vraisemblablement à résoudre des questions controversées et établir des règles du jeu équitable, mais les solutions proposées sont challengées par un ensemble d'acteurs confrontant l'incertitude liée à société fragmentée sur le plan institutionnel et politique mondial.

Dans le monde complexe d'aujourd'hui, les processus réglementaires transnationaux s'établissent selon une combinaison de trois chemins d'élaboration de normes et règles – l'expertise, l'étatisme et le communautarisme- comme dans l'histoire contemporaine de la régulation de la comptabilité transnationale (Djelic & Kleiner, 2006). Ces hybridations produisent ce que Djelic et S.-Andersson (2006) appellent un espace réglementaire « patchwork », dans lequel de nombreux acteurs cherchent à améliorer les débats et les résultats de la prise de décision (Djelic & Sahlin, 2010). Les chercheurs se sont concentrés sur les normes comme des éléments importants de notre architecture contemporaine de régulation transnationale (Brunsson & Jacobsson, 2000; Djelic & den Hond, 2014). Maintenant, nous comprenons mieux les normes transnationales –ce qu'elles sont, quels sont les acteurs impliqués dans la normalisation transnationale et comment le processus normatif transnational fonctionne (Tamm-Hallstrom, 2004; Botzem & Quack, 2006;

Timmermans & Epstein, 2010; Botzem, 2012; Botzem & Dobusch, 2012). En outre, la façon dont les différents acteurs parviennent à travailler ensemble et comment ils s'acheminent vers un accord réglementaire dans l'espace transnational est de plus en plus claire (Tamm-Hallstrom, 2004; Djelic & Quack, 2010; Timmermans & Epstein, 2010; Djelic & den Hond, 2014). Pourtant nous avons encore beaucoup à apprendre.

C'est en essayant de comprendre les travaux des acteurs au sein de l'environnement transnational que la notion de communauté devient importante. Cohen et al. (1985: p16) définissent une communauté comme une formation sociale dont « les membres ont, ou croient qu'ils ont, un sentiment similaire des choses soit généralement, soit en regard d'intérêts particuliers et significatifs et, en outre, qu'ils pensent que ce sentiment peut différer de celui ressenti ailleurs". Étendu à l'environnement transnational, les communautés *transnationales* se composent des acteurs sociaux situés dans de multiples contextes nationaux et qui reconnaissent un intérêt partagé dans les problématiques politiques traversant les frontières qui est distinct des intérêts nationaux (Morgan, 2001). L'appartenance à une communauté transnationale est une forme parmi d'autres de participation et d'affiliation qui peut être combinée avec d'autres appartenances communautaires, dérivées de la nationalité, de la profession, des pratiques partagées, de l'idéologie ou de la base de savoir commun (Morgan, 2001; Djelic & Quack, 2010b). Sachant que les membres des communautés transnationales ont des affiliations dans de multiples communautés, ces communautés transnationales sont susceptibles de présenter un certain degré de complexité interne ainsi qu'un certain degré d'hétérogénéité et de conflictualité au sein de la communauté (Djelic & Quack, 2010b). En tant qu'espace où des perspectives contradictoires et contrastées peuvent être discutées, délibérées et négociées, ces communautés forment des tribunes publiques d'où des solutions largement acceptables peuvent émerger face aux questions complexes politiques.

A la suite de Djelic et Quack (2010b), cette recherche revendique la valeur de la notion de communauté transnationale pour comprendre des modalités de gouvernance et des modes opératoires de la prise de décision. Cette valeur réside dans le potentiel de développement des mécanismes communautaires pour (ré-)

aligner les orientations cognitives et normatives de ses membres au fil du temps par le biais de processus qui conduisent vers des solutions (globales) largement acceptables. En tant que telles, les communautés transnationales jouent un rôle important afin d'encourager la transformation de préférence pour tout ou partie de leurs membres (Djelic & Quack, 2010b). Ainsi, ces communautés développent des règles dans un environnement dans lequel collaboration se combine avec concurrence, augmentant l'importance de la négociation et de l'accord mutuel (Djelic & S.-Andersson, 2006; Djelic & Sahlin, 2010). Cependant, comme Djelic et Quack (2010a) le mettent en évidence, nous avons encore beaucoup plus à apprendre sur la façon selon laquelle négocier et atteindre, pour ne pas dire de légitimer, un accord sur les décisions collectives des règles se combinent et interagissent avec le pouvoir et les moyens. Cette thèse se propose d'enrichir notre connaissance de la prise de décision transnationale en mettant l'accent sur les processus par lequel deux organismes dominants et concurrents de normalisation comptable construisent un ensemble commun de normes comptables formant, dans le processus, une communauté transnationale.

1.2 Changement global des normes comptables : Convergence des US GAAP et des IFRS

Liée au développement sociétal, à modernisation et à la mondialisation, le développement d'un ensemble commun de normes comptables internationales est souvent considéré comme une caractéristique importante d'une forte architecture financière dans le monde. L'idée est qu'un ensemble de normes communes va uniformiser les règles du jeu pour les entreprises et les investisseurs et garantir l'accès aux mêmes qualités, niveaux et types d'information (Hail et al., 2010). Des règles du jeu uniformisées peuvent fournir une information financière plus efficace pour les préparateurs, commissaires aux comptes et investisseurs dans le fait que des systèmes et des pratiques divergentes sont consolidées (Hail et al., 2010). En outre, l'accès à plus d'information et une information plus comparable, peut améliorer les décisions au niveau des entreprises grâce à une plus grande surveillance par le marché (Bushman & Smith, 2001). De plus, les investisseurs, étant mieux informés et en mesure d'estimer les futurs flux de trésorerie des entreprises, les industries, les

marchés et les pays, seront mieux disposés à échanger hors de leurs frontières facilitant ainsi l'investissement et l'intégration des marchés (Verrecchia, 2001; Bushman & Smith, 2001; Lambert et al., 2007; Leuz et al., 2008; Hail et al., 2010). Toutefois, les implications d'un ensemble commun de normes comptables peuvent varier considérablement en fonction de la nature du changement global de comptabilité.

Dans cette thèse, le changement global de comptabilité désigne les changements qui se produisent dans l'espace réglementaire comptable liés à l'élaboration d'un ensemble commun de normes comptables par le FASB et l'IASB. Depuis 2002, le FASB et l'IASB sont engagés dans un processus destiné à réaliser un effort coordonné dans ce qui est souvent présenté comme la convergence de leurs standards respectifs : les normes comptables généralement acceptés aux USA (GAAP) et les normes comptables internationales (IFRS). Cet engagement a pour objectif la production d'un ensemble commun de normes comptables pour la régulation du marché dans le monde (IASB/FASB &, 2002; 2006; 2008). Cependant, une compréhension claire de ce qui se passe dans ce processus reste à établir du point de vue théorique et empirique.

En surface, le FASB et l'IASB semblent être en concurrence en ce qui concerne la responsabilité d'élaborer les futures normes comptables tout en coopérant même temps dans le même temps dans leur effort coordonné de normalisation. En plus des tensions liées à cet environnement concurrentiel et coopératif, la réalisation de l'objectif de "convergence" pourrait apparemment être compliqué par l'absence de congruence entre les environnements où ces normes comptables sont mises au point, appliquées et utilisées (Nobes, 1983; 1988; 1998). Étant donné que la comptabilité, quel que soit l'environnement, a évolué au travers d'une série de compromis applicables en l'espèce à ces règles, on peut s'attendre à ce que les systèmes comptables dans cet environnement soient complémentaires des éléments institutionnels-culturels (Gray, 1988; Nobes, 1998; Ding et al., 2005; Hail et al., 2010). Par conséquent, la convergence pourrait être compliqué en ce que certains pays disposant d'infrastructures culturelles et institutionnelles différentes issues de

leur histoire peuvent préférer des normes comptables alignés avec leurs infrastructures particulières (Hail et al., 2010).

Bien que de telles différences semblent poser un problème à la création de toute forme de normes comptables communes, la normalisation des principes comptables et leur harmonisation dans les environnements nationaux est prouvé possible par le développement des normes comptables internationales (Nobes, 1985; Thorell & Whittington, 1994). Avec le recul, c'est ce développement ainsi que plusieurs facteurs connexes qui permettent la discussion de la convergence des GAAP-IFRS. Ces facteurs comprennent la création de l'IASB, l'organe chargé d'élaborer les normes IFRS, la révision du cadre conceptuel de l'IASB, de la structure de gouvernance et de son modèle procédural et enfin l'élévation des normes comptables internationales à leur position, rivalisant avec les US GAAP (Tamm-Hallstrom, 2004; Botzem & charlatan, 2006; Camfferman & Zeff, 2007; Botzem, 2012).

L'étude de ces facteurs, cependant, se concentre davantage sur les structures de normalisation et les interactions entre les différents organismes intéressés au sein de l'espace normatif et moins sur et le fonctionnement des processus d'établissement de normes, notamment dans le contexte de la convergence des GAAP-IFRS. Cela représente une occasion importante d'élargir l'étude des structures et des interactions à l'effort de convergence entre l'IASB et le FASB et d'intégrer cela avec les processus et systèmes de signification (Djelic & Sahlin, 2009). Plus précisément, cette recherche étudie la relation entre les normes comptables transnationales et (1) le rôle plus élargi des institutions et de l'économie politique dans l'évolution de la convergence; (2) les acteurs et les systèmes de signification qui influencent la façon dont le processus de standardisation comptable s'effectue. Finalement, cette thèse étudie ces relations dans un contexte qui implique les changements comptables au travers des environnements institutionnels et culturels intégrés dans une trajectoire globale beaucoup plus large.

1.3 Présentation de la stratégie de la recherche

Cette question générale et les relations d'intérêt sont abordées au sein de trois documents présentés du chapitre I au chapitre III. Ces articles donnent un aperçu de la façon dont la production d'un ensemble commun de normes comptables mondiales a évolué sur le plan conceptuel et comment certains aspects des activités normatives communes du FASB et de l'IASBs se déroulent au travers l'étude de la création d'une norme particulière. Les questions qui demandent « comment » suggèrent une approche structurée et longitudinale employant des méthodes qualitative d'étude de cas (Morgan & Smircich, 1980; Yin, 1994; Cooper & Morgan, 2008). Les sections initiales ci-dessous discutent de la méthode d'étude de cas combinée avec une perspective historique et mettent en évidence les différentes sources de données référencées.

Approche par l'étude de cas

L'étude de cas est une méthode permettant d'étudier intensivement un phénomène au fil du temps dans son cadre naturel, historique ou contemporain et au sein de un ou plusieurs sites (Yin, 1994). La méthode d'étude de cas implique une attention à l'histoire ce qui permet de comprendre les rationnels des décisions passées et les circonstances environnantes des décisions actuelles (Langley, 1999). Dans cette dissertation, l'histoire nous aide à mieux comprendre non seulement les liens entre l'effort actuel à faire converger les normes comptables GAAP et IFRS et les efforts passés, mais aussi comment l'effort contemporain a évolué au fil du temps. En outre, l'histoire nous aide à apprécier comment les expériences passées des rédacteurs des normes comptables sont intégrées dans le cadre de la normalisation comptable dans le domaine de la convergence.

Pourtant une simple collection d'événements et de connaissances ne suffira pas. Au contraire, l'histoire elle-même est considérée comme une entreprise d'interprétation (Ahrens et al., 2008). Ainsi le chercheur tente de construire son propre récit à partir d'une multiplicité de récits existants – primaires et secondaires – et ces lectures dans leurs contextes deviennent clés (Djelic, 2008). La méthode d'étude de cas permet une telle lecture du point de vue des organisations, des événements ou des phénomènes (tel que le phénomène du changement comptable), et

son examen des activités et des expériences de ceux impliqués en tant que connectés avec le contexte dans lequel ces phénomènes et ces expériences ont lieu (Stake, 2000). En autres termes, cette thèse souscrit à la notion que les contextes – qu'ils soient sociaux, économiques, institutionnels, culturels, politiques, juridiques (et autres) – sont importants et ont pour but de les endogénéiser dans des explications (Ahrens et al., 2008).

Les explications de cas sont produites à partir d'examens approfondis, contextuellement et conceptuellement informés, d'un phénomène particulier qui adresse de manière spécifique la théorie et informe la pratique (Eisenhardt, 1989; Yin, 1994). Une telle approche est particulièrement utile dans l'étude des changements comptables. Les changements comptables représentent un phénomène complexe et dynamique avec beaucoup d'éléments ; ils renvoient à des pratiques réelles qui peuvent être extraordinaires, inhabituelle ou peu fréquents; et s'appuie essentiellement sur le contexte qui affecte le phénomène étudié (Cooper & Morgan, 2008). Certains cas, choisis en fonction de leur pertinence inhabituelle et leur substance exemplaire, offrent la possibilité d'exploiter un phénomène important produisant une description riche du phénomène et de ses mécanismes sous-jacents (Eisenhardt & Graebner, 2007; Sigglekow, 2007).

Alors que cette thèse étudie le cas « simple / singulier » de convergence comptable, ce cas présente certains aspects de l'étude de cas comparative. Par exemple, dans le chapitre I sur la conceptualisation de la convergence, l'unité globale d'analyse est l'effort de convergence IASB FASB en cours depuis 2001. Toutefois, le processus de changement lié à cet effort est analysé sur une période de 10 ans en termes de phases comparatives de cet effort et des projets individuels de convergence. De même, dans le chapitre II et III sur le processus de normalisation, l'unité globale d'analyse est un cas particulier de changement des normes comptables- le projet à long terme d'élaborer une norme de constatation des revenus simples. Cependant, le processus de changement est complètement analysé tout au long de la durée de vie du projet en termes de phases comparatives dans le processus de normalisation des revenus.

Une telle stratégie, qui peut être équivalente à la « structuration » (Giddens, 1984) ou « de la mise entre parenthèse temporelle » (Langley, 1999), décompose l'unité primaire d'analyse en périodes successives n'ayant pas nécessairement de signification théorique mais plutôt ayant une certaine continuité dans les activités au sein de chaque période (Langley & Truax, 1994). La décomposition des données en périodes permet de structurer la description d'événements, rend possible une analyse comparative pour l'exploration des idées théoriques et enfin permet d'analyser comment les événements d'une période peuvent être liés aux changements contextuels affectant des événements dans les périodes suivantes (Langley, 1999). L'application de cette stratégie à l'étude de la convergence a permis une évaluation comparative des changements dans l'espace de normalisation comptable mondial en relation à des événements et des activités importants, aux acteurs impliqués dans ces événements et activités ainsi que les concepts, les valeurs et les idées comprises et utilisées par ces acteurs (Van de Ven & Huber, 1990; Van de Ven, 1992).

Sources des données

Ainsi, pour l'étude détaillée de l'effort global de convergence ainsi que le projet de constatation des revenus une variété de sources de données a été utilisée. Ces sources incluent des documents d'archives, des enquêtes auprès d'acteurs clés grâce à un protocole d'entrevue semi-structurée et l'observation "indirecte" des réunions paritaires durant lesquelles les questions concernant la constatation des revenus ont été débattues. Une vaste quantité de documents qui englobe plusieurs types d'informations ont été référencés aussi bien historiquement que, vu le caractère contemporain du projet à l'étude, presque en temps réel. Ces documents comprennent (1) des articles parus dans la presse et des communiqués de presse/publications rédigés par des acteurs clés sur le thème de la convergence et de constatation des produits, (2) des documents émis par l'IASB et le FASB en rapport avec les 23-projets englobant l'effort de convergence (y compris le projet de revenu) et (3) des informations accessibles sur les sites Web des organismes de normalisation comptable, les organisations professionnelles et les sites de médias sociaux.

L'accès à des discussions informelles entre les membres du comité en dehors des réunions publiques ou à leurs correspondances privées que ce soit par courrier, courriel ou téléphone, qui finalement ont pu avoir une influence dans l'élaboration d'une norme unique n'a pas pu être obtenu. Cependant, les tentatives d'ouvrir la « boîte noire » de l'action normative ont été faites en allant au-delà des données accessibles au public en consultant les débats détaillés des comités du FASB et l'IASB. Ces débats sont constitués de délibérations séparées et de délibérations conjointes des comités du FASB et l'IASB. Les procès-verbaux des comités conjoints, des comités du FASB et de ceux de l'IASB ont été préparés par les équipes respectives de chaque comité. En outre, j'ai consulté les comptes rendus des réunions établis par IFRS Monitor, un service abonné qui rédige des rapports sur l'établissement des normes comptable international. Je considère ces rapports des réunions du comité comme une forme d'observation « indirecte » du processus de normalisation en action.

Pour compléter les documents d'archives et l'observation indirecte des réunions clés, un échantillon des acteurs de la normalisation a été identifié et 18 entretiens semi-structurés ont été conduits. L'objectif principal de l'obtention de données à partir de ces entretiens est de confirmer le rôle des différents acteurs dans le processus de développement d'un ensemble commun de normes comptables GAAP-IFRS plus généralement et dans le processus de convergence du standard sur la constatation des revenus, plus précisément. Ainsi, l'échantillon des personnes interrogées a été sélectionné à partir de deux populations différentes avec lesquels deux types d'entretiens différents ont été développés. Tous les entretiens sauf un (17 entretiens) ont été enregistrés après avoir obtenu la permission de la personne interrogée. Les retranscriptions de ces enregistrements, qui ont duré en moyenne 56 minutes, ont été soumises à l'interviewé pour revue. En ce qui concerne l'entrevue qui n'a pas été enregistrée des notes détaillées ont été prises au cours des entrevues. La nature semi-structurée des entrevues a permis que de fournir une information critiques en dehors du protocole et au chercheur de suivre le cheminement de l'interviewé. Enfin ces entrevues avec une gamme de personnes clés impliquées à différents points dans le temps, offrant des points de vue divergents et ayant des

expériences différentes a permis de s'assurer de l'exhaustivité et l'objectivité dans l'analyse.

1.4 Vue d'ensemble de trois articles de recherche

Chapitre I est intitulé « GAAP convergence ou convergence GAP : Unfolding ten years of accounting change ». Cet ouvrage analyse la progression historique du programme de convergence entre le FASB et l'IASB sur la période 2002-2011 comme un moyen pour comprendre les conditions et les caractéristiques des différentes conceptualisations des changements comptables. Plus précisément, l'article examine comment les événements, les acteurs et les règles institutionnelles en matière de normalisation comptable façonnent la nature, la forme et le processus de changement. Je trouve que la nature et la forme de la convergence a évolué en plusieurs étapes, de l'émulation directe d'un standard par l'autre, à la réduction des différences entre les standards, à la refonte progressive des deux standards. Je considère ces formes comme analogues respectivement aux mécanismes diffusionnistes de l'imitation (DiMaggio & Powell, 1983; Galaskiewicz & Wasserman, 1989), d'édition/traduction (Sahlin-Andersson, 1996; Czarniawska & Joerges, 1996) et de co-construction institutionnelle (Djelic, 2008). J'analyse les conditions et les caractéristiques de chaque étape et les mets dans leur contexte en considérant les événements macroéconomiques et les puissants acteurs entourant le phénomène de convergence de la comptabilité. Cet article contribue à notre compréhension de la notion de convergence de la comptabilité et ce que cela signifie dans le processus de la construction d'un ensemble de normes communes.

Ce premier chapitre constitue ainsi les fondations de ma thèse qui permet ensuite une exploration de la façon dont les acteurs et les systèmes de signification affectent le processus de convergence dans le chapitre II et III. Par exemple, dans le chapitre II, intitulé " On the construction of transnational accounting policy : Dynamics of negotiating order between « space cadets » and « dinosaurs », l'analyse est effectuée sur un projet particulier du FASB et de l'IASB et sur une décision comment mesurer les revenus au sein de ce projet. Cette décision concernait sept ans de débats sur deux modèles qui reflètent essentiellement les systèmes de sens

concurrents (i.e. la méthode des coûts historiques et la méthode de juste valeur). Cet article met l'accent sur les systèmes concurrents auxquels les responsables de la standardisation adhèrent et comment ces responsables de la standardisation prennent des décisions concernant les normes comptables sur la base de ces systèmes. J'utilise le cadre de l'ordre négocié (Strauss et al., 1963 ; Strauss, 1978, 1982) pour analyser comment l'ordre est négocié au sein et entre la FASB et l'IASB sur le projet de norme pour la constatation des revenus. Je dévoile la relation entre des systèmes de signification et l'évolution des ressources, des rationnels et les dynamiques du pouvoir (au moyen de la voix) et comment cela influence l'action collective des comités. Au travers le processus de construction d'une norme commune, la valeur ajoutée dans cette histoire se trouve dans la façon dont cela révèle une communauté transnationale qui prend forme.

Chapitre III, intitulé «The rhetoric of justification : The process of constructing what's « just » in global accounting standards », étudie le processus par lequel les normalisateurs comptables persuadent leur audience publique (et eux-mêmes) du bien-fondé de leurs décisions sur les norms. J'étudie cela comme un processus de justification, par lequel les normalisateurs convainquent leur public que leurs décisions sont « justes », par référence aux différents «économies de la grandeur» (Boltanski & Thevenot, 1991; 2006). Comme un complément au chapitre II, j'analyse le processus par lequel les normalisateurs justifient le choix entre deux conventions pour la constatation du revenu. Je montre comment les normalisateurs comptables s'appuient sur différents « économies de la grandeur » dans la construction des concepts ce qui renforce la mesure d'une convention spécifique d'une manière qui assure la légitimité de la décision des normalisateurs et la perception que cette décision est « juste ».

Ces articles mettent en lumière comment les phénomènes de régulation transnationaux émergent et évoluent en tenant compte des acteurs, des systèmes de signification et du contexte. Ainsi, cette thèse a des implications pour informer la communauté responsable de la gouvernance transnationale et normative comptable, qui comprend des acteurs à plusieurs niveaux et dans des environnements multiples,

quant aux facteurs ayant une incidence sur la trajectoire des normes mondiales (comptables) et le rôle qu'un certain nombre de facteurs joue dans la construction de telles normes comptables.

Premièrement, ce travail contribue à une compréhension plus approfondie des processus décisionnels, dans le cas étudié, le processus par lequel un ensemble commun de normes comptables est développé et articulé comme la solution aux problèmes comptables globaux. Il le fait en mettant en évidence les différentes visions théoriques de convergence que sont l'imitation, l'édition ou la traduction et, finalement, la co-construction (Djelic, 2008). Deuxièmement, cette étude aborde la notion de communauté transnationale en révélant comment deux comités chargés de la définition des standards, travaillant ensemble pour négocier la convergence des normes comptables, accroissent un sentiment de communauté plus large dans le processus. Plutôt que de se concentrer sur l'organisation de normalisation dans son ensemble, ce travail met en lumière la dynamique des membres des organismes de normalisation que nous connaissons beaucoup moins bien. Troisièmement, je me base sur les perspectives institutionnelles et politiques pour examiner les interactions complexes entre les structures institutionnelles et les acteurs influents avec des systèmes de sens potentiellement concurrents et comment celles-ci sont adoptées dans les processus décisionnels transnational. De cette façon, je vois cette recherche comme contribuant largement, dans une perspective empirique et théorique, à la littérature sur la gouvernance transnationale et la normalisation comptable avec des apports théoriques plus explicites à la littérature sur les institutions comptables et de la politique de normalisation.

General Introduction

1 Structure and Significance of Dissertation

“The transnationalizing of our world, sometimes hastily labeled ‘globalization’, is not only about goods, capital or people. Nor is transnationalization simply a discourse even though it does have discursive dimensions. Together with others, we suggest that our transnationalizing world is also defined by powerful dynamics of reordering. ...All in all, what we witness is a profound redefinition of structuring frames for action and of normative and cognitive reference sets. Our transnationalizing world is a world where institutional rules of the game are in serious transition.” (Djelic & Sahlin, 2009: p175)

One of the most prevalent examples of the redefinition of frames and reference sets can be seen in the transition from accounting as a national phenomenon falling under state rule to accounting as a transnational phenomenon with increasingly global scope and reach (Tamm Hallstrom, 2004; Botzem & Quack, 2006; Loft et al., 2006; Humphrey et al., 2009; Samsonova & Humphrey, 2012). The development of national-level accounting took place at a time when preparers and users of financial information rested largely within the same jurisdiction (Nobes, 1983). By the late 20th century, the economic landscape had altered dramatically with investors seeking investment and growth opportunities across the globe. As the landscape altered, some argued that national-level accounting no longer made sense and pushed for more standardized and harmonized practices (Nobes, 1985; Thorell & Whittington, 1994). Yet accounting as a phenomenon extends well beyond the practice of accounting and the actors who practice accounting and into the elaboration of accounting (institutional) rules and standards, including processes of making and monitoring them (Cooper & Robson, 2006).

The elaboration of accounting standards with a broader scope and reach has been underway in some significant fashion since the 1970s when the vision of a common set of accounting standards was born, to some extent, out of the European endeavor to create a single market (Hopwood, 1994; Thorell & Whittington, 1994; Tamm-Hallstrom, 2004). Since then, the reordering of a common set of accounting standards has remained in flux as efforts have progressed from consolidating standards at the European-level to supplanting standards around the globe with a set of internationally recognized accounting principles (Botzem & Quack, 2006; Street, 2006; Camfferman & Zeff, 2007). In its contemporary form, we have witnessed a common set of accounting standards reach towards an even higher level of aggregation in bringing together the world's two dominant and competing sets of accounting standards (Tweedie & Seidenstein, 2005; Arnold, 2012).

Given a number of recent divergent decisions taken on standard-setting projects which had the goal of further leveling the playing field across borders, it may appear that the contemporary notion of a common set of accounting standards “is

dead” (WAR, April 2014). At the same time, with negotiations of a comprehensive Trans-Atlantic Trade and Investment Partnership (TTIP) between the U.S. and the E.U. underway (CRS, July 2013), the question of common standards, including those regulating the financial markets, continues to (re) assert itself as central to questions of transnational governance. In this sense, the aggregation of accounting standards may be both critical (and inevitable) over the long term as the globalization of markets presses on. Therefore, now more than ever, our knowledge of how institutional rules are reordered and (re) produced can be expanded.

This dissertation aims to expand that knowledge in exploring more than a decade of efforts by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to produce a common set of accounting standards accepted for worldwide market regulation. In doing so, it examines how a process of accounting (institutional) change – referred to as a convergence process - evolved within the accounting standard-setting space. This research investigates the role that institutions and politics play in the FASB-IASB convergence process, more broadly, as well as their role in the processes by which standard setters go about collective policy-making on one highly contested standard.

This dissertation commences with a general introduction, continues with three chapters representing stand-alone papers and closes with a general conclusion. The general introduction discusses the significance of transnational regulation and accounting convergence, addresses the broad theoretical dimensions of this study, outlines the overall research strategy, and highlights the key findings and observations. The three separate, but linked, papers which present the main theoretical and empirical contributions of this dissertation are presented in Chapter I through Chapter III.

The first study follows the evolution of the overall process of converging accounting standards during the period from 2002 to 2011. The second study explores specific aspects of the process of converging one particular accounting standard, the standard on revenue recognition, between 2002 and 2008. Based on

these two studies, I propose three research papers that address a range of related questions. The papers are entitled:

- I. GAAP convergence or Convergence GAP: Unfolding ten years of accounting change
- II. On the construction of transnational accounting policy: Dynamics of negotiating order between “space cadets” and “dinosaurs”
- III. The rhetoric of justification: The process of constructing what’s “just” in global accounting standards

Ultimately, this dissertation closes with a final chapter presenting the theoretical and empirical contributions of this research, recognized limitations and avenues for future research. The general introduction and conclusion are designed to provide the reader with a comprehensive synopsis of all three papers.

1.1 Transnational Regulation and the Accounting Space

The last decade witnessed an emerging debate over the blurred boundaries of regulatory activities with the concept of transnational regulation at the core of the debate. Activities occurring in the “accounting regulatory space” (Young, 1994) are no exception. Here, the contemporary activities of the global accounting profession (i.e. the “Big 4”) as well as accounting bodies such as the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB) are indicative of transnational regulatory processes (Botzem & Quack, 2006; Loft et al., 2006; Humphrey et al., 2009). The notion of a transnational regulatory process refers to a complex compound of activities bridging the global and the local and acting to structure and control social interactions beyond, across and within national boundaries (Djelic & S.-Andersson, 2006). Such a process is designed to facilitate the pursuit of a common interest between many distinct actors, both public and private, from a multiplicity of nations (Djelic & S.-Andersson, 2006). As such, transnational processes presumably aim to resolve controversial issues and level the playing field, yet proposed solutions face challenge by a variety of actors confronting uncertainty in an institutionally and politically fragmented world society.

In today's complex world, transnational regulatory processes take place under a combination of three routes to policy-making – expert, statist and community - as in the contemporary story of transnational accounting regulation (Djelic & Kleiner, 2006). Such hybridizations produce what Djelic and S.-Andersson (2006) refer to as a “patchwork” regulatory space wherein constellations of actors seek to shape policy-making debates and outcomes (Djelic & Sahlin, 2010). Scholars have honed in on one such outcome in the form of standards as important elements of our contemporary transnational regulatory architecture (Brunsson & Jacobsson, 2000; Djelic & den Hond, 2014). We now understand more about transnational standards – what they are, which actors are involved in transnational standard setting and how transnational standard-setting processes function (Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Timmermans & Epstein, 2010; Botzem, 2012; Botzem & Dobusch, 2012). In addition, the ways in which different actors manage to work together and move toward regulatory agreement in the transnational space are more and more clear (Tamm-Hallstrom, 2004; Djelic & Quack, 2010; Timmermans & Epstein, 2010; Djelic & den Hond, 2014). Yet we still have much to learn.

It is in understanding the work (ings) of actors within the transnational space that the notion of a community becomes salient. Cohen et al. (1985; p16) distinguish a community as social formations whose “members make, or believe they make, a similar sense of things either generally or with respect to specific and significant interests and, further, that they think that sense may differ from one made elsewhere”. Extended to the transnational environment, *transnational* communities consist of social actors located in multiple national settings who recognize a shared set of interests in policy issues cutting across borders which are distinct from nationally based interests (Morgan, 2001). Membership in a transnational community is only one possible form of involvement and affiliation that may be combined with other community affiliations, derived from nationality, profession, shared practices, ideologies or knowledge base (Morgan 2001; Djelic & Quack, 2010b). As members of transnational communities retain multiple community affiliations, transnational communities are likely to exhibit a certain amount of internal complexity as well as a fair degree of within-community heterogeneity and conflict (Djelic & Quack, 2010b).

Being a space where contrasting and conflicting perspectives can be discussed, deliberated and negotiated, these communities structure public arenas from which broadly acceptable solutions to complex policy issues can emerge.

Following Djelic & Quack (2010b), this research asserts that value of the transnational community concept to understanding governance and policy-making arrangements. This value lies in the potential of community building mechanisms to (re) align the cognitive and normative orientations of its members over time through processes that lead in the direction of broadly acceptable (global) solutions. As such, transnational communities play an important role in fostering preference transformation for some or all of their members (Djelic & Quack, 2010b). Therefore, such communities develop policy in an environment in which collaboration combines with competition, elevating the importance of negotiation and agreement (Djelic & S.-Andersson, 2006; Djelic & Sahlin, 2010). However, as Djelic and Quack (2010a) highlight, we have much more learn about the ways in which negotiating and reaching, not to mention legitimizing, agreement on collective policy decisions combine and interact with power and resources. This dissertation proposes to contribute to our knowledge of transnational policy-making through a focus on the processes by which two dominant and competing accounting standard setting bodies construct accounting policy in the form of a common set of accounting standards forming, in the process, a transnational community.

1.2 Global Accounting Change: Convergence of US GAAP-IFRS

Linked to societal development, modernization and globalization, the development of a common set of global accounting standards is often promoted as a prominent feature of a strong worldwide financial architecture. The idea is that a common set of standards will level the playing field among firms and provide investors access to the same quality, level and type of information (Hail et al., 2010). A level playing field may produce more cost-effective financial reporting for preparers, auditors and investors alike as divergent practices and systems are consolidated (Hail et al., 2010). In addition, access to more, and comparable, information may improve firm-level decision-making through greater monitoring by

the market (Bushman & Smith, 2001). Further, investors, being better informed and able to estimate future cash flows across firms, industries, markets and countries, will more willing to trade across-borders facilitating investment in and integration of markets (Verrecchia, 2001; Bushman & Smith, 2001; Lambert et al., 2007, Leuz et al., 2008; Hail et al., 2010). However, the implications of a common set of accounting standards may vary significantly for different reporting environments depending on the nature of global accounting change taking place.

Within this dissertation, global accounting change refers to changes taking place in the accounting regulatory space related to the development of a common set of accounting standards by the FASB and the IASB. Since 2002, the FASB and the IASB are committed to employ a coordinated effort in what is often referred to as the convergence of their respective standards, U.S. Generally Accepted Accounting Standards (GAAP) and International Financial Reporting Standards (IFRS).¹ This commitment has as its objective the production of a common set of accounting standards for worldwide market regulation (FASB & IASB, 2002; 2006; 2008). However, a clear understanding of what is taking place in this process has yet to be established from either a theoretical or empirical perspective.

On the surface, the FASB and the IASB appear to be positioned as competing for the responsibility to develop future accounting standards while at the same time cooperating during their coordinated standard-setting effort. In addition to competitive-cooperative tensions between the FASB and the IASB, achievement of the convergence objective would seemingly be complicated by a lack of congruency between the environments in which accounting standards are developed, applied and utilized (Nobes, 1983; 1988; 1998). Given that accounting in any given environment evolved through a series of compromises relevant to that particular setting, one can expect accounting systems in that environment to be complementary to institutional-cultural elements (Gray, 1988; Nobes, 1998; Ding et al., 2005; Hail et al., 2010). Therefore, convergence could be complicated in that countries having different and

¹ International Financial Reporting Standards (IFRS) or International Accounting Standards (IASs). IAS is used to denote standards set prior to 2001 while IFRSs is used to describe the cumulative set of IASs and IFRSs.

historically determined cultural-institutional infrastructures may prefer accounting standards aligned with those particular infrastructures (Hail et al., 2010).

While such differences would seem to pose a challenge to the creation of any form of common accounting standards, the standardization of accounting principles followed by their harmonization across national environments is evidenced as possible by the development of international accounting standards (Nobes, 1985; Thorell & Whittington, 1994). It is this development as well as a number of related factors on which the discussion of GAAP-IFRS convergence, in hindsight, appears contingent.² These factors include the creation of the IASB as the body responsible for developing IFRS, the overhaul of IASB's conceptual framework, governance structure and procedural model, and the elevation of international accounting standards to their position rivaling U.S. GAAP (Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Camfferman and Zeff, 2007; Botzem, 2012).

Studies of these factors, however, focus more on standard setting structures and interactions between interested organizations within the standard-setting space and less on and how processes of standard setting function, specifically in the context of GAAP-IFRS convergence. This presents a significant opportunity to extend the study of structures and interactions to the FASB-IASB convergence effort and to integrate this together with processes and meaning systems (Djelic & Sahlin, 2009). More specifically, this research looks to the relationship between transnational accounting standards and (1) the broader role of institutions and political economy in how convergence has evolved; (2) the actors and meaning systems that influence how the accounting change process unfolds. Ultimately, this dissertation studies these relationships in a context which involves accounting change across multiple institutional-cultural environments embedded within a much larger global trajectory.

1.3 Overview of Three Research Papers

² Appendix I offers a retelling of historical events leading up global accounting convergence.

This overall question and the relationships of interest are addressed within three papers which impart the main theoretical and empirical contributions of this dissertation. These papers are presented in Chapter I through Chapter III. Chapter I is entitled “GAAP convergence or convergence GAP: Unfolding ten years of accounting change. This work unpacks the historical progression of the FASB and IASB convergence program over the period 2002 – 2011 as a means to understand the conditions for and characteristics of different conceptualizations of accounting change. More specifically, the paper considers how events, actors and institutional rules in the accounting standard-setting field shape the nature, form, and process of change. I find that the nature and form of convergence evolved over several stages from the direct emulation of one set of standards by the other, to the reduction of differences between the standards to the progressive redesign of both sets of standards. I consider these forms analogous to the diffusionist mechanisms of imitation (DiMaggio & Powell, 1983; Galaskiewicz & Wasserman, 1989), editing/translation (Sahlin-Andersson, 1996; Czarniawska & Joerges, 1996) and institutional co-construction (Djelic, 2008), respectively. I analyze the conditions for and characteristics of each stage and set these in context by considering macro-economic events and powerful actors surrounding the phenomenon of accounting convergence. This paper contributes to our understanding of the notion of accounting convergence and what that means in the process of constructing a common set of standards.

Chapter I thus forms the foundation of my dissertation which then allows for an exploration of how actors and meaning systems affect the convergence process in Chapter II and III. For example, in Chapter II, titled “On the construction of transnational accounting policy: Dynamics of negotiating order between “Space Cadets” and “Dinosaurs”, analysis is undertaken of one particular FASB and IASB project and a decision on how to measure revenue within that project. That decision involved seven years of debate over two models that essentially reflect competing meaning systems (i.e. historical cost and fair value). The paper focuses on the competing systems that accounting standard setters adhere to and how standard setters reach accounting policy decisions on the basis of those systems. I employ

negotiated order framework (Strauss et al., 1963, Strauss, 1978; 1982) to analyze how order is negotiated within and between the FASB and IASB on the revenue project. I unravel the relationship between meaning systems and shifts in resources, rationales, and the dynamics of power (through use of voice) and how this impacts the collective action of the boards. In the process of constructing a common standard, the added value in this story lays in the way it reveals a transnational community taking shape.

Chapter III, labeled “The rhetoric of justification: The process of constructing what’s “just” in accounting standard setting”, studies the process by which accounting standard setters persuade their public audience (and themselves) of the merits of their policy decisions. I study this as a process of justification, in which standard setters convince their audience that their decisions are “just”, through reference to different ‘orders of worth’ (Boltanski & Thevenot, 1991; 2006). As a follow-on to Chapter II, I analyze the standard setters’ process of justifying the choice between two conventions for the measurement of revenue. I show how the standard setters draw on different ‘orders of worth’ in the construction of concepts which reinforce measurement under a particular convention in a way that ensures the legitimacy of the standard-setters’ decision and the perception of that decision as “just”.

The contribution of these papers is to shed light on how transnational regulatory phenomena emerge and evolve in consideration of actors, meaning systems and context. Thus, this dissertation has implications for informing the accounting standard-setting community, which includes actors at multiple-levels and across multiple environments, as to the factors impacting the trajectory of global accounting standards and the role that a number of factors play in the construction of such standards.

2 Theoretical Dimensions

Research on accounting institutions and change frequently looks to the concept of the organizational field as a unit of analysis (e.g. Fogarty, 1992; Greenwood & Suddaby, 2006; Suddaby et al., 2007; Ezzamel et al., 2013). Dimaggio and Powell (1983: p148) define the organizational field as sets of “organizations that, in the aggregate, constitute a recognized area of institutional life;

key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products". Yet the concept of the field encompasses much more than a simple list of organizational actors. Rather, the notion of the field as constituting "recognized area of institutional life" implies an assemblage of organizations whose behavior is guided by particular meaning systems (Dimaggio & Powell, 1983; Scott, 1995). Viewed alternatively through the analytical device of "accounting regulatory space", the accounting standard-setting field denotes a space bounded by accounting rules and principles and by the organizations responsible for, subject to, and reliant on those rules and principles (Hancher & Moran, 1989; Young, 1994). Within the accounting regulatory space reside the organizational actors involved in processes of identifying, developing, clarifying and enforcing the rules and principles that govern financial accounting and reporting, i.e. accounting standards (Young, 1994).

The chapters of this dissertation focus on the identification and development of rules and principles by tracing the evolution of convergence in accounting standards as well as the construction of one particular "converged" standard over time within the accounting regulatory space. These evolutionary and constructive processes of accounting change are considered to involve institutions and institutionalization. In addition, processes of accounting change are also seen as highly political processes. In this section, I highlight the accounting standard-setting literature and what we know about the link between accounting standard setting and institutional and political change processes.

2.1 Accounting Standard Setting Literature

Accounting standard setters develop and establish general standards, or policies, to resolve accounting problems (Young, 1994). Despite standard-setters' central role in establishing accounting standards, the policy proposed requires some level of acceptance by affected stakeholders (Sutton, 1984). Acceptance does not imply that stakeholders actually determine accounting standards; only that they are granted the opportunity to express their views on the accounting standards they will eventually adhere to (Zeff, 2002). The standard setters then deliberate the views

expressed by affected stakeholders, balanced with their own particular views, in a (seemingly) consensus-oriented manner (Sutton, 1984). This cycle as described is reflected within the contemporary policy-making model (i.e. due process) of the FASB and the IASB. By the standard-setter's own definition, due process entails a series of activities open to stakeholder participation or observation as well as activities conducted between the board members and staff (IFRS Foundation, 2010; FAF, 2011).

Accounting research on the due process of standard setting is largely focused on the stakeholder participation aspect in terms of lobbying efforts made by different groups of affected stakeholders. The literature tends to focus on three stakeholder groups – financial statement preparers (i.e. financial versus non-financial firms), financial statement users (i.e. investors/analysts), and auditors (Tandy & Wilburn, 1992; Kenny & Larson, 1993; Saemann, 1999; Larson, 2002; Kwok & Sharp, 2005; Larson, 2007; Jorissen et al., 2012). Such studies are undertaken with the aim of explaining attempts to influence the results of standard setting in terms of the motivation to participate, frequency of participation and mode of participation of the various stakeholder groups (Watts & Zimmerman, 1978; Tandy & Wilburn, 1992; Kenny & Larson, 1993; Kwok & Sharp, 2005; Larson, 2007; Jorissen et al., 2012). A smaller stream of literature seeks to understand standard-setters' responses to lobbying efforts and the potential for standard setters to manage the influence exerted by stakeholders.

Early research focused on standard-setters' political adeptness (Horngren, 1973) and strategic alignment with certain interests (Haring, 1979; Puro, 1984; Mezas & Chung, 1989; Mckee, Williams & Frasier, 1991) as responses to stakeholder pressure. Later, researchers turned to more symbolic resources employed by standard setters to manage and resist stakeholder pressure. For instance, standard setters manage pressure by employing (an appearance of) inclusivity (Miller & Redding, 1988; Botzem & Quack, 2006), by promoting independence and objectivity (Gerboth, 1987) as well as by deferring to established conceptual guidelines (Hines, 1989; 1991) as a means of defense. In a similar way, more recent works show how

standard setters resist outside influence by asserting their knowledge about and appropriateness of “good accounting” (Young, 1996) and, most recently, by mobilizing the decision-useful ideology (Young, 2006; Ravenscroft & Williams, 2009).

However, a crucial part of the policy-making process which occurs in understanding the problem and identifying possible solutions to that problem remains underexplored in the literature (Fogarty et al., 1994). Many critical decisions are, in fact, already taken in the process of understanding the problem and its possible solutions, well before the point at which stakeholders are invited to participate. This paper follows Fogarty et al. (1994) who encourage more scholarly exploration of these critical decisions as well as inquiry into the extent and source of power of the standard setters themselves. For example, accounting policy research has not specifically focused on the decisions of the standard setters engaged in the accounting change through the construction of a common set of standards. I look to institutional and political perspectives to help shed light on this topic.

2.2 Institutional Perspectives on Standard Setting

Burchell et al.’s (1985) seminal article took a broad institutional view in its theorization of accounting change. This view saw change as contingent on the particular constellation of organizations, processes, and models/ideas present within various arenas in any given period of time (Burchell et al., 1985). Research building on this perspective looks at the process by which accounting (institutions) change, are legitimized and become taken for granted, and the role of various actors involved in those processes (e.g. Robson, 1991; 1994; Young, 1994; 1996; 2003; 2006). These studies represent fundamental examples of analyses illuminating the ways in which events, actors and institutions are implicated in shaping and influencing accounting stability and change (Hopwood, 1994). Such analyses share many commonalities with neo-institutional theory in its own focus on explaining stability and change. Chapter I looks to neo-institutional theory as an overarching framework for understanding change in the accounting space.

According to Meyer et al. (1997), from the middle of the 19th century, conceptions of society developed whereby certain explanations of universally applicable cultural models and structural patterns were adopted, or diffused (Meyer & Rowan, 1977). Early diffusionist arguments referred to isomorphism which, by Hawley's (1968) definition³, forces one unit in a population to resemble other units that face the same set of environmental conditions. Meyer and Rowan (1977) applied the term isomorphism to cultural models and structural patterns in their analysis of environmental effects on the similarity noted in organizational structures over time. DiMaggio and Powell (1983) then extended the concept of isomorphism to their theory of institutional isomorphism in organizational fields where processes of change are driven by coercive, mimetic and normative mechanisms.

A significant number of accounting studies highlight the coercive mechanisms by which organizations within a field are compelled to adopt structures or rules. This may be by pressure from government and international organizations as well as through the power of highly structured professions. Such studies speak to powerful forces and their influence on: the adoption of FASB standards by the public sector (Carpenter & Feroz, 2001); the globalization of professional audit services (Cooper et al., 1998; Caramanis, 2002; Arnold, 2005; Loft et al., 2006; Suddaby et al. 2007); the emergence and reorganization of the IASB (Tamm- Hallstrom, 2004; Botzem & Quack, 2006; 2009; Camfferman & Zeff, 2007; Botzem, 2012); and the adoption of IFRS in the E.U and globally (de Lange & Howieson, 2006; Chua & Taylor, 2008; Chiapello & Medjad, 2009; Arnold 2012).). Less common are studies of forces which can arise out of discourse wielding a power of its own (Robson, 1991; Young, 1996).

Many studies of coercive mechanisms also address mimetic aspects which acknowledge that change often takes place in an environment in which technologies may be poorly understood or goals may be ambiguous for a legitimacy-seeking

³ Isomorphism has been co-opted from biology and chemistry for use in the context of organizations and institutions to describe “the quality or state of being isomorphic: a similarity in organisms of different ancestry resulting from convergence” ([Merriam-Webster OnLine Dictionary](#), n.d.). The use of the term isomorphism in this paper is loosely synonymous with convergence.

organization (DiMaggio & Powell, 1983). In facing such uncertainty, the legitimacy-seeking organization essentially copies another model in imitation of what is perceived to be best practice (DiMaggio & Powell, 1983; Galaskiewicz & Wasserman, 1989). In addition to the areas of study mentioned above, mimetic forces have been considered in studies of the voluntary use of non-national standards by European firms before the use of IFRS was mandated (Touron, 2005) as well as in the harmonization of national standards with IFRS (Rodrigues & Craig, 2007; Peng & van der Laan Smith, 2010). These studies generally find the extent of imitation of international “best practice” and decoupling (Meyer & Rowan, 1977) with day to day activities depends on the relative power of the actors who support, oppose or otherwise strive to influence that practice.

Finally, normative mechanisms, where organizations adopt forms and practices because professionals in the organization claim they are superior, derive from the tendencies of business professionalization (DiMaggio & Powell, 1983; Zucker, 1987). For example, the global professionalization of public accounting firms created a powerful normative force in the accounting field (Cooper & Robson, 2006; Greenwood & Suddaby, 2006; Loft et al., 2006; Suddaby et al., 2007). Where a global public accounting profession claims a large number of FASB (Fogarty, 1992; Allen & Ramanna, 2013) and IASB (Botzem & Quack, 2006; Botzem 2012) members and staff, the profession continues to influence accounting standards. At the same time, the independence of the FASB and the IASB from the public accounting profession, as well as increased involvement of non-auditor members and constituents (Botzem, 2012; Allen & Ramanna, 2013), might suggest the diminishment of such normative influence.

In sum, according to institutional isomorphism, organizations must adapt to global models, ideas and best practices (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). However, there are many situations in which a multiplicity of competing models, ideas and best practices exist. When confronted with demands for common institutions, this research asks how such institutions come to be and in what form. Chapter I provides an analysis of the way in which global institutions, in the form of

a common set of accounting standards for worldwide market regulation, have developed (changed) over time. I follow the view that this process of change does not involve neutral judgments resulting from technical considerations but rather highly political ones.

2.3 Political Perspectives on Standard Setting

A second perspective on accounting change processes looks at the role of politics in processes by which accounting institutions change. The study of accounting from a political perspective arose out of the work of Burchell et al. (1980) and Tinker (1980) in their call for research understanding how accounting functions in its social, political and economic context. From this perspective, Cooper and Sherer (1984) showed how failure to consider these dimensions led to accounting changes designed in the interests of one particular group of stakeholders and not necessarily in the interests of others. Such charges have been addressed in the streams of standard-setting literature which identify interested parties and their motivations as well as the capabilities of the standard setters to manage stakeholder interest. The limitation of these studies being that, while recognizing the potential for conflict between standard setters and interested parties, they fail to fully specify the forces driving behaviors (Fogarty et al., 1994). According to Fogarty et al. (1994), political forces driving the behaviors of actors in the accounting standard-setting process can be better understood by recognizing actions as constituted not only by actors' power/influence but also by meaning systems and rhetoric.

Relative to actors' power/influence, Fogarty et al. (1994) denotes that politics encompass a consideration of the extent and source of power of the standard setters themselves. In this light, a number of studies have taken to understand power through the emergence of the IASB as an international standard-setting organization and IFRS as standards rivaling those produced in the U.S. (e.g. Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Camfferman & Zeff, 2007; Chiapello & Medjad, 2009; Botzem, 2012). These studies focus on the structural and relational aspects of the IASBs rise to power and less on power/influence in the process of constructing a standard or the explicit role of standard setters in that process.

Recently, a number of studies conducted within the accounting literature focus on the power of board members in the construction of accounting standards. For example, studies examining IASB board member domination find the board to be heavily comprised of, and dominated by, Anglo-Saxon educated members (Walton, 2009) and Anglo-American auditing professionals (Botzem, 2012). Further, in the U.S. setting, studies investigating FASB board member characteristics (professional, political and personal) link them to the nature of standards proposed (Allen & Ramanna, 2013) and the likelihood of dissenting votes (Jiang et al., 2014). Chapter II builds on this research in considering that board members play an important but not yet well understood role in how the actual content of accounting standards are determined.

Reflecting on the role of meaning systems, Fogarty et al. (1994) identify ideology to be a second important view of political force in standard setting. Here, Laughlin & Puxty (1983) provided early insight into the ideological aspect by expanding the idea of interested parties into a framework of socially constructed world views of users and producers. In a more recent paper, Nolke and Perry (2007) denote the historical cost and fair value systems of measurement as constructing different economic realities which reflect sectoral interests in the production and financial sectors of the economy. Other researchers have focused not on conflicts between ideologies but the seeming lack of conflict. In this sense, Young (1996) critiqued the “taken-for-granted” ideology of standard setting in denoting the process based on the presumption that the purpose of financial reporting is to provide investors with decision-useful information. Both Chapters II and III delve further into the role of meaning systems as a political force in the construction of a common set of accounting standards.

Finally, Fogarty et al. (1994) prioritize the role of language and discourse, particularly when exercised through rhetoric, as a third political force in standard-setting processes. Classical views of rhetoric denote it as influencing others through purely stylistic or ornamental effect (Suddaby & Greenwood, 2005; Green & Li, 2011). Accounting research has touched on this view of rhetoric in revealing, for

example, that while the FASB speaks in a language that maintains the provision of information useful in making economic decisions as its primary objective, this emphasis is seemingly made with limited knowledge about the information needs and decision processes of actual financial statement users (Young, 2006). In a similar fashion, Ravenscroft and Williams (2009) challenge the decision-useful ideology as a foundation for standard setting referring to it as a metaphor for the ‘imaginary world of neoclassical economics’ (p770). For these studies, metaphor operates not merely as stylistic rhetoric but as a powerful force actively involved in the creation and dissemination of meaning in accounting (Walters-York, 1996; Walters & Young, 2008).

In this sense, classical views of rhetoric are augmented by views designating rhetoric as the way in which language and discourse, employed in the process of persuasion, construct our society and our knowledge of it (Suddaby & Greenwood, 2005; Green & Li, 2011). Rather than ornamental effect, rhetoric becomes more about terminologies, language devices, and argumentation which constrains (enables) actors’ thoughts in a particular discipline and with regards to a particular meaning system (Green & Li, 2011). For example, Robson (1993), Young (2003) and Young and Williams (2010) each focus on the discourse that actors employ in accounting debates and the languages devices used. In other words, the meanings that actors give to concepts and the emphasis they place on those concepts set the boundaries of debate through the exercise of rhetorical mechanisms. In identifying rhetoric as understudied in accounting change processes, Chapter III aims to increase what we know about the way in which standard setters use language as a powerful resource in the construction of standards and the justification of accounting policy.

3 Research Strategy

“Accounting is not a natural phenomenon; rather, it is human-made. The law of gravity is neither made by humans, nor subject to our dismissal. Like gravity, accounting is also a pervasive and powerful force in human societies. Unlike gravity, its form is neither natural nor stable over time. Rather, accounting represents the outcome of an ongoing stream of negotiations between (and excluding) many groups.” (Chapman, 2012: 825)

This quote reflects the notion that accounting is a socially constructed reality. Such a perspective views the world and knowledge as created by contextual understandings – where reality, as we know it, is constructed through meanings developed socially and experientially (Berger & Luckman, 1967). Under such a lens, the organizations and individuals are embedded in institutional environments and their behavior is conditioned and structured by that environment (Chua, 1986; Scott 1995). Thus, what we know or is taken to be valid is always negotiated within cultures, social settings, and relationships with other people resulting in that there can be multiple, valid claims to knowledge (Morgan & Smircich, 1980; Chua, 1986).

Interpretive positions, which reflect the subjective interpretations of actors involved in a particular situation, are founded on the belief that reality is socially constructed and fluid (Chua, 1986). Out of the subjective interpretations of actors then, the researcher aims to identify relationships between different events, institutions and actors and explain patterns that emerge in order to provide her own “objective” reading of the meaning events and actions had for the organizations and individuals under study (Chua, 1986; Ahrens et al., 2008). For instance, a subjective approach may involve undertaking a series of interviews or observations with members of an organization or field seeking to draw out the ways in which they might individually and collectively construct particular concepts that, in turn, might have meaning and power in a particular setting (Chapman, 2012). Research questions that are pertinent to the interpretive/constructivist approach include: how a shared sense of social order is (re) produced in everyday life; what are the deeply-embedded rules that structure the social world; how do those emerge and how do they change or remain stable; what are the motives that explain behavior or action (Chua, 1986: p614).

This research provides insight into how the production of a common set of global standards has evolved conceptually and how certain aspects of the FASB and the IASBs joint standard-setting activities have unfolded in the construction of one particular standard. In asking “*how*” questions this research is concerned with

explaining socially constructed processes of accounting change. The meaning of process employed in this thesis is one of a sequence of stages, events or activities that unfold over time and within their context (Abbott, 1990). Langley (1999) elaborates that sequences, when viewed through a process lens, often involve multiple levels of analysis, ambiguous boundaries, varied temporality, and eclectic data. Here, the focus is on understanding the relationship between such a sequence and a change which becomes (or does not become) a concrete reality (Van de Ven & Huber, 1990). Defining processes of accounting change in this manner and attempting to explain the relationships and patterns which emerged suggests a structured, longitudinal approach employing qualitative, case study methods (Morgan & Smircich, 1980; Yin, 1994; Cooper & Morgan, 2008). The initial section below discusses the case study method blended with historical perspectives and identifies the case selected. Later sections highlight the various data sources referenced and explain the approach to the analysis of these data sources.

3.1. Case-study Method and Case Selection

Case study is a method of intensively studying a phenomenon over time within its natural, historical or contemporary setting and within one or multiple sites (Yin, 1994). Case study research (in accounting) has been classified as exploratory/narrative and explanatory/interpretive (Yin, 1994), both of which contribute to knowledge and aid in our understanding of complex phenomenon. Generally, exploratory research is produced out of a phase of discovery which involves extracting data, primarily from archival documents, and performing narrative or descriptive work (Yin, 1994). Exploratory case studies often produce knowledge just by revealing and organizing multifaceted phenomenon in an interesting and credible manner (Yin 1994; Carnegie & Napier, 1996; Langley, 1999). Explanatory research then takes the exploratory work beyond description using a theoretical perspective that contextualizes the phenomenon and allows for broader interpretation of relations between events, activities and/or the actors involved (Yin, 1994; Carnegie & Napier, 1996; Langley, 1999).

This dissertation contains both narrative and interpretive aspects; first, by revealing and organizing the phenomenon referred to as convergence of accounting standards and, second, by interpreting convergence events and actions of standard setters. I aim to address the interpretive accounting community's concerns with the way in which interpretive research informs theory by 'systematically connecting studies from different theoretical backgrounds concerning similar research topics and seeing if they can be brought together' (Ahrens et al., 2008). These theoretical perspectives were highlighted in the previous section and are discussed in detail within Chapter I through Chapter III.

The case study method implies attention to history which provides insight as to the past rationales for and circumstances surrounding present events and decisions (Langley, 1999). History can help to (re) construct a story, an event or a form of knowledge through actors' past experiences, linkage between present and past events, and the incorporation of experiences and events into different fields (Fleischman et al., 1996). In this dissertation, history helps us in understanding not only the linkage between the contemporary effort to converge GAAP and IFRS accounting standards and past efforts but also how the contemporary effort has evolved over time. In addition, history helps us to appreciate how the past experiences of accounting policy-makers are incorporated into the field of accounting standard-setting in the convergence setting.

Yet a simple collection of events and knowledge will not do. Rather, history itself is viewed as an interpretive enterprise (Ahrens et al., 2008). As such, the researcher attempts to construct his or her own narrative from a multiplicity of existing narratives – both primary and secondary – and these readings in context become key (Djelic, 2008). The case method allows for such a reading in its view of bounded and particular organizations, events or phenomena (such as phenomenon of accounting change), and its scrutiny of the activities and experiences of those involved as connected to the context in which these phenomena and experiences occur (Stake, 2000). In other words, this dissertation subscribes to the notion that

contexts – whether social, economic, institutional, cultural, political, legal (and others) – matter and aims to endogenize them into explanations (Ahrens et al., 2008).

Case-based explanations are produced out of in-depth, contextually and conceptually informed examinations of specific phenomenon that explicitly address theory and inform practice (Eisenhardt, 1989; Yin, 1994). Such an approach is particularly useful in investigating accounting change. Accounting change represents complex and dynamic phenomenon with many elements; refers to actual practices that may be extraordinary, unusual or infrequent; and relies crucially on context which affects the phenomenon being studied (Cooper & Morgan, 2008). Single-cases, selected due to their unusual relevance and exemplary substance, provide the opportunity to exploit significant phenomenon producing a rich description of the phenomenon and its underlying mechanisms (Eisenhardt & Graebner, 2007; Sigglekow, 2007).

While this dissertation looks to the “single” case of accounting convergence, that case has aspects of comparative case study. For example, in Chapter I on conceptualizing convergence, the overall unit of analysis is the FASB-IASB convergence effort underway since 2001; however, the change process related to this effort is analyzed over a period of 10 years in terms of comparative phases of that effort and of individual convergence projects. Likewise, in Chapter II and III on the standard-setting process, the overall unit of analysis is one particular case of accounting change- the long-term project to develop a single revenue recognition standard. However, the process of change is comprehensively analyzed throughout the project’s lifetime in terms of comparative phases within the revenue standard-setting process.

Such a strategy, which can be equated with “structuration” (Giddens, 1984) or “temporal bracketing” (Langley, 1999), decomposes the primary unit of analysis into successive periods not necessarily having theoretical significance but rather having a certain continuity in the activities within each period (Langley & Truax, 1994). The decomposition of data into periods allows for structuring the description of events, permits comparative analysis for the exploration of theoretical ideas and enables the

examination of how events of one period may relate to changes in the context that affect events in subsequent periods (Langley, 1999). The application of this strategy to the study of convergence allowed for a comparative assessment of changes in the global accounting-standard setting space relative to significant events and activities, the actors involved in these events and activities, and the concepts, values and ideas understood by and employed by these actors (Van de Ven & Huber, 1990; Van de Ven, 1992).

3.1.1 Case Selection

The period of study is primarily restricted to the 10-year period from 2002 to 2011. The starting point of 2002 is the year in which the FASB and the IASB agreed to formalize their efforts to work together towards a common set of accounting standards. In 2006, the FASB-IASB specifically designated 23 standard-setting projects as joint projects falling under the convergence effort (FASB & IASB, 2006). To provide an anchor for the analysis of the conceptual evolution of convergence in Chapter I, I focus on the 23 projects as outlined in Table 4. The analysis extends to 2011 which represents the close of the last agreement guiding their efforts as well as the year that the FASB-IASB initially set as a goal for completion of these projects and of their efforts to develop a common set of standards. From that point, despite not having a formal working agreement in place, the FASB-IASB efforts continue (into 2014) towards the completion of certain “critical” projects, one of which is the revenue recognition project.

The revenue project has been underway since 2002. The initial milestone set for this project was to have issued a joint proposal on the subject in 2008. This milestone was met in December 2008 after seven years of deliberation and debate. In 2009, the FASB and IASB renewed their agreement and joint efforts intensified. At that point, the milestones set for the revenue recognition project involved issuing a first draft of the standard in the second quarter of 2010; a milestone that was achieved in June 2010. A final standard was expected to be issued on the project by mid-2011; however, the standard setters indicated in June 2011 that this target would not be achieved. Rather, deliberation on the first draft resulted in a second draft being

issued for public comment in November 2011 with the (current) publication date of a final standard on revenue recognition estimated for the second quarter of 2014.

The two papers discussing the process of constructing a revenue standard focus on the 7-year period from 2002 through the end of 2008. In 2002, revenue not only was added to the FASBs standard-setting agenda but also became a joint FASB-IASB project through the Norwalk Agreement. The period of study extends to 2008 when the FASB and IASB issued a public document indicating their initial proposals for a single revenue standard. In this regard, uncertainties (and unanticipated delays) associated with studying a project as it occurs in real-time have been to a large extent avoided while at the same time a complete set of events and activities relative to the period and particular phenomenon under study is available for analysis. Despite my analysis is confined to this seven year period, I have continued to collect data on significant activities occurring on the revenue recognition project since 2008.

The selection of the revenue project was considered appropriate for studying processes of accounting change, in particular convergence, for several reasons. Revenue, as one of the largest financial statement items, provides information critical to understanding both firm financial position and firm performance. The joint standard on revenue was promoted as providing a common platform for assessing and comparing critical information across countries, markets, industries and firms alike. Second, the project was one of the few on which the FASB and IASB have jointly devoted staff, on which the standard setters timing is aligned and for which they are proposing a common solution. Third, the nature of revenue as having universal relevance to financial reporting was expected to generate a wealth of input from a diverse set of actors and manifest tension between different arguments and interests. Finally, as the project was identified as resolving major differences between current revenue standards, it was anticipated to involve controversial accounting issues with no clear or easy answer thereby exacerbating conflict among actors and organizations and complicating the process of transforming those views into a global standard.

3.2 Data Collection and Analysis

In studying the overall convergence effort and the revenue project in detail a variety of data sources were utilized. These sources include archival documents, inquiry of key informants through a semi-structured interview protocol, and “indirect” observation of joint board meetings in which revenue issues were deliberated. The examination of these sources allow for cross-validation of the data analyzed as well as provide adequate information in addressing the questions put forth by this dissertation.

3.2.1 Archival documents

Extensive documentary records encompassing several types of information were referenced both historically and, given the contemporary nature of the project under study, almost in real time. These include (1) articles published in the press and press releases/publications by key actors on the topic of convergence and of revenue recognition, (2) standard-setting documents issued by FASB-IASB relative to the 23-projects encompassing the convergence effort (including the revenue project), and (3) publicly available information on websites of standard setters, professional organizations and social media sites (mainly LinkedIn).

Press articles, press release/publications by key actors

Relevant press articles were identified based on a search of the Factiva Database conducted for English-language publications issued between 2002 and 2011 by all available sources using the keywords “accounting convergence” and “revenue recognition”. This represents a known limitation of the study as there certainly may be foreign language publications on the subject of the convergence of accounting standards in the international sphere that are not taken into account in this research.

The “accounting convergence” search generated 1 110 articles with 35,3% (392) of the articles published by ten sources. Within these sources, I limited my review to 146 articles published by the Financial Times or Wall Street Journal and another 168 articles published in the “top” four U.S. (2) and U.K (2) professional journals (Table 1). I followed a similar procedure in the “revenue recognition” search, reviewing 87 articles published in the same sources mentioned above (Table 1).

These reviews helped to identify critical debates over the 10-year period. Through the press review, I reconstituted the sequence of events leading up to discussions on developing a common set of (revenue) accounting standards (Table 2). In addition to the historical reconstitution, I used the press articles to identify significant contemporary events and actors.

The press review was supplemented by the review of 67 press releases and publications issued by the FASB, IASB, SEC, EC/ESMA, IOSCO, and G20 between 2002 and 2011 (a number of publications issued in 2001 and 2012 were also reviewed). These documents were identified through the review of the websites of the actors and organizations having the highest frequency of reference in the press. Following Miles and Huberman (1994) and Yin (1994), I arranged the data collected into chronological account in order to produce a ‘facts database’ (Table 3). As Pentland (1999) suggested, each document was analyzed separately to construct the individual story conveyed with a focus on sequence in time (date); focal organizations, entities, individuals (actors); and activities or actions occurring by or between these actors at this time (event or action). Review of such materials allowed for clarification and/or confirmation of the initial chronology of events and provided the substance for elaborating the process not available from the press articles.

Standard-setting documents

Relative to Chapter I, for each of the 23 projects identified as convergence projects I reviewed publications including original and revised standards and documents issued by the standard setters as part of the convergence effort, as well as reports and summaries issued by the global audit firms. In reviewing these publications, the first step was to assess the approach to converging GAAP and IFRS. In addition to assessing the approach to convergence, the second step was to assess the degree and direction of convergence (Table 5). This assessment was made through a content analysis of the original GAAP and IFRS standards as compared to the (re) issued GAAP and IFRS standards. An extract of the analysis performed can be found in Table 6. This assessment was validated against data sources collected from key meetings (see Section 3.3.2). Specific to Chapter III, I reviewed the

Discussion Paper/Preliminary Views document on *Revenue from Contracts with Customers* issued by the FASB-IASB in December 2008 (FASB & IASB, 2008). A critical analysis of the formal justifications provided by the standard setters for their proposal on the measurement of revenue was conducted on this document.

Standard-setter's biographical data

To understand the role of standard setters in the process of developing a single-set of accounting standards, I identified the key actors (i.e. board members) involved including the FASB and IASB board members and the respective staff members (specifically assigned to the revenue project). I referenced publicly available sources of information to build the backgrounds of each member including the years of involvement in the project, their country of origin, their most recent affiliation, prior affiliations and, in particular, prior affiliation as an audit professional. I follow prior literature (Botzem, 2012) in categorizing each member on the basis of their most recent professional affiliation as: academic, auditor, analyst, financial services, (non-financial) preparer, or regulator (Table 9 and 10).

3.2.2 Key meetings

Access to informal discussions occurring between board members outside of public meetings or to their private correspondence via letters, email and/or telephone which may have eventually been influential in constructing a single standard was not obtained. However, attempts to open up the “black-box” of standard setting were made by going beyond publicly available data by consulting the detailed proceedings of board meetings (Table 7). These proceedings consist of both separate and joint board deliberations of the FASB and the IASB. FASB, IASB and joint board minutes were compiled by the respective staffs of each board. In addition, I consulted proceedings of meetings prepared by IFRS Monitor, a subscriber-based service which reports on international accounting standard setting.⁴ These sources may carry limitations because the information recounted could have been affected by

⁴ IFRS Monitor is compiled by technical reporters who attend the meetings of the IASB as observers and provide subscribers with detailed account of the proceedings. Peter Walton, Professor & Co-Chair Financial Reporting KPMG, is Managing Editor of this service and has provided monthly reports dating back to 2001.

processes such as editing and filtering. Walton (2009) provides evidence of the completeness, accuracy, and objectivity of the IFRS Monitor proceedings. I believe the cross-checking of minutes compiled by the FASB and the IASB, against each other and against IFRS Monitor as an independent source, affords valuable insight on the completeness of information reported and on any editing or filtering undertaken. I gained further confidence in the content of these reports by observing two IASB meetings in person, (re) watching the webcast of these two meetings and comparing the content I observed in person and, again, in the webcast to that contained in the IFRS Monitor report.

I consider these proceedings of board meetings a form of “indirect” observation of the standard setters in action. The main purpose in conducting observation is that it allows consideration of a different perspective of the standard-setting process rarely considered in the extant literature. For example, meeting observation may reveal certain understandings of convergence as well as structures and relations within and between standard-setting institutions. These indirect observations and the narrative accounts which are prepared about them have distinct qualities. First, the people preparing them create a close, but not exact, transcription through observation of (but non-participation in) discussions taking place in the board meetings. Second, the proceedings of one meeting are in some way responsive to each other, in that discussions of previous meetings may be revisited in subsequent meetings, and are connected throughout time.

Grant & Marshak (2011) define texts of this nature as representing a “conversation” produced as part of a coherent dialogue among two (or more) people that is linked together both temporally and rhetorically, as opposed to being discrete and unrelated texts. Approaching the board proceedings in this manner, allows for the identification of the actors involved in the conversation as well as for the exploration of interplay between and the discourse of these actors during their debate. In this sense, my work follows Ventresca & Mohr (2001) in their view that such texts are appropriate in identifying critical actors (and potential interviewees), interpreting

their discourse and ideologies, and revealing conflicts, contests and power relationships much as observations “from afar”.

From these indirect observations, I identified the strength of voice of each board member using discourse analytic software to count the number of times each member’s name was mentioned in the meetings as well as the length of the board member’s statements. I organized the board minutes by year and coded the passages in the board minutes on the basis of which board member contributed the passage. A passage starts from the point at which the board member is identified as speaking until another board or staff member begins to speak. The length of a passage is measured in terms of characters. I then aggregated the strength of board member voices to determine the extent to which members affiliated with certain professions contributed to the debate.

In conjunction with this, I conducted an overall analysis of how debates progressed within and between the FASB and IASB. I isolated the discourse of the boards within separate chronological narratives in order to analyze each board member’s particular assumptions, values and beliefs about revenue over the period under study. Analysis is performed following Miles and Huberman (1994) and Yin (1994), where significant themes and concepts were labeled, distinguished and identified within each account. I then employ a comparative study of accounts checking for similarities and differences in the themes and concepts across individual (and based on professional affiliation) as well as for overall consistency in terms of the nature and timing of discussions. This allows me to bring out the debates occurring around the development of a common standard and understand the positions/rationales of the board members and any trends in the positions/rationales of their reference groups relative to these debates.

3.2.3 Interviews

To supplement the archival documents and indirect observation of key meetings, a sample of standard-setting actors was identified and 18 semi-structured interviews were conducted. The primary focus of obtaining interview data is on confirming the role of various actors in the process of developing a common set of

accounting standards more generally and converging GAAP-IFRS revenue standards, more specifically. As such, the sample of interviewees was selected from two different populations with two different interview instruments developed.

First, I identified 125 current and former FASB and IASB board members as well as current FAS and IFRS Advisory Council and Interpretations Committee members. A sample of 15 interviewees was selected from this list on the basis of personal/professional contacts. Confidentiality concerns and the political sensitivity of standard setting resulted in the difficulty of finding informants willing to not only be interviewed but to be quoted (even anonymously). In this instance, I only succeeded in interviewing key actors in the IASB setting since the FASB actors that I contacted did not accept to participate in this study. I attempted to overcome this issue by a thorough analysis of the FASB board member profiles as well as other textual materials (press articles and speeches made by these actors) not to mention through their discourse in board proceedings. Interviews were ultimately conducted with seven respondents. In addition, to the seven respondents, two discussions took place with a former IASC member and a former FASB member; however, these discussions were informal and permission to record and quote the informant was denied. The interview instrument in Appendix 2 was developed in conducting these seven interviews with discussions centered on the notion of convergence and how this notion may have evolved during the FASB-IASB convergence effort. This particular interview data confirms accounts of the development of a common set of accounting standards obtained from the archival documents analyzed in Chapter I.

Second, I identified staff members on the FASB and IASB revenue project team as well as individuals involved in regularly observing the revenue meetings. I selected a sample of 24 informants attending more than three board meetings over the 7-year period under study plus two informants having an observer or user perspective. Of the 18 FASB and six IASB staff members, I conducted interviews with eleven key informants who responded to my interview request. While the number of interviews conducted in relation to the studies on the revenue project in Chapter II and III may appear limited, even in interviewing eleven of these 24 key

informants I arrived at the saturation point regarding the informant's accounts of processes and debates that emerged. Further to that, seven of the 18 FASB staff were post-graduate assistants who play a less critical role on the project. The interview instrument presented in Appendix 3 was developed and used in conducting these eleven interviews with discussions centered on the process of converging revenue standards. In this way, the data collected in this set of interviews substantiates the data from key meetings and further explicates the process of convergence relative to the revenue standard in Chapters II and III.

In total, I interviewed 18 key players in accounting convergence and revenue (Table 8). Despite gaining access to interviewees was quite complicated, all interviews except one (i.e. 17 interviews) were recorded after obtaining permission from the interviewee. Transcriptions of these recordings, which averaged 56 minutes in length, were submitted to the interviewee for review. For the interview which was not recorded, as well as for the two informal discussions mentioned previously, detailed notes were taken during the interview. Interviewees may provide a biased account, disclose only select information, or recall only a portion of events and activities. The semi-structured nature of the interviews allowed for critical information to be offered outside the protocol and for the researcher to follow the lead of the interviewee. In addition, interviews with a range of key people involved at different points in time, offering differing views and having different experience helps ensure completeness and objectivity is maintained in the analysis.

3.3 Attributes of Qualitative Research

There are a number of important attributes for determining the quality of research. Independent of methodological choice, researchers pursue the qualities of precision and clarity (Suddaby, 2010). Particular to qualitative, case based research, the qualities of precision and clarity can be judged by the procedures used to address (1) reliability and (2) validity (Ahrens & Chapman, 2006; Cooper & Morgan, 2008).

3.3.1 Reliability

Reliability of qualitative case research is often considered in terms of plausibility, which may be supported by data triangulation (Ahrens & Chapman, 2006) as well as in terms of demonstrating the integrity of our interpretations of our accounts despite they may represent impressions which diverge from those of other researchers (Van Maanen, 1988). Ahrens and Chapman (2006) identify three “disciplining factors” which help to support the plausibility of qualitative case research.

First, the author’s findings and explanations must be considered reasonable within the context of what has been revealed by extant literature (Ahrens & Chapman, 2006). This dissertation highlights what we have learned from the extant literature and positions research questions, results and conclusions relative to that literature. Second, readers must believe the data collection and analysis is feasible and supports the findings and explanations provided (i.e. the researcher has not just made up a story) (Ahrens & Chapman, 2006). Archival documents came from public sources including the press and the websites of a number of critical organizations. Observations of meetings taken from an independent data source were checked against publicly available minutes. Finally, interviewees are experts involved in the convergence of accounting standards, and revenue in particular. This range of sources, typical for looking at the phenomena under study and nature of questions being posed, speaks to the trustworthiness of the research. Finally, the author must explicate the specific ways in which theory contributes to our understanding of a phenomenon and feeds into future debates (Ahrens & Chapman, 2006). This dissertation uses theory in making sense of what we observe in the sense that theory provides us with useful analytical categories and concepts that guide us to see patterns and interesting things in a mass of details (Ahrens et al., 2008).

Another aspect of reliability is often thought in terms of triangulation of the empirical data obtained from each of the sources (Ahrens & Chapman, 2006). Triangulation, or cross-checking of the data sources against each other, implies that particular sources have not been filtered or distorted increasing the chances of presenting an unbiased account (Ahrens & Chapman, 2006). For example, archival

documents of different types were cross-checked in order to fill in the gaps in the timeline of events or in the identification of the actors involved. In addition, the proceedings of key meetings provided the detail of deliberations on standard-setting issues that the archival documents only touched on from a high level. The interviews not only put the detail of deliberations in context by providing additional insight as to what happens “behind the scenes” but also confirm the data obtained from the archival documents and key meetings.

Finally, a potential issue with the integrity of the accounts produced using interpretive, case methods is that the patterns and underlying mechanisms identified may not reveal the causes of a phenomenon as a certainty (Ahrens & Chapman, 2006). The data in this dissertation is not presented as such; rather, the material is presented in a manner in which underlying mechanisms indicate probable factors affecting the phenomenon. Those probable factors emerged from an iterative process of going back and forth between data analysis and the theoretical lens through which that data is ultimately viewed. Such a process increases the possibility of theoretical flexibility, addressing the potential for bias in that the researcher may (subconsciously) be looking for the data to fit a particular theoretical lens and ignore certain facts that are potentially important to the research (Eisenhardt, 1989). This bias has been further minimized by first unpacking and organizing the phenomenon under study in each paper as part of an exploratory, descriptive phase and performing initial analysis without reference to a theoretical framework but rather in an open, non deliberate manner until a theoretical lens emerged. Even once a relevant theoretical framework had been identified, attempts were made to acknowledge the possibility for other explanations up to the point interpretive analysis was complete.

3.3.2 *Validity*

Frequently assessed in terms of whether the data is replicable and whether it is generalizable, validity of case based qualitative research is often contested. Whether the findings of case based research may be replicated is seen to depend on gaining access to the same organizations, same forms of data and same techniques used in the original study (Cooper & Morgan, 2008). The primary data sources

employed in this dissertation are publicly available, or at least accessible by subscription. For example, archival documents came largely from public sources including the financial/professional press and the websites of a number of key organizations in standard setting. Indirect observations of key meetings were derived from an independent, subscriber-based data source and cross-checked against publicly available information.

Still, some argue that even if the data sources are accessible, interpretive case methods depend on researcher's judgment which produces a source of variation between the original and any attempted replication (Cooper & Morgan, 2008). In fact, this variation is to be expected as interpretive case studies by their nature assume that "social reality is emergent, subjectively created and objectified through human interaction" (Chua, 1986, p615). One of the aims of this dissertation is to reveal the underlying social and political implications of seemingly technical accounting issues from an interpretive and constructivist perspective. Therefore, I am concerned less with mapping data to some "objective" reality and more with providing a greater (or different) understanding of how order is produced and reproduced, by (1) unpacking a phenomenon that is seemingly clear or (2) piecing together a phenomenon that is unclear. As such, I agree with Ahrens & Chapman (2006), in their view that the question of replication of qualitative, case based research is somehow inappropriate.

A further concern about the validity of case research relates to generalizability of the findings and explanations. While many accounting research methods tend to focus on generalizability to populations, case study methods focus on when knowledge will apply and when it will not within or across a population – for example, who may be affected by particular accounting processes and outcomes and why. Therefore, the goal is not to identify broad patterns but to identify the specifics and the context which may instead offer common explanations of events or actors that possess the same theoretical features (Cooper & Morgan, 2008). As such, this research strategy allows for "analytical generalization" (Lukka & Kasanen, 1995)

through claims that it is possible, likely, or unlikely that what was found in this case will be found in similar situations elsewhere.

4 Synthesis of Key Findings

The current research relies on institutional and political perspectives as a foundation for exploring the notion of convergence within the accounting standard-setting field from both a conceptual and procedural standpoint. At the conceptual level, this dissertation considers the way in which convergence can be conceptualized in global accounting setting in two ways. First, I unravel how the convergence of GAAP and IFRS has developed over time. Second, I explain why convergence has developed in this fashion; in other words, what institutional and political factors help explain the way in which convergence has developed.

From the procedural standpoint, this research studies how standard-setting processes function in the context of GAAP-IFRS convergence. As such, I focus on how different aspects of political force affect the role of the standard setters in constructing a global standard. First, I illuminate the link between competing meaning systems and the way in which the FASB and IASB members employ voice and reference those systems to construct order around accounting policy change. Second, I reveal how the standard-setters' policy-making process involves justification to their stakeholders and explore how the rhetorical basis for these justifications are deliberated in the background and developed to legitimize policy decisions that occur in the foreground. The sections that follow synthesize the key findings and observations made in relation to each of these topics.

4.1 Convergence and Policy Co-Construction

Chapter I, on the conceptualization of convergence, shows the FASB and IASB convergence effort (2002 – 2011) as one composed of three regimes – direct emulation, difference reduction and progressive redesign – analogous to institutional processes of imitation, editing or translation and co-construction. These regimes, and the notions of convergence which they reveal and express, are influenced by the

extent of competition and cooperation between the FASB and IASB and their respective standards.

The regime observed in the period extending from 2002 to 2006 is referred to as *direct emulation*. This regime is a process of diffusion by imitation in that it involved the copying of a model existing elsewhere into an environment in which this model was either completely lacking or existed in some form but was no longer relevant. Diffusion by imitation was driven by a combination of pressures to level the playing field of financial reporting globally which served to create a shared desire for comparability between GAAP and IFRS. At the same time, the adoption of IFRS in the E.U. created a pressure for the IASB to legitimize itself (its output) as a quality standard setter (standards) to an important new constituency.

The response to these drivers was the imitation of widely used models and/or adoption of recommended models as seen in the direct emulation approach. The direction of convergence in this phase, largely leaning towards the IASB emulation of FASB standards, indicates the FASB's policy supremacy during a time when the IASB was formulating its identity and its members learning to collaborate. The direct emulation regime exhibits passivity by the IASB, who accepts GAAP as best practice without adapting the model in consideration of environmental differences. The IASB's tendency to defer to FASB demonstrates more than partial success in emulation of GAAP in IFRS while the emulation of IFRS in GAAP is less prevalent.

The *difference reduction* regime, observed in the 2006 to 2009 period reflects a process of diffusion by editing/translation in that it entailed transforming models and ideas existing within the suite of GAAP and IFRS to produce a "better" model. This regime acknowledges competing models (and competing actors) and aims to generate convergence through adapting or transforming a model to fit particular circumstances. Which model was identified as "better" (i.e. most projects under this regime involved IFRS standards being aligned with GAAP) reveals the setting in which these models were formed as well as who the powerful editors were during this period. Diffusion by editing in global standard setting took place under pressures to

level the playing-field between cross-listed firms. More specifically, this period was set in context of the SECs acceptance of IFRS for foreign issuers in the U.S..

In the time leading up to the SECs decision to accept IFRS for foreign issuers in the U.S. market, the IASB was under pressure to conform to GAAP, as the SEC (naturally) viewed GAAP as higher-quality than IFRS. As such, the difference reduction regime reflects the IASBs response to political demands as a stimulus for convergence. These demands entailed the IASB standards being submitted to a sort of ‘fitness test’ through an approach that aimed to align critical differences between existing GAAP and IFRS standards. Given the IASBs desire to see its standards accepted by the SEC, this approach tended to produce standards closer to GAAP than to IFRS; however, it did so with only partial success revealing the limits of editing as an approach to convergence in comparison to imitation.

The regime observed in the 2009 to 2011 period, one of *progressive redesign*, points to change that not only modifies models and ideas as in the process of editing and translation but also involves significant co-construction of “new”, common models and ideas. In the FASB-IASB effort, this process of co-construction involved an attempt to overhaul and improve models and ideas existing in both sets of standards and replace them with a comprehensive standard. The work on progressive redesign projects became of critical importance under pressure to level the playing-field globally derived by the financial crisis. The period from 2009 on involved persistent pressure for change from regulatory actors and, in particular, the G20 after accounting standards under both GAAP and IFRS were implicated in the crisis.

In this period, the FASB and the IASB became more explicit competitors with IFRS being touted as the global standard to which the U.S. was all but expected to conform. This increased opposition and conflict not only between the FASB-IASB but between principles espoused by them as each body worked to develop standards that fit within their respective settings. Despite efforts to mutually redesign standards under this approach, the goal of common standards was recognized as more and more complicated as patterns of commitment to different models and ideas became evident. As a result, despite certain FASB and IASB standards may be further aligned, the

outcome of convergence under the progressive redesign approach has failed to produce comprehensive overhaul and significant change from existing standards. Rather, in the co-construction process, convergence is perhaps no longer the appropriate term as the outcome may very well be a meta-standard just ambiguous enough to allow for “informed divergence” (Slaughter, 2004) in different settings.

The analysis suggests that the balancing of cooperative and competitive demands between standard setters and the involvement of regulatory institutions shaping those demands play a significant and dynamic role in the approach to and nature of convergence. In terms of the cooperative dimension, while the FASB and the IASB’s efforts progressed from a somewhat voluntary and unstructured initial agreement to a somewhat mandated and quite focused agreement, their cooperative efforts appeared to become more and more strained. Relative to the competitive dimension, a growing appreciation for IFRS as a set of standards rivaling U.S. GAAP increased the extent of FASB and IASB competition over the period. With both cooperative and competitive pressures increasing, the goals and objectives of the FASB-IASB became more sophisticated moving from selecting best practices to eliminating differences between standards to overhauling and improving two sets of standards. At the same time, solutions became more and more difficult to rationalize across the standard-setting field.

Ultimately, this paper proposes that convergence as a phenomenon of global accounting change goes beyond classical categorizations of institutional processes to encompass the notion of institutional co-construction developed by Djelic (2008). It also suggests that this particular variant of diffusion produces a meta-standard which sets the basic requirements for compliance and then allows the regulated community to interpret compliance with the standard locally (Endres, 2010). In the next two subsections, this dissertation switches focus in effort to explain two particular aspects of the process of co-constructing a meta-standard: how order is negotiated by the actors responsible for constructing accounting policy and how those actors justify and legitimize the policy constructed to their stakeholders.

4.2 Convergence and Processes of Negotiating Order

Chapter II focuses on a particular aspect of how co-construction operates in practice. More specifically, I explore how transnational policy-making processes in the field of accounting unfolded around a contentious policy decision on revenue (2002-2008). The analysis focused on several interrelated aspects of this process: (1) how members of the FASB and IASB deliberated and developed a policy for measuring revenue; (2) how different factors affected the nature of deliberations undertaken and eventual order negotiated; and (3) how, in the process, we might consider a transnational community of standard-setters to be taking shape.

To frame this analysis, I mobilize a negotiated orders perspective (Strauss et al., 1963; Strauss, 1978; 1982) in conjunction with concepts from institutional theory to study how resources, power dynamics and meaning systems intersect in policy-making processes. In terms of resources, the analysis indicates a fairly stable FASB membership dominated by audit professionals either directly or indirectly through their prior affiliations. Similarly, the IASB membership has been (both directly and indirectly) dominated by members with backgrounds in auditing and remained this way over the 7-year period. Therefore, this paper shows that, despite appearing to slightly diversify board member representation on the basis of their most recent affiliation, the backgrounds of many (if not most) board members remains conditioned on prior affiliation with the audit profession.

In understanding the power dynamics, this paper looks to the strength of voice exhibited by board members affiliated with different professional groups in a debate between two competing meaning systems, fair value and historical accounting. The analysis shows the voice of academics to be predominant within both the FASB and IASB throughout the debate. At the second level, the prominence of the financial services member (FASB) and auditing members (IASB) is evident. However, it's not only the strength of voice of different professional groups that matters. It also matters how these members use their voice to affect shifts towards one system over another; especially considering those shifts lead the board away from what scholars have tended to argue to be a very broad trend towards fair value accounting.

During the early stages of deliberation, a majority within both boards viewed fair value as a ‘revolutionary’ approach; one superior to traditional (historical) revenue accounting. The dynamics of deliberation documented in Chapter II help explain the failed institutionalization of fair value in the measurement of revenue despite such strong initial backing. Throughout the period explored, debates remained largely polarizing; split between the “Space Cadets” who favoured the fair value approach to revenue and the “Dinosaurs” who firmly opposed it. A group of Space Cadets, particularly those with academic and audit affiliations, launched the fight for fair value. They used rationales promoting conceptual inconsistencies in the existing revenue guidance to turn the measurement of revenue into an issue.

Within both boards, the academics and auditors worked on framing a discourse of conceptual superiority that connected fair value to the predictive ability of revenue, the objectivity and reliability of the market as a source of value, and the possibility of upfront revenue as a market access charge to promote the measurement of revenue as a superior conceptual model. Initially, board members with preparer affiliations presented rationales essentially compatible with this conceptual framing. The greatest antagonists to this framing were the FASB members affiliated with financial services and financial analysis who, from the start, were clearly positioned in the Dinosaur camp as opponents of fair value. This represents an exception to the accounting research asserting that board members with financial backgrounds are more likely to support fair value-oriented standards (Allen & Ramanna, 2013), and begs the question of in which cases financial experts (and others) are more likely to support fair value and which they are not.

Progressively, a number of preparers and auditors claimed a pattern of rationales aligned with the financial/analyst board members, creating significant distance from the Space Cadets and, thereby, revealing themselves as Dinosaurs. In the process, they appropriated the fair value fight while imposing a profoundly transformed frame steeped in highlighting the practical inferiority of the fair value model. Dinosaurs shifted the focus from predictive ability to the reliability of revenue information, from the market to the entity as a reliable source of value, and

from upfront revenue as market access to selling revenue as opportunity for revenue manipulation. The power dynamics changed significantly with financial members leading the way and instigating the challenge but with preparers and auditors asserting themselves, and playing a key role as they seized the opportunity to frame the traditional approach as superior in practice.

By the third stage of the project, despite the voice of the academic and (certain) auditing Space Cadets remained prominent and conceptually focused, they were ineffective at (re) convincing their Dinosaur counterparts of the merits of the fair value approach. In this stage, board members affiliated with auditors, analysts, financial services and preparers alike expanded on arguments promoting the practicality of the transaction price approach. The Dinosaurs presented the transaction price approach as simple, understandable, and easy to implement and not requiring specialized knowledge. At the same time, they honed in on the availability of and verifiability of information produced by the transaction price model as reducing risk of error and mismeasurement. In spite of efforts by Space Cadets to discredit the historically-oriented transaction price model, fair value had gone from being defined as a model for revolutionary change to becoming the ultimate expression of uncertainty and error, and potentially encouraging the manipulation of revenue that had been an impetus for the project in the first place.

In particular, this study enhances explanations of the accounting policy-making by specifying how a community of standard setters engages with counterparts holding potentially competing sets of values and beliefs. The competing sets of values and beliefs, exhibited by the Space Cadet and Dinosaur discourse, cut across the boundaries of the FASB and IASB in such a way that actors affiliated with a professional group came to hold similar views both within and across the FASB and the IASB such that institutional and political settings were less important than professional affiliation. This does not mean either to say that all members of a profession hold identical values and beliefs. Rather, this study reinforces the view of Durocher and Gendron (2012) that affiliation with a professional group cannot be taken for granted as an indicator of values and beliefs. In fact, the case analysis

reveals the possibility not only for contestation between members of the same profession but also for shifting member preferences within a professional group.

As such, the analysis also touches on how board coalitions, often between “unlikely” groups of actors, affect power dynamics and play a role in deliberation and the ultimate order negotiated. It is this fluidity and dynamism in member preferences that the notion of a transnational community – a concept larger than the professional or the epistemic - helps us to understand. This notion suggests a membership comprised of individuals connected by nature of their cosmopolitan/elite status and by movement between positions within regulatory bodies, multinational corporations and global audit firms. While multipositionality relieves actors of the constraints of particular worlds (professional affiliations or otherwise) and enables them to consider rationales from competing worlds and adapt their views accordingly, the cosmopolitan aspect at the same time exerts pressure to conform. Therefore, the added value in this story lays not only in its focus on communities but more in the way it reveals a transnational community taking shape in the process of two standard-setting bodies engaged in the construction of a common standard.

4.3 Convergence and Processes of Justification

In the final analysis, my dissertation builds further on this idea of reconciling multiple competing worlds and links this to the way in which justifications given for standard-setting decisions involve constructing concepts that legitimize those justifications. Chapter III documents findings relative to how standard setters justified their position by mobilizing higher order principles (i.e. Boltanski & Thévenot’s orders of worth) that enabled them to publicly justify a controversial decision. As in Chapter II, that decision involved selecting between a model in which revenue would be measured at fair value and one in which revenue would be measured at transaction price (i.e. historical model). The standard-setters’ deliberations throughout the period of debate on this decision reflect the main orders of worth shaping the debate on revenue measurement.

For instance, arguments supporting the fair value approach were primarily framed within the market order with undertones of the inspired and civic worlds. The market world is ordered around the efficiency of markets, competition, and rivalry with worthiness determined by the relevance of monetary value, prices and payback (Boltanski & Thévenot, 2006). The discourse of fair value proponents reflected elements of market efficiency and the relevance of (changing) prices. While proponents of fair value primarily mobilized elements of the market world to convey their support for fair value as a measurement convention, references to the inspired and civic worlds were also evident. In particular, standard setters mobilized elements of the inspired world in its evaluation of innovative action and elements of the civic world through the standard-setters' role as "officials" acting in the interest of citizens of the free market.

In contrast, arguments supporting the historical, transaction price-based model were largely steeped in the language of the industrial order with traces of the domestic order and the civic order. The ordering of the industrial world is based on the technical efficiency or performance of tools and resources, their productivity, and their capacity to ensure normal operations and to respond usefully to needs (Boltanski & Thévenot, 2006). Thus, industrial worthiness corresponds to a situation where beings are effective, functional, reliable, controllable and operational (Boltanski & Thévenot, 2006); concepts which were frequently expressed in the discourse of the transaction price proponents. Proponents of the transaction price approach chiefly mobilized elements of the industrial world in transmitting their support for the historical approach to measuring revenue, yet domestic and civic values were also detected. More specifically, standard setters activated the domestic world in their evaluation of the worth of tradition and convention (in the sense of custom and practice) in preserving trustworthiness. In addition, the civic world was mobilized in a different manner relative to the 'civic' fair value arguments, in the sense that standard setters called up their role as officials acting as professionals and experts in determining the "public interest" through reference to their constituents.

Thus, in developing justifications within a public arena, standard setters provide rationales consistent with socially accepted meaning systems. To do so, the standard setters actively engage with different meaning systems to build arguments to the (apparent) satisfaction of their stakeholders in the foreground. Ultimately, the standard setters selected the historical transaction price approach for the measurement of revenue. In their rejection of fair value in revenue as an “unworthy” measurement convention, the standard setters provided two primary justifications referring to: (1) the pattern of upfront revenue and (2) the complexity of measurement. In the foreground of the DP, these justifications mobilized orders of worth which ultimately reproached the market and inspired worlds and assigned praise to industrial and domestic orders. However, it’s not only a matter of mobilizing orders of worth in justifying and legitimating a decision but ensuring that the concepts underlying decisions are aligned with and support that justification. At the second level of analysis, I show how standard-setters’ rhetorical work on constructing what is “just” occurs through the definition and framing of concepts that support the policy decision taken and refute any decision to the contrary.

I found the rhetorical mechanism of definition framing to use familiar concepts, including existing definitions of revenues, customers and products, as a launching point. Extending from those familiar concepts, the standard setters developed more refined notions of these concepts, defined in such a way that certain transactions would be excluded from the revenue standard and once those transactions had been excluded, measurement at transaction price seemed more natural and logical for the remaining contracts (*power of exclusivity*). For example, the boards debated the sources from which revenue should be considered to arise deciding that the transfer of products to a customer should be the source of revenue. In terms of products, the boards deliberated over whether the definition of products encompasses goods and services as well as “other rights”; the inclusion of which would mean that products such as financial instruments would be accounted for in the same way as more tangible goods.

Ultimately, ‘other rights’ were excluded from the definition which allowed the standard setters to eliminate consideration of contracts for which the fair value measure of revenue might be more appropriate (i.e. financial instruments) and argue the traditional measurement convention to be a more natural approach to contracts with customers. They identified contracts for leases, insurance, and financial instruments as those contracts which would follow fair value measurement models since those models would produce more decision-useful information. For all other contracts, the transaction price model was argued to be a more appropriate approach to measuring revenue.

In addition to using the power of exclusivity, the standard setters essentially were able to deter the use of fair value in revenue through framing the concept of a contract as an exchange involving performance obligations (requiring the entity to act in some way to fulfill their end of the exchange) and performance as involving the transfer of control of economic resources (goods and services). While the way in which these concepts were framed closes the door to fair value in revenue from contracts with customers, it remains open for consideration on other issues such that future standard-setting decisions are not restricted (*partial foreclosure capacity*).

As such, the boards’ justification for rejecting the alternative approach due to the pattern of revenue recognition it produced was legitimized since that approach allowed the recognition of revenue from activities which did not meet the definition of a performance obligation. Likewise, the boards’ justification for rejecting the fair value approach due to its complexity was rationalized through the boards’ definition of performance as requiring the entity itself to do something, not to transfer its obligation to someone else to perform for them. The complexity argument was also supported by the requirement that a contract with a customer involved each party agreeing to exchange something of equal value.

In summary, I found that concepts (re) constructed by standard setters have the power of exclusivity which signifies an ability to dictate which accounting transactions and items are appropriate to consider and which are not. At the same time, I found that concepts have partial foreclosure capability which means that they

are developed in such a way that they shut down the debate regarding competing meaning systems and clearly lend support to one of the alternatives, yet they are not absolute in the sense that the standard-setters' future decisions are not restricted by the concepts developed in one particular standard. Ultimately, this work shows the importance of language as a political tool whose use can critically facilitate or impede change.

Chapter I

GAAP convergence or convergence GAP: Unfolding ten years of global accounting change

Résumé

Cet article contribue à la littérature sur les changements comptables en expliquant les efforts du FASB et de l'IASB, en cours depuis plus de dix ans, afin d'élaborer un ensemble de normes comptables acceptées par les marchés mondiaux. Cette recherche étudie ces efforts définis en tant que « convergence » des normes comptables et vise à apporter une clarté théorique et empirique permettant de conceptualiser cette notion de convergence. Ce faisant, elle informe la communauté mondiale de normalisation de l'évolution de la convergence et les facteurs qui influencent cette évolution en révélant des diverses institutions, acteurs et événements au fil du temps. À travers une étude de cas longitudinale de 23 projets clés du FASB-IASB entrepris entre 2002 et 2011, cet article analyse les processus de changements comptables à l'aide d'une combinaison de théorie institutionnelle et d'économie politique. Cette combinaison fournit une méthode permettant d'expliquer les variantes du changement en identifiant les modèles qui nous aident à comprendre les conditions et les caractéristiques de la convergence. Je présente des versions spécifiques de changement comptable observées au cours de l'effort de convergence- l'émulation directe, la réduction des différences et le remodelage progressif- en analogie aux processus institutionnels. Où l'émulation directe et la réduction des différences reflètent des processus institutionnels d'imitation et d'édiction ou de traduction, respectivement, je montre comment le remodelage progressif des normes comptables va au-delà de ces catégorisations classiques pour englober la notion de « co-construction institutionnelle » (Djelic, 2008). Enfin, j'indique l'impact des conditions compétitives et coopératives sous laquelle l'effort de convergence FASB-IASB s'est opéré et révèle comment ces conditions ont été influencées par les développements économiques et politiques de niveau-macro survenant au cours de la période.

Mots-Clés: FASB-IASB, convergence, normalisation, comptabilité en changement, co-construction

Abstract

This paper adds to the literature on accounting change in explaining a decade-long effort by the FASB and IASB to develop a set of global accounting standards accepted by markets worldwide. This research studies the effort as one of “convergence” in accounting standards and aims to bring theoretical and empirical clarity as to how we can conceptualize the notion of convergence. In doing so, it informs the global standard-setting community of the evolution of convergence and the factors which impact that evolution by revealing the influence of various institutions, actors and events over time. Through a longitudinal study of 23 key FASB-IASB projects undertaken between 2002 and 2011, this paper analyzes processes of accounting change using a blend of institutional theory and political economy. A process perspective provides a method to unfold variants of accounting change by identifying patterns that help us to understand the conditions for and characteristics of convergence. I highlight specific variants of accounting change observed during the convergence effort – direct emulation, difference reduction and progressive redesign- as analogous to institutional processes. Where direct emulation and difference reduction reflect institutional processes of imitation and editing or translation, respectively, I show how progressive redesign of accounting standards goes beyond these classical categorizations to encompass the notion of ‘institutional co-construction’ (Djelic, 2008). Further, I identify the impact of the competitive and cooperative conditions under which the FASB-IASB convergence effort operated and reveal how these conditions were influenced by the macro-level economic and political developments occurring over the period.

Keywords: FASB-IASB, convergence, standard setting, accounting change, co-construction

1 Introduction

Accounting standards are a key feature of financial regulatory systems, allegedly linked to the objectives of efficient markets, coordination of resources and control. As financial regulatory systems have modernized and become more complex and interdependent, calls for a common set of accounting standards that meet the objectives of the worldwide financial architecture have been the subject of a lively and lengthy debate. One prominent aspect of this debate revolves around the work of the standard-setting bodies responsible for developing financial accounting and reporting standards; the Financial Accounting Standards Board (FASB) in the United States (U.S.) and the International Accounting Standards Board (IASB) in the international sphere⁵.

In 2006, the FASB and the IASB committed to employ a coordinated effort in what has come to be labeled the “convergence” of their respective standards, U.S. Generally Accepted Accounting Standards (GAAP) and International Financial Reporting Standards (IFRS)⁶. This effort endeavored to produce a common set of accounting standards for worldwide market regulation (FASB & IASB, 2006; 2008). With this in mind, the FASB and the IASB came to operate under the uncertainty of which form standard setting might take and in which capacity the standard setters might function with a common set of standards in place. As such, the FASB and the IASB, who were structurally positioned as competing to develop different sets of accounting standards, put themselves in a position to cooperate under their effort to “converge”.

Competitive-cooperative dynamics have previously been explored in the emergence and construction of an international standard-setting community, the IASB/IASB, and of international standards, IFRS (Tamm-Hallstrom, 2004; Botzem & Quack, 2006, 2009; Camfferman & Zeff, 2007; Botzem, 2012; Botzem &

⁵ The IASB and those countries requiring (to varying degrees) the application of IASB-developed accounting standards by exchange-listed companies are referred to collectively as the ‘international’ sphere or environment.

⁶ The term International Financial Reporting Standards (IFRS) is used to describe the cumulative set of International Accounting Standards (IASs) which denote standards set prior to 2001 as well as IFRS issued post 2001.

Dobusch, 2012). While the focus has been on exploring this unique case, this paper starts from a situation in which we have two dominant and competing standard-setting organizations and standards and provides perspective on the process of converging these competing models and ideas (i.e. standards). Our understanding of how these models and ideas become similar is important as it establishes the platform from and the boundaries within which firms enact practices and users make decisions on a global scale. At the same time, this paper seeks to bring clarity to the notion of similarity, or “convergence”, of models and ideas in the global accounting space, as a clear understanding has yet to be identified from either a theoretical or empirical perspective.

The question of how and whether models and ideas converge across contexts remains perplexing in the social sciences in general. Two primary – but markedly different – accounts of the possibility for increasing similarity can be found steeped in modernizing arguments and diffusionist arguments (Djelic, 2008). Modernizing arguments presume similarity results from a discrete process of evolution by nature of similarities in contextual factors (Djelic, 2008). In contrast, diffusionist arguments, suppose that similarity occurs through variations of a process in which models and ideas are disseminated across borders (Djelic, 2008). I argue that the modernizing view, with its focus on economic forces as the main driver of convergence, does not suffice as a lens through which to view contemporary efforts to bring about similarity between GAAP and IFRS.

The diffusionist argument, on the other hand, enables a consideration of the impact that critical events and actors in the institutional environment have on processes of convergence. As such, this paper explores several variants of diffusion – imitation, editing or translation and co-construction - and the notions of similarity and convergence that these variants reveal and express. These variants are then broken down into concrete political economy interactions – suggesting the dynamics that both shape and are shaped by the different variants of diffusion. An approach that blends a consideration for institutional processes and political economy is highly relevant to unravelling trends in the global accounting standard-setting field. Such an

approach supports the analysis of the conditions under which different variants of diffusion produce (or do not produce) similarity or convergence in accounting standards and the nature of that convergence.

In shedding light on the way in which convergence can be conceptualized in the global accounting arena, this paper focuses on two questions. First, I look to unravel how the convergence of GAAP and IFRS has developed over time. Second, I seek to explain why convergence has developed in this fashion; in other words, what factors help explain the way in which convergence has developed. To do so, 23 key FASB-IASB projects undertaken between 2002 and 2011 are analyzed in relation to actors and events present in the same period. I highlight specific regimes observed during the FASB-IASB effort- direct emulation, difference reduction, and progressive redesign- as analogous to processes of institutional (accounting) change. Where direct emulation and difference reduction reflect institutional processes of imitation and editing or translation, respectively, progressive redesign of accounting standards goes beyond these classical change processes to encompass ‘institutional co-construction’ (Djelic, 2008). Further, I identify the conditions associated with these regimes finding that their use evolved with the extent of competition and cooperation between the institutions guiding the convergence effort. The extent of competition and cooperation is, in turn, influenced by the macro-level economic and political developments occurring over the period.

Finally, I provide insight as to the nature of convergence produced under each of these regimes. While a dominant model (and dominant actor) serves as a powerful referent and, therefore, is likely to produce (formal) convergence under the imitation regime, the second regime acknowledges competing models (and competing actors) and generates convergence towards the better model by editing/translating of a model to fit the particular circumstances. Convergence under institutional co-construction, as observed within the third regime, also involves a fair amount of editing/translation; however, the nature of convergence under co-construction differs from the previous

regimes in its (aim) to produce a meta-standard⁷ representative of the minimum common requirements which form compatibility between competing models (Endres, 2010). However, in that aim, convergence is perhaps no longer the appropriate term as the outcome can very well be a meta-standard ambiguous enough to allow for “informed divergence” (Slaughter, 2004: p11) in implementation.

The next section introduces early debates surrounding the notion of convergence as mechanism of modernization. Later, I set these arguments within the extant accounting literature and position the study of accounting convergence and change processes relative to modernizing perspectives. Section 3 then elaborates the diffusionist argument and its different variants as a framework for analyzing global accounting convergence. Following that, I present the methodology section. In Section 4, the case is analyzed which includes setting the phenomenon of the convergence of accounting standards within historical and contemporary context and analyzing the GAAP-IFRS convergence process. In the final section, I summarize my findings and conclusions.

2 Conceptualizing Convergence

As a general phenomenon, convergence has been defined as both process – as in, the “act of moving towards uniformity” - and outcome – as in, the “point at which two things are unified” (“convergence”, Merriam-Webster On-line). Debates on processes and outcomes of convergence crept into the social sciences from 17th century works in mathematics and the natural sciences, with the idea that societies progress towards uniformity, or similarity, in one or more respects (Rojek, 1986). This idea came to represent a common feature of theories of social change. It is found in the works of many 18th and 19th century thinkers - from pre-revolutionary French philosophers to Marx, Durkheim and Weber – each of whom suggest that societies tend to follow a process towards and ultimately assume a similar shape in economic, political and social terms (Weinberg, 1969).

⁷ According to Endres (2010), a meta standard sets the basic requirements and then allows the regulated community to interpret compliance with the standard locally – it does so by minimizing general principles, supporting minimum criteria (elements, conditions, processes).

With the notion of convergence rooted in over two centuries of theory, debates on the possible convergence of economic, political, and social systems became more prominent from the mid-20th century. These debates positioned economic development as generating similarities or differences across societies, with classical modernizing arguments supporting the outcome of similarity and a number of complexity arguments promoting variation in outcome. The next sections present these arguments and show how competing conceptualizations of convergence as a modernization mechanism are also relevant in considering processes and outcomes of convergence as a phenomenon of global accounting change.

2.1 Convergence as a Modernization Mechanism

Convergence carried a particular connotation from the 1950s, referring to the hypothesized link between economic development and concurrent changes in social organization (Meyer et al, 1975). In this sense, the notion of convergence represented the dissertation that as societies achieve similar levels of economic development they will converge in terms of these (and other) aspects of life. Throughout the 1950s and 1960s, convergence was most closely associated with ‘modernization theory’ which held that developing societies will follow a linear path to reach an outcome of economic development similar to that followed by developed societies of the West (Rostow, 1960). Modernization theorists believed that advancement along this path occurred under the influence of technological or market efficiencies, and these produced common values, beliefs and systems of organization (Appleby, 1978). Thus, developing societies were fated to become more alike regardless of differences in their institutional and cultural make-up.

Critics of modernization theory responded with observations of discordant outcomes, i.e. lack of convergence or variants of convergence. These variants, which I refer to as the complexity views of modernization, are explained by the dependency (e.g. Baran, 1957; Furtado, 1965; Frank, 1967; dos Santos, 1970) and world-systems (Wallerstein, 1974) theories. ‘Dependency’ refers to a situation in which one society’s development is constrained by the development of the economy of other societies on which the former is territorially, technologically or financially dependent

(dos Santos, 1970). Therefore, dependency theorists proclaim that the timing and history of a society's development will limit the extent to which it will converge with already developed countries, implying a lack of convergence.

Where the previous debates presume that societies will either converge or not converge, Wallerstein's (1974) 'world-systems' theory provides a perspective consistent with both expectations (Peacock et al., 1988). It presumes that economies are subject to similar forces, and by nature of these forces, are anticipated on the one hand to converge (Chirot & Hall, 1982). On the other hand, the unique role that particular economies play in the world indicates that certain societies will experience different levels of development relative to others (Peacock et al. 1988). Such distinctions, compatible with dependency theory, are presumed to produce a lack of convergence. The result is a tiered system in which economies will be similar to those within the same tier but dissimilar from those within different tiers (Wallerstein, 1974). As such, under this view variations in economic development cannot be understood without reference to the world system in which societies are embedded.

Thus far, all three views – modernizing, dependency and world-systems - focused on economic development assuming that convergence in other aspects of life flow from the establishment of similar economic structures. Likewise, all three views neglect to consider the role of organizations and individuals, situating these actors as mere participants to a process over which they have little power or influence. More contemporary theories recognize the need for an approach that emphasizes both the political and socio-cultural as well as the economic arena and how these combine and interact with powerful and influential actors (Schmidt, 2010). Such an approach contains two classes of study whose distinctions result in critically different notions of convergence. The first class allows for various paths and outcomes and, therefore, is more a divergence story, while the second predicts a common path towards a similar outcome with local divergence (Schmidt 2006). These varieties of modernization help overcome the rigidity of more classical modernization theory and

its complexity variants in their prediction that economic development will inevitably make societies look alike or different (Schmidt, 2010).

This section discussed the notion of convergence as debated within the social sciences. Certain arguments underlying these debates were categorized as modernizing in their focus on promoting convergence through economic and/or cultural development. At the same time, complexity arguments present the potential impediments to convergence in terms of multiple traditions and their embeddedness in and dependence on historical and cultural factors. The perspective offered by these categorizations is considered a useful starting point from which to advance our understanding of fundamental processes and outcomes of convergence in accounting systems over time and across space.

2.2 Convergence as an Accounting Phenomenon

Convergence of accounting phenomenon has been addressed in the financial accounting literature where researchers have studied the economic consequences of convergence in financial accounting and reporting practices. Still, empirical evidence and sound, theory-based explanations for global convergence of accounting phenomena (or the lack thereof) as well as for mechanisms and drivers of convergence are few. Extant explanations will be presented here in terms of modernizing arguments and complexity views as developed in the accounting literature.

The relevance of modernizing arguments to the case of convergence in accounting standards is alluded to in arguments that globalization and, particularly, the growing interdependence of financial markets demand common improvements in financial reporting information across firms and countries. Financial reporting information has multiple dimensions; however, two dimensions of financial reporting information, transparency and comparability, are addressed and elaborated in relation to their potential consequences.⁸ For example, transparency should normally imply

⁸ The reference to transparency and comparability as “two primary dimensions” of financial reporting information made here serves only to identify the most common arguments put forth in the accounting literature on convergence. This reference is not intended as a judgment of the relative role or

more and better information which would then translate into a greater willingness to trade given the playing field among investors may be perceived as more equitable (Verrecchia, 2001). Higher quality reporting is also argued to lower the cost of capital in that more and better information should bring greater awareness of securities risk and improve the estimation of firms' future cash flows (Lambert et al., 2007). Finally, improved financial reporting quality may result in better decision-making at the firm-level in that institutional investors and analysts will also be better informed and therefore firm's decisions will be more closely monitored (Bushman & Smith, 2001).

There is much less evidence on the comparability dimension. Greater comparability between firms is assumed to make it easier to differentiate between less and more profitable firms or lower- and higher-risk firms which translate into greater transparency and its related effects on market liquidity and cost of capital (Hail et al. 2010). Similarly, recent evidence supports the notion that greater comparability across firms from different countries facilitates cross-border investment and greater integration of capital markets (Leuz et al., 2008). In addition, better comparability may also improve firm-level decisions in that firms have a better understanding of their competition and contracting opportunities within and across countries (Hail et al., 2010).

At the same time, there are costs associated with improvements in financial reporting information linked to their preparation, certification and evaluation. Convergence of accounting standards is proposed to reduce those costs by allowing companies to consolidate divergent accounting practices across foreign subsidiaries, reducing the number of accounting systems that auditors must certify and restricting the number of accounting systems that analysts must evaluate (Hail et al., 2010). However, such cost reductions are argued to be realized only by the largest firms, meaning the costs of improved financial reporting may be particularly burdensome

importance of these dimensions, especially as the FASB-IASB's converged Conceptual Framework has identified the *fundamental*, or first-order, characteristics of information as relevance and faithful representation and the *enhancing*, or second-order, characteristics of information as including comparability, verifiability, timeliness and understandability (FASB and IASB, 2010).

for smaller firms (Bushee & Leuz, 2005). In light of these cost-benefit tradeoffs, the net benefits of convergence in accounting standards may vary significantly. Thus, it makes sense to assess differences in reporting environments in order to understand the implications of the convergence of accounting standards across firms, industries, markets and countries.

Early comparative accounting research enhanced awareness of the influence of economic, institutional and cultural (i.e. environmental) factors on accounting phenomenon (e.g., Mueller, 1967; Nobes, 1983; Gray, 1988; Nobes, 1998). This research contributed to the idea that fundamentally different accounting patterns exhibit interdependency with environmental differences and such differences may have significant implications for convergence. Mueller (1967) identified different approaches to accounting in Western nations with market-oriented systems where each approach was perceived to be closely linked to a wider set of institutional influences, including legal systems, political systems and social climate. Later, Nobes (1983) adapted and extended Mueller's analysis to produce a hierarchical classification of differences in accounting approaches distinguishing between macro-based financing, legal and tax systems and micro-based influences in firm economics and firm practices⁹.

Nobes proposed that a country's financing system, oriented towards shareholders or towards the bank/state/family, is the primary determinant of accounting as it is the financing system which influences the purpose of accounting (Nobes, 1998). The seminal work by La Porta et al. (1997) linked the financing system to two main types of legal systems - Roman (code) law and common law – and established a connection between shareholder-oriented countries and common law countries. Relative to tax systems, Nobes (1998) suggests that while the existence of a strong shareholder financing system may appear to override the tax purpose of accounting, firms may still make tax-driven choices which flow through to their investor-oriented financial reporting. In summary, local approaches to

⁹ Micro-based influences being relevant to firm-level characteristics are outside the scope of this research.

accounting and their variation from country to country has been seen as caused partly by institutional factors: financing system, legal system and tax system.

Absent in each of these considerations is the precise role of culture and it was Gray (1988) who put forth a framework for analyzing the impact of culture on the development of accounting systems. Gray's study focused explicitly on the role of societal values such as professionalism, conservatism, uniformity (comparability) and transparency and prefigured the literature demonstrating culture as a determinant of institutions (Greif, 1994). That literature was referenced by Ding et al. (2005) as a foundation for their study of the role of cultural and institutional factors in determining accounting systems. Ding et al. (2005) showed that, while cultural differences matter in determining accounting systems, institutions alone do not seem to explain accounting systems, thereby supporting the perspective that culture determines institutions. While the cultural-institutional debate is not the primary focus of this research proposal it supports the complexity argument in its various configurations and, as expressed by Ding et al. (2005), indicates potential difficulties in the context of the convergence of accounting standards.

Ultimately, this implies that convergence may be difficult in that countries have different and historically determined environmental infrastructures and are likely to prefer accounting standards aligned with those particular infrastructures (Hail et al., 2010). Given that accounting systems in any given environment have evolved through a series of compromises relevant to that particular setting it is reasonable to presume that some form of path dependency exists. At the same time, as Djelic and Quack (2007) reveal, path generation, as opposed to path dependency, may be more appropriate lens through which national-level institutional change embedded within broader global trajectories can be best understood. The concept of path generation refers to successive, and seemingly inconsequential, moments that in aggregate create a new path or deviation from existing path (Djelic, 2008). This concept fits well with an historical approach focused on the interdependence of national and global trajectories with their environment and stressing the role of institutions and political economy (Djelic & Sahlin-Andersson, 2009).

The study of accounting from a political economy perspective arose out of the seminal works of Burchell et al. (1980) and Tinker (1980) in their call for research understanding how accounting functions in its social, political and economic context. From this perspective, Cooper and Sherer (1984) showed how failure to consider these dimensions lead to accounting changes designed in the interests of one particular group of stakeholders and not necessarily in the interests of others. While the political economy view focuses on the role of actors' power and interests and, ultimately, who benefits in accounting change processes, Burchell et al.'s (1985) theorization of accounting change took a broader institutional view. This view saw change as contingent on the particular constellation of organizations, processes, and models/ideas present within various arenas in any given period of time (Burchell et al., 1985).

Out of this, a stream of research blending political economy and institutional perspectives developed which looked at the process by which institutions change, are legitimized and become taken for granted, and the role of various actors involved in those processes (e.g. Robson, 1991; 1994; Young, 1994; 1996; 2003; 2006). For example, Robson (1991), highlighted the accounting change process as one involving the translation of institutional features within and between overlapping arenas within regulatory space. Later, Young (2003) denoted changes in accounting standards as designed to express a particular view about the significance of events and activities occurring during the standard-setting process. These studies represent fundamental examples of analyses illuminating the ways in which events, actors and institutions are implicated in shaping and influencing accounting stability and change (Hopwood, 1994). Such analyses share many commonalities with neo-institutional theory in its own focus on explaining stability and change. As such, this paper looks to concepts of change from neo-institutional theory to provide an overarching framework for analyzing change in the global accounting space.

3 Institutional Theory as a Framework for Convergence

In contrast to modernizing arguments, which linked convergence to the economy, a distinctive view which emphasized culture over economy was put forth

in the 1980s by Meyer et al. (1980) with their ‘world polity’ explanation. Meyer et al. (1980) use the term world polity in reference to “a global citizenship linked to a broad cultural system developed and embedded in Western societies and globally reflected”. While not referring explicitly to convergence, the world polity approach makes a case for it. According to Meyer et al. (1997), from the middle of the 19th century, conceptions of society developed whereby certain explanations of universally applicable cultural models and structural patterns were adopted, or diffused (Meyer & Rowan, 1977). Early diffusionist arguments referred to isomorphism which, by Hawley’s (1968) definition¹⁰, forces one unit in a population to resemble other units that face the same set of environmental conditions. Meyer and Rowan (1977) applied the term isomorphism to cultural models and structural patterns in their analysis of environmental effects on organizational structure. The authors argued that by incorporating societally-rationalized rules, organizations become more similar in structure over time.

Elaborating on Meyer and Rowan’s (1977) work, DiMaggio and Powell (1983) extended the concept of isomorphism to their theory of institutional isomorphism in organizational fields. Their overarching proposition is that the more structured an organizational field becomes, the more similar organizational forms and practices will become within that field (DiMaggio & Powell, 1983). Driving the process of institutional isomorphic change are coercive, mimetic and normative mechanisms (DiMaggio & Powell, 1983). According to the authors, coercive pressure originates from the influence of powerful organizations; mimetic pressure arises in response to uncertainty and legitimacy-seeking by less powerful actors; and normative pressures stem from alignment with professional values. Institutional isomorphism and the mechanisms through which change occurs in the accounting standard-setting field have been studied in an important body of literature.

¹⁰ Isomorphism has been co-opted from biology and chemistry for use in the context of organizations and institutions to describe “the quality or state of being isomorphic: a similarity in organisms of different ancestry resulting from convergence” (Merriam-Webster OnLine Dictionary, n.d.). The use of the term isomorphism in this paper is loosely synonymous with convergence.

A significant number of studies highlight coercive mechanisms by which organizations within a field are compelled to adopt structures or rules. This may be through political force or by pressure from government and international organizations as well as by the power of highly structured professions. Such studies speak to political forces and their influence on: the adoption of FASB standards by the public sector (Carpenter & Feroz, 2001); the globalization of professional audit services (Cooper et al., 1998; Caramanis, 2002; Arnold, 2005; Loft et al., 2006; Suddaby et al. 2007); the emergence and reorganization of the IASB (Tamm-Hallstrom, 2004; Botzem & Quack, 2006; 2009; Camfferman & Zeff, 2007; Botzem, 2012); and the adoption of IFRS in the E.U and globally (de Lange & Howieson, 2006; Chua & Taylor, 2008; Arnold 2012). Less common are studies of forces which can arise out of discourse wielding a power of its own (Robson, 1991; Young, 1996).

Many of these studies also address mimetic aspects in that institutional change often takes place in an environment in which technologies may be poorly understood or goals may be ambiguous for a legitimacy-seeking organization. In facing such uncertainty, the legitimacy-seeking organization essentially copies another successful and legitimate model in imitation of what is perceived to be best practice (DiMaggio & Powell, 1983; Galaskiewicz & Wasserman, 1989). In addition to the areas of study mentioned above, mimetic forces have been considered in studies of the voluntary use of non-national standards by European firms before the use of IFRS was mandated (Touron, 2005) as well as in the harmonization of national standards with IFRS (Chiapello & Medjad, 2009; Rodrigues & Craig, 2007; Peng & van der Laan Smith, 2010; Botzem & Dobusch, 2012). These studies generally find the extent of imitation of international “best practice” and decoupling (Meyer & Rowan, 1977) with day to day activities depends on the relative power of the actors who support, oppose or otherwise strive to influence that practice.

Finally, normative mechanisms, where organizations adopt forms and practices because professionals in the organization claim they are superior, derive from the tendencies of business professionalization (DiMaggio & Powell, 1983; Zucker, 1987). Relative to this paper, the global professionalization of public

accounting firms has created a powerful force in the accounting field (Cooper & Robson, 2006; Greenwood & Suddaby, 2006; Loft et al., 2006; Suddaby et al., 2007). Where a globalized public accounting profession claims a large number of FASB (Fogarty, 1992; Allen & Ramanna, 2013) and IASB (Botzem & Quack, 2006; Botzem 2012) members and staff, the profession continues to influence accounting standard setting. At the same time, the structural independence of the FASB and IASB from the public accounting profession, as well as an increased involvement of non-auditors as members and constituents (Botzem, 2012; Allen & Ramanna, 2013), might suggest the diminishment of such normative influence.

While isomorphism implies one kind of progression, other possibilities for variants of isomorphic or non-isomorphic change have been acknowledged and it is with these varieties of change that early neo-institutionalist tradition may run into problems. To address these problems, the literature has attended to mechanisms and processes of institutional change of a different nature. These mechanisms and processes are distinguished from ‘diffusion as imitation’, which involves the spread of a certain model or idea to a number of passive recipients or trend followers (Campbell, 2004), insofar as they are active processes in which actors are directly engaged (Sahlin & Wedlin, 2008). Whether engaging in a role as a creator, user or intermediary, actors are not simply interpreting or discovering as early diffusionist accounts assume, but are actively shaping to make sense of their particular situation through processes of editing and translation (Czarniawska & Joerges, 1996).

Editing processes consider that some degree of modification must occur as templates move in time and space (Sahlin-Andersson, 1996; Sahlin & Wedlin, 2008). Editing “rules”, which are not rules in the formal sense, restrict and direct the change process in that existing concepts, frameworks and classifications form the infrastructure of editing (Sahlin-Andersson, 1996). However, concepts, frameworks, and classifications are not the same everywhere; those that dominate one setting may be unknown or unpopular in another. Therefore, the editing of ideas reveals something about the institutional setting in which the ideas are formed as well as about the ways in which a number of involved “editors” who (re) shape institutional

rules are constrained by social control, conformism and traditionalism (Sahlin & Wedlin, 2008).

Translation, alternatively termed the “travel of ideas” (Czarniawska & Jorges, 1996), encompasses editing yet at the same time is distinct from it in that translation points to change that not only modifies but transforms ideas. The subtle difference being that translation is a process in which new elements that arrive from elsewhere intermix with already existing elements inherited from the past (Czarniawska & Joerges, 1996; Campbell, 2004; Czarniawska & Sevon, 2005). As such, “translators” edit not only through renaming, customizing, or dropping parts but by adding elements, reinterpreting or even reinventing ideas (Sahlin-Andersson, 1996). In the process of developing global institutions, translation necessitates their abstraction in order to travel across global space and time (Czarniawska & Jorges, 1996). This moves the focus from actors’ constraints to actors’ capacity to abstract ideas that fit their own preferences and the specific circumstances in which they operate (Sahlin & Wedlin, 2008).

Finally, one can distinguish an alternative type of diffusion which involves an encounter between an idea or model and a rich, complex and unique context under the assumption that the peculiarities of the context impact both the path of diffusion and patterns of appropriation (Djelic, 2008). Such an embedded encounter engages with translation but takes that variant of diffusion even further. Where translation points to actors’ capacity to modify and transform ideas and models in their own interest (Czarniawska & Jorges, 1996), “co-construction” entails the packaging (or repackaging) of ideas or models through mediation by a dense ecology of carriers of many kinds and many interests (Djelic, 2008). According to Djelic (2008), this network of carriers is instrumental to the process by which a collection of developments in different parts of the world are aggregated in the progressive building of an attractive package of ideas and models. Thus, one can envisage how understanding processes of aggregation, or co-construction, imply a tracing of the role and impact of different carriers and their interactions (Djelic, 2008). This fits

particularly well with the concept of path generation which was previously noted as useful in the study of global standard-setting phenomenon.

In sum, according to institutional isomorphism, organizations must adopt and adapt to global models, ideas and best practice (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). However, there are many situations in which competing models, ideas and best practices exist. When confronted with demands for global institutions, this paper asks what are the conditions that determine which institutions will be imitated, edited, translated or co-constructed as global rules and how? This paper provides one such analysis of the ways in which the development of global institutions, in the form of a set of accounting meta-standards for worldwide market regulation, has unfolded over time and the role that particular combinations of events, strategies and interactions of the actors involved have on the way in which it unfolds.

4 Research Strategy & Methods

I consider convergence in standard setting a process of accounting change. Process studies are concerned with how change unfolds. The central focus is on understanding the series of events or activities that occur surrounding a process and uncovering their relationship to a change which becomes (or does not become) a concrete reality (Van de Ven & Huber, 1990). Process explanations are associated with a historical perspective following the order and sequence of significant events or activities to identify patterns of transition over time and within context (Van de Ven & Poole, 1995). The key is that change can be analyzed by longitudinal observation through the identification of differences on a set of dimensions over time. Not only is the nature of those differences explored but also the theories that explain the change process.

4.1 Research Design

This research entails a longitudinal case tracing the development of convergence as it has unfolded and allowing for an assessment of how convergence evolved relative to significant events, actors and activities and the concepts, values and ideas employed in the process (Van de Ven & Huber, 1990; Van de Ven &

Poole, 1995). Case studies focus on bounded and particular organizations, events or phenomena (such as accounting change processes), and scrutinize the activities and experiences of those involved, as well as the context in which these activities and experiences occur (Stake, 2000). The case study approach is useful in investigating accounting change as it represents complex and dynamic phenomena with many elements; refers to actual practices that may be ordinary, unusual or infrequent; and is a phenomena in which the context is crucial because it affects the phenomena being studied (Cooper & Morgan, 2008).

The critical advantage of case study is its propensity to discover meaningful differences, rather than general properties, among concepts, actors and/or systems and explore the influence of such differences on processes (Starbuck, 1993). The overall unit of analysis of this case is the FASB-IASB effort to develop converged accounting standards. The process of change is comprehensively analyzed over the life of this effort in terms of comparative phases, or sub-cases if you will, within the standard-setting process. Similar to “temporal bracketing” (Langley, 1999), such a strategy decomposes the FASB-IASB program into successive periods not necessarily having any particular theoretical significance but rather displaying a certain continuity in the activities within each period and discontinuity in the activities at its frontiers. The decomposition of data into periods allows for structuring the description of events, permits comparative analysis for the exploration of theoretical ideas and enables the examination of how events of one period lead to changes in the context that affect events in subsequent periods (Langley, 1999). This strategy fits well with a dynamic perspective on processes and can handle a range of data on events, actors, and ideas/concepts.

4.2 Data Collection & Analysis

The period of study is restricted to the 10-year period from 2002 to 2011. The starting point of 2002 has been selected as it is the year in which the FASB and the IASB first agreed to formalize their effort to converge their respective standards (FASB & IASB, 2002). The analysis extends to 2011 which represents the close of the last period of FASB-IASBs formal agreement and the year that the FASB-IASB

initially set as a goal for completion of their efforts to develop a common set of standards (FASB & IASB, 2008). This research analyses the accounting convergence process viewed as the path of change between the initial configurations of accounting standards and the potential end state (e.g. a common, global standard). I analyze complex phenomena and identify the characteristics and conditions of change with no a priori prediction as to its nature as opposed to, for example, working from a preconceived expectation and fitting the data to that expectation.

I referenced archival records both historically and, given the contemporary nature of the project under study, almost in real time. These records include: (1) press articles on the topic of convergence and (2) press releases and publications issued by actors involved in global standard setting. In terms of press articles on the convergence of accounting standards, a search of the Factiva Database for the period from 2002 to 2011 was conducted for ‘grey literature’ published in English¹¹ using the keywords “accounting” and “convergence”. This search generated 1 110 unique articles, with 35,3% (392) of the articles published by ten sources. I narrowed my focus to these top ten sources¹² and reviewed the articles at a cursory level, compiling a rough constitution of the sequence of events and actors implicated in the convergence process and identifying early themes.

The initial constitution of events and actors was supplemented by the review of press releases and publications issued by the FASB, IASB, SEC, EC/ESMA, IOSCO, and G20. These documents and their sources were identified through an examination of information published on websites of the actors and organizations having the highest frequency of reference in the press. Table 3 reflects a chronological listing of 32 documents issued between 2002 and 2011. These materials clarify and/or confirm the initial chronology of events and provide the substance for elaborating the process not available from the press articles. In

¹¹ This represents a known limitation of the study as certainly there are numerous foreign language publications on the subject of the convergence of GAAP and IFRS by those affected parties in the international sphere.

¹² Of the 392 top ten sources, I limited my review to 146 articles published by the Financial Times or Wall Street Journal during this period and another 168 articles published in the “top” four U.S. and U.K professional journals.

addition, to support my constitution of the chronology of events I reference academic literature on developments in international accounting standard setting.

In 2006, the FASB-IASB specifically designated 23 standard-setting projects as joint projects falling under the convergence effort (FASB & IASB, 2006). To provide an anchor for analyzing the process of convergence, I focus on these 23 projects which are outlined in Table 4. For each project, I reviewed relevant publications including original and revised standards and documents issued by the standard setters as part of the convergence effort, as well as reports and summaries issued by the global audit firms. In reviewing these publications, the first step was to assess the approach to converging GAAP and IFRS. I identify three approaches taken to convergence in terms of whether the project involved direct emulation¹³, difference reduction, or progressive redesign. A direct emulation approach means that one of the existing IFRS or GAAP standards was identified as best practice and essentially copied “as-is” into the authoritative guidance of the other standard setter. An approach entailing difference reduction can be contrasted with direct emulation in that certain parts of each of the existing IFRS or GAAP standards that produced differences in practice were to be aligned with best-practice in order to produce a similar standard on both sides. Finally, the progressive redesign approach refers to those projects for which the existing standards (either on both or only on one side) were deemed in need of major overhaul and a new, common solution developed.

In addition to assessing the approach to convergence, I consider the degree and direction of convergence. I make this evaluation through a content analysis of the original GAAP and IFRS standards as compared to the (re)issued GAAP and IFRS standards, denoting the degree of convergence between GAAP and IFRS as full, substantial, partial, or no convergence (none) based on Peng and van der Laan

¹³ The direct emulation approach which emerged out of the data analysis may be considered by some as broadly in line with what Peng and van der Laan Smith (2010) refer to as ‘direct import’. However, these authors study direct import as an unaccompanied and unidirectional effort by China to converge its local GAAP toward IFRS. They measure the outcome of “convergence” quantitatively without questioning the process or notion of convergence. This paper, on the other hand, critically analyzes a joint effort by competing standard setters in terms of both process and outcome. In doing so, it identifies variants in the approach to and direction of efforts to converge referred to as difference reduction and progressive redesign.

Smith (2010). Full convergence is assigned to projects resulting in identical IFRS and GAAP standards (with a few minor exceptions that do not impact the substance of the standard such as differences in wording). Substantial convergence is assigned to projects where the substance and principle of the new IFRS and GAAP standard(s) are largely the same and is contrasted with partial convergence where the substance and principle is largely different. Finally, no convergence is assigned to those projects that produced IFRS and GAAP standards which differ in substance and principle or for projects which were abandoned. At the same time, I make a directional assessment in terms of whether there was no change, whether IFRS was brought closer to GAAP or whether GAAP was brought closer to IFRS, or whether there was some combination of change by both boards (“mixed”).

In validating the archival analysis, a number of semi-structured interviews were conducted with a sample of actors from a sub-population of the global standard-setting space. The sub-population refers to 125 current and former IASB and FASB members as well as members of their respective advisory councils and committees (at December 2011). Fifteen potential interviewees were contacted on the basis of indirect personal/professional connections, and yielded seven responses. Gaining access to the seven respondents was quite complicated as the potential interviewees have significant roles in global standard-setting and comprise an elite group of business leaders to whom access is restricted by the political nature of standard setting and the convergence process in particular. The interview data was collected via a semi-structured interview instrument designed around the concept and process of convergence; however, the interview responses frequently called to mind additional themes which flowed freely during the interview. Each interview was recorded after obtaining permission from the interviewee and transcribed by the author. Interview data is presented in Table 8.

5 Case: GAAP Convergence or Convergence GAP

This section sets processes of global accounting change in historical context and identifies the events and actors on which the FASB and IASBs formal effort to converge IFRS and GAAP appears contingent. This brief retelling of the pre-cursors

to convergence focuses on the emergence of the IASB and the international standards they promulgate as a competitor to the FASB and their domestic standards. The focus then turns to exploring the FASB and IASB convergence program relative to (unforeseen) institutional changes in the attempt to converge IFRS and GAAP.

5.1 Setting the Stage for Convergence

In fact, the IASB was preceded by the International Accounting Standards Committee (IASC)¹⁴, a private body of professional accounting representatives¹⁵ responsible for the development of international accounting standards (IAS). The IASC was formed in 1973, the same year as the FASB, and these two bodies represent the starting point for discussion. As a private body, the IASC produced voluntary accounting standards intended to ensure a minimum level of quality and comparability across developed countries and to offer a substitute to developing countries who did not have standards (Camfferman & Zeff, 2007). In the IASC's early years, described by Thorell and Whittington (1994) as its 'descriptive period', the results of standard setting allowed a wide choice of method, essentially reflecting summaries of accepted practice in various countries.

While providing an exchange of information and enabling national standard setters a better understanding of practice elsewhere, IAS reflected the IASC's lack of authority to determine accounting practice (Tamm-Hallstrom, 2004). However, this changed in 1989 as the IASC was persuaded by the IOSCO to develop a unified set of accounting standards for cross-border listings. Broadening the use of IAS in developed capital markets throughout the 1990s moved the IASC into its 'normative period' (Thorell & Whittington, 1994), where standard setting aimed to identify a single, "preferred" accounting method.

Yet, the IASC's private effort to develop IAS does not represent the only effort towards developing a unified set of accounting standards. In fact, the process of bringing the accounting standards of different countries within the E.U. closer

¹⁴ Camfferman and Zeff (2007) provide the history of the IASC.

¹⁵ The constitution of the IASC was signed by representatives of national professional accounting bodies from nine countries: Australia, Canada, France, Ist Germany, Japan, Mexico, the Netherlands, the U.K. and the U.S..

together, generally referred to as harmonization, was initiated by the European Economic Community's (EC) Council of Ministers in the 1970s as the IASC was being established. The harmonization of European accounting standards was judged a precondition to the fundamental objective of a common E.U. market and was the concern of two EC regulations: the Fourth Directive¹⁶ and the Seventh Directive¹⁷ (Botzem & Quack, 2006).

While the Fourth Directive dealt with the format, disclosure and measurement of financial information reported by single entities, the Seventh Directive extended the Fourth Directive requirements to consolidated entities. The primary critique of these two regulations, similar to the early issue with standards developed by the IASC, was that they merely codified existing accounting practices rather than bringing standards into harmony. The EC and the IASC standard-setting efforts were conducted in parallel; yet while EC efforts were hindered by political obstacles, the IASC maneuvered to improve its image and that of the standards it was developing in the eyes of both national securities regulators and national standard setters.

The IASC's efforts to win over national securities regulators culminated in collaboration between the IASC and the International Organization of Securities Commissions (IOSCO) in the late 1980s. In this collaboration, the IASC and IOSCO agreed to a comparability and improvement project with the objective of reducing or eliminating accounting alternatives considered unacceptable in the international arena within a number of IAS (Camfferman & Zeff, 2007). However, recognizing the importance of raising the acceptance of IAS among IOSCO members, in particular with the SEC, the Continental European and other countries diverging from the Anglo-model came increasingly under pressure to give up their accounting methods (Botzem & Quack, 2006).

¹⁶ Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of entities.

¹⁷ Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54(3)(g) of the Treaty on consolidated accounts.

Parallel to the IASC-IOSCO interaction, the IASC attempted to convince a G4¹⁸ working group of national standard setters, who had come to represent standard-setting competition to the IASC, of the stature of IAS. The G4 had basically demonstrated how national accounting standard setters could work collectively to develop accounting topics which ultimately made their way into the standard-setter's agendas, including the agenda of the IASC (Street, 2006). As a result some perceived the G4 a threat to the IASC's existence, with their Anglo-orientation towards the information needs of capital-markets guiding the course of standard setting towards the standard-setting ideals embodied by G4 countries (Botzem & Quack, 2009). This threat was minimized when the EC changed its strategy on accounting harmonization by initiating a shift in the development of accounting standards away from the EC and to the IASC (EC Directive, COM 95(508)).

By the mid 1990s, a number of revisions had been made to IAS under the comparability project, and a second round of revisions was requested with a list of core standards identified for revision by 1998. Two years later, the IOSCO recommended that its member exchanges allow entities to use IAS in cross-border listings. That same year, in 2000, the EC issued a proposal (the Lisbon Accord) to revise EC directives and allow the application of international standards instead of local GAAP for European listed entities. The formal decision to make IAS, which by then had been relabeled IFRS, the only acceptable accounting standards for European listings and thereby ruling out GAAP as an alternative, came in 2002 (EC Regulation 1606/2002) with an effective date for application of IFRS by/for the January 1, 2005 reporting year.

The Norwalk Agreement was also entered into during 2002 and made official a number of FASB-IASB initiatives that had been underway informally for a number of years; among them a decision to align the agendas of the FASB and the IASB and a commitment to reduce differences between GAAP and IFRS (FASB and IASB,

¹⁸ The G4 formed in 1992 to ensure agreement in the development of accounting standard by its sponsoring bodies. The Australian Accounting Standards Board (with New Zealand), Canadian Accounting Standards Board, U.K. Accounting Standards Board and the U.S. FASB represented the G4 while the IASC was integrated as the "+1".

2002). The agreement at the time was promoted by standard setters and regulators as a “positive step for investors in the U.S. and around the world, as investors globally could benefit to the extent that transparency and high quality information might be provided by a common worldwide approach” (SEC, 2002). With the discourse centered on the fluidity of integrated capital markets and the smooth allocation of economic resources, the action was seen by some as part of a global reaction to the Asian financial crisis of the late 1990s and the Enron, Worldcom and Parmalat accounting scandals of the early 2000s (Tweedie & Seidenstein, 2005). By others, it was viewed as a U.S. driven response to the decision of the E.U. to adopt IFRS and similar actions being taken or considered in other countries (Botzem & Quack, 2006; Arnold, 2012). However, the integration of markets and allocation of resources without regard to national borders, while raising questions regarding the relevance of national accounting practices, does not explain the choice of one set of accounting standards over another or the convergence of such standards (Schipper, 2005).

The sequence of events outlined in this section and summarized in brief in Table 2 serve to show how global standard-setting activities moved from those associated with standardizing national accounting rules and principles to harmonizing international accounting standards and finally to their consideration as acceptable for convergence with GAAP. These activities are highlighted relative to certain events occurring in the global economic and political environment in order to contextualize the path to convergence. However, this objective and the path to it remain largely unclear. As such, the next sections systematically explore the evolution of convergence within the global standard-setting environment in effort to bring theoretical as well as empirical clarity to the GAAP and IFRS convergence program.

5.2 Convergence and Changes in Institutional Context

The Norwalk Agreement itself did not actually refer to the FASB and IASBs agreement to work together as a ‘convergence’ effort, instead referring to an effort to “make existing standards fully compatible as soon as practicable” (FASB & IASB, 2002). Towards this objective of achieving compatibility, the agreement identified

several types of projects, but did not specifically designate which accounting issues would be addressed within each classification.

- Short-term projects aimed at removing a variety of individual differences between U.S. GAAP” would be resolved prior to the January 1, 2005 deadline for IFRS adoption in the E.U.
- Other differences remaining after January 1, 2005 would be resolved through coordination of [the boards’] future work programs through the mutual undertaking of discrete, substantial projects which both boards would address concurrently.
- At the same time, continued progress would be made on the joint projects the boards are currently undertaking. (FASB and IASB, 2002)

The focus of the FASB-IASB efforts, however, was clearly on the deadline for IFRS adoption in the E.U when the financial reporting of firms listed in the E.U (including U.S. firms cross-listed in the E.U) would come under one common accounting system. With the Norwalk Agreement, the U.S. seemed to secure a role in ensuring that system was as similar to its own system as possible and under the belief that the starting points (conceptual frameworks) were not that far off, this objective was considered not only desirable but achievable as reflected in this quote:

“The overall belief was that accounting standards should be based on concepts in the framework and if the concepts similarly define assets, liabilities, revenues and expenses then why wouldn’t you get a very similar answer. And if that’s the case, why would you choose not to? Are you using a different set of elements or not and both boards said, no we are not, so we ought to be able to strive to get the same answer to the same question. If you accept the IASB and FASB framework, and you accept most of what the market-oriented countries would say- that comparable information aids in the allocative efficiency of the marketplace, it prices capital more efficiently with more comparable information - we would think most people would intuitively believe, let’s just say a common set of standards, is desirable.”
(Interview# 2)

However, two years into the FASB-IASB efforts a joint project was added to align their respective conceptual frameworks (McGregor & Street, 2007) as, presumably, the conceptual frameworks were not as similar as they seemed and their differences prohibited the boards in converging their respective standards.

The years from the time the Norwalk Agreement was signed to the EU adoption of IFRS on January 1, 2005, passed with the boards promoting the progress made on a number of short-term projects; however, major differences remained unresolved.¹⁹ The standard setters seemed to regroup in 2006 under a more definitive

¹⁹ This does not mean to say that no progress was made on the overall agenda to produce greater

arrangement - ‘A Roadmap for Convergence between IFRSs and U.S. GAAP 2006-2008’. This arrangement reiterated their commitment to work together and specified their efforts as convergence projects under a Memorandum of Understanding (MoU) (FASB & IASB, 2006). The 2006 MoU acknowledged that ‘a common set of high-quality global standards remains the long-term strategic priority of both the FASB and the IASB’, but made no attempt to define or clarify the term convergence.

Where the driver of the standard setters’ joint efforts under the Norwalk Agreement had been the 2005 adoption of IFRS in the E.U, the 2006 MoU pointed to the relevance of recognizing equivalence between IFRS and GAAP (FASB & IASB, 2006). It did so by highlighting the SEC roadmap to removing a requirement for non-U.S. companies listed in the U.S. to provide a reconciliation of IFRS to U.S. GAAP. A comparable requirement was under reconsideration by the EC under which non-E.U. firms listed in the E.U. had to reconcile their local GAAP to IFRS. The SEC and the EC indicated the removal of these reconciliations as dependant on progress made in the FASB-IASBs efforts to converge their standards (SEC, 2005; EC, 2007; Erchinger & Melcher, 2007). This linked the FASB-IASBs efforts to the SEC and EC proposals to recognize the standards as equivalents and created pressure for the standard setters to formalize their approach to the convergence program. The 2006 MoU described this approach as follows:

- Reach a conclusion about whether major differences in a few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, substantially complete (by 2008).
- Make significant progress on joint projects in areas identified by both boards where current accounting practices are regarded as candidates for improvement.

In doing so, the FASB-IASB specifically identified ten projects which covered those differences the standard setters anticipated could be resolved in the short-term by selecting between existing GAAP and IFRS. These ten projects are denoted in Table 4 as having a short-term horizon. The standard setters explained that “limiting the number of short-term projects enables the board to focus on major

comparability with U.S. GAAP. For example, the IASB issued revisions to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the FASB issued SFAS 154 *Accounting Changes and Error Corrections* in 2003/2005. Later, in 2004 the IASB issued IFRS 2 *Share-based Payment* and the FASB issued revisions to SFAS 123(R) *Share-Based Payment*. However, these activities were not specifically considered part of the convergence program.

areas of GAAP and IFRS regarded as candidates for improvement” (FASB & IASB, 2006) and identified eleven such areas. The eleven major projects, which eventually were increased to thirteen²⁰, are denoted in Table 4 by a long-term horizon. In relation to the long-term projects, the FASB-IASB clarified that “trying to eliminate differences between two standards in need of significant improvement is not the best use of FASB-IASB resources – instead, a *new common standard should be developed* that improves the financial information by replacing weaker standards with stronger ones” (FASB & IASB, 2006; *emphasis added*).

With the standard-setters’ activities pushed into the spot-light by the EC and SEC, the 2006 MoU saw the standard setters formalize their efforts towards a common set of standards in terms of both convergence process and expected outcome as implied in this quote:

“The term convergence was meant, at least in my way of thinking, it indicated that we started with two very strong accounting paradigms and now we are going to move them together - this seems more about convergence as a process than as the achievement at the end. The process has to be there and both parties have to follow it in order to get complete input and as much information as possible. The final outcome also needs to be the same in order to converge otherwise you have separate standards. With convergence at the end, let’s say for example with U.S. GAAP and IFRS, we could still have U.S. GAAP and IFRS but if you had questions arise under one, the answer would be the same under the other.” (Interview# 6)

An indication of the perceived progress toward that outcome²¹ came towards the end of 2007 when the SEC voted to alleviate the requirement for foreign firms listed on U.S. exchanges to reconcile IFRS to GAAP, leveling the playing field between the two sets of standards in the U.S.. This raised the question of whether the EC would follow suit. The Committee of European Securities Regulators (CESR), advising the EC at the time, recommended that the EC consider GAAP equivalent to IFRS for use in E.U. markets. On the basis of this recommendation, the EC issued a regulation establishing a mechanism for determining the equivalence of standards applied by non-E.U. issuers with IFRS.

²⁰ The long-term projects reflected in Table 4 number 13 instead of eleven with the inclusion of the conceptual frameworks project which started in 2004 and a project on insurance contracts in 2008.

²¹ A potential indication of progress or at least the potential for progress may have been that by the end of 2007 three of the short-term projects and one of the long-term projects were substantially complete and represented fairly successful efforts in terms of producing similar standards.

Ultimately, the EC would grant equivalence to GAAP in December 2008 which should have meant that U.S. companies listed in the E.U. could file their financial statements following GAAP; however, which accounting regime to accept on a given securities exchange remains at the discretion of the exchange and/or regulatory authority and many European markets still do not accept GAAP financial statements. As such, U.S. companies cross-listed in the E.U continue to file under a dual financial reporting system giving E.U. firms cross-listed in the U.S. an advantage in that they file IFRS statements worldwide whereas U.S. firms must prepare statements under two different standards depending on the markets on which they are listed.

Just before the EC decision, in November 2008, the SEC released a ‘Roadmap to IFRS Conversion’ containing milestones which, if achieved, would result in a decision in 2011 on the potential for adoption of IFRS by U.S. listed companies at the earliest in 2014 (SEC, 2008). During this same period, the Group of Twenty (G20)²², responding to the 2007 financial crisis through a regulatory reform action plan, called for “key global accounting standards bodies to work intensively toward the objective of creating a single set of high-quality global standards” (G20 Summit, 2008). The G20 reiterated this request with urgency throughout 2009 and after, representing a constant reminder of the expectation that some of the world’s most critical economies had for the standard setters. Not surprisingly, when the FASB and the IASB reaffirmed their commitment to work together through another MoU in 2009, they agreed to intensify their efforts to complete and achieve convergence on the major projects described in the 2006 MoU (FASB and IASB, 2009). However, the reference to major projects in the 2009 MoU did not point solely to long-term projects as it had in the 2006 MoU but rather the MoU lumped all projects, short- and long-term, into one “major” category as with the passage of three years none of the remaining projects could really be considered short-term.

At the time the 2009 MoU was enacted, only one of the projects originally designated as a long-term project was considered complete and another of the

²² The leaders of the G20 represent 19 of the world’s largest national economies plus the E.U..

projects deferred while the remaining projects remained in process. Among the projects originally designated as short-term, four were considered complete, five had been deferred, and one remained in process. The 2009 MoU described the FASB-IASB status and plans for projects in process in even more detail than the 2006 MoU, including milestones for completing each project by June 2011 and committing to quarterly reporting on their progress. The standard setters denoted this plan as “consistent with the strong support for the goal of a single set of high-quality global standards recently expressed by the Leaders of the Group of 20” and “an important consideration in deciding the role of IFRS in the U.S. capital market” (FASB & IASB, 2009)

“The 2006 MoU took us through 2009 and near the end of this time we asked, well, we have not completed the program, so what should we do – do we stop working together? Or do we continue and improve the way we work together? Shouldn’t we be more focused? This meant having more joint meetings and more joint teams working together otherwise it seemed impossible to really do things in an effective manner. We also reduced the list of projects that we would work on together, a list which was already reduced in comparison to the original list and further down the road we refocused even more.” (Interview# 4)

By June 2010, and just days before the G20 again met and reiterated the importance of achieving a single set of accounting standards, the FASB-IASB issued a statement notifying the G20 of a decision to modify their work on certain convergence projects. The modified strategy entailed “prioritizing the major projects in the MoU to permit a sharper focus on the issues and projects for which the need for improvement of both IFRS and U.S. GAAP is the most urgent” (FASB & IASB, 2010). At the same time, the SEC heralded the modification as worthwhile “if it should lead to a higher-quality outcome and indicated this should not affect the timing of the SEC decision on IFRS” (SEC, 2010). By this time, the one remaining short-term project active at the date of the 2009 MoU was still in process but was not specifically mentioned in the statement. Of the remaining long-term projects, four projects were newly designated as “separate but co-operative efforts” in order that the standard setters focused on the remaining six major projects plus the conceptual framework. Just six months later in November 2010 a further prioritization would narrow the FASB-IASB efforts down to one project nearing completion plus four

critical projects – financial instruments, insurance, leasing, revenue recognition – deferring further work on all other projects, including the conceptual framework.

The FASB and the IASBs efforts to converge on these four projects continued throughout 2011, which came and went without a decision on IFRS adoption in the U.S. taken by the SEC but rather with two potentially telling publications. First, in May 2011, the Securities and Exchange Commission (SEC) staff presented a possible new approach to incorporating IFRS into the U.S. financial system through what they termed a process of “condorsement” (SEC, 2011). This term reflects the notion of the convergence of IFRS and GAAP standards along with a control mechanism for the U.S. regulatory bodies. This mechanism would allow the SEC to maintain ultimate decision-making power over how and whether converged standards are accepted for reporting in the U.S. on a standard-by-standard basis, much like the E.U.s endorsement mechanism. Second, in November 2011, SEC published its study ‘A Comparison of U.S. GAAP and IFRS’ in which they “evaluated the areas in which IFRS does not provide guidance or provides less guidance than GAAP through high-level observations of differences and examples of those differences that could have a more significant impact” (SEC, 2011). However, this study was conducted using GAAP specifically as the reference point for high-quality standards and therefore represents a biased view. In addition, the focus of the SEC study is on highlighting differences between U.S. GAAP and IFRS not studying the extent to which GAAP and IFRS may have become similar or the manner by which this may (or may not) have occurred.

5.3 Convergence Program Analysis

The FASB-IASB convergence process can be distinguished in three ways; (1) through direct emulation, or imitation, of one standard by the other standard-setting body, (2) through the reduction of known differences, or editing/translation, between the existing standards of each body, and (3) through the progressive redesign, and co-construction of the existing standards considered weak standards jointly by both bodies. The standard setters employed direct emulation on projects that addressed accounting issues not considered within one set of guidance or where one set of

guidance contained alternatives that the other set did not contain. For example, where IASB guidance contained a standard on accounting for events occurring after the reporting period (IAS 10), the FASB guidance contained no equivalent standard so the idea was for the FASB to replicate the IASB guidance within GAAP. In another instance, where the IASB guidance on borrowing costs (IAS 23) allowed for two treatments that produced incomparable practices, the FASB guidance contained a single treatment; here the IASB would emulate the FASB guidance within IFRS. One interviewee provided this perspective:

“The so-called ‘short-term projects’ were identified as possibly easy to solve in the short term and this was to be performed over a three year period from 2006 to 2009 – the period covered by the first tri-annual agreement. The approach here was to say let’s compare and let’s see why there is a difference. If in one case we found “solution A is better than solution B”, so we adopt solution A, and in another case the opposite. As an example, what we did on IFRS 8 – Segment Reporting was to drop IAS 14 and adopt U.S. GAAP because it seems to be better aligned with the needs of investors and there is more support for the U.S. approach, so we adopted it. In other cases, FASB adopted the IASB solution.” (Interview# 4)

These projects, while referred to as joint efforts, involved coordination between the standard setters but largely individual efforts by the standard setter responsible for producing the revised or new standard. Seven of the ten ‘short-term’ projects and one of the ‘long-term’ projects followed the direct emulation approach. Two of these projects had been made inactive by 2008 from the standpoint that they were either determined not to be priority or no longer being addressed as a joint project due to under-estimated difficulty in determining a solution. For the six projects which were completed, two represent projects in which the FASB emulated standards of the IASB and four represent projects in which the IASB emulated standards of the FASB.

The second approach, difference reduction, applied to projects in which both sets of standards contained established guidance which produced differences in practice stemming from things such as the presence of multiple treatment options in one standard versus another, different or outdated definitions of concepts, or differences in presentation and disclosure requirements. The difference reduction approach required standard setters to compare their existing standards, identify significant differences between them, and work out in which direction different items

within each set of standards would be adjusted in order to bring the GAAP and IFRS into alignment. For example, the FASB and IASB attempted to reduce differences between their approaches to consolidation by agreeing on a single model based on the concept of control. While the FASB and IASBs original guidance on consolidating financial statements are based on a concept of control, this concept is understood and applied differently within the two sets of standards creating differences in practice between GAAP and IFRS. However, the difference reduction approach

“took an awful amount of time, diverted a lot of resources, a lot of them wasted on negotiation between two sides taking a position, starting from two different points and trying to reconcile them to each other instead of sitting down and asking what is a sensible way of resolving this problem. We got it a bit wrong with this approach and the first big project, I thought was pretty much a disaster I must say.” (Interview# 5)

In contrast to the emulation approach, projects to reduce differences were joint in the sense that the standard setters met together on a semi-annual basis to discuss their progress and had some joint staff serving in monitoring functions but the boards conducted their due process and reached decisions separately. One of the ‘short-term’ and four of the thirteen ‘long-term’ projects followed the difference reduction approach. One was made inactive in 2007 before any work really began and a second in 2011 after the IASB had addressed a number of issues and the remaining issues were considered not to be priority. In the case of the three projects completed and the one project partially addressed, the IASB standards were on some level brought closer to the standards of the FASB; however, as one interviewee stated

“What was perhaps not developed was a mechanism to treat situations where the boards couldn’t agree. So because there was no mechanism to say ok, do we toss a coin, do we take a majority vote of all parties, how do we decide when we can’t come to agreement? And so what ends up happening is they end up issuing their own separate standard and then the notion of convergence is weakened.” (Interview# 3)

The final approach to the joint projects is referred to as progressive redesign. The standard setters utilized a progressive redesign approach on projects for which existing standards were considered out of date with contemporary business models, out of alignment with the conceptual framework, or for which technical requirements of the competing standards produced significant differences in practice. Therefore, the use of this approach was prevalent in addressing items for which an overhaul and

(re) construction of the standards was deemed necessary. According to an interviewee, such projects were

“commonly accepted as deficient financial reporting in both sets of standards and the [SEC’s] leadership was don’t try to put band-aids on two bad standards – ‘it ain’t gonna work’ – leases, along with pensions, is probably a poster child for this. You can’t just fix two bad standards so don’t waste your time doing so and just start over. A clean slate approach and let’s see you two boards work together to get it done – I would argue if I were writing your paper that they haven’t yet demonstrated that they can get things done.” (Interview# 2)

For example, the original goal of the leases project was to improve the accounting for leases between the FASB and IASB guidance by developing a single accounting model for leases more consistent with the conceptual framework definitions of assets and liabilities. A nearly identical goal was also outlined for the projects to converge revenue recognition and insurance contracts so “improvements” to both sets of standards as well as the potential “comparability” achieved through a single model were significant aspects to these projects.

Contrary to the difference reduction approach, projects to progressively redesign standards had dedicated joint staff working on the development of the proposals and the boards conducted their due process and reached decisions within joint meetings. Seven of the thirteen projects designated as ‘long-term’ followed a progressive redesign approach. Currently, none of these projects are considered complete and three more were made inactive in 2010 when the boards decided to focus their efforts on the “Big 4” projects – i.e. financial instruments, insurance contracts, leases and revenue recognition. These projects relate to subjects for which business practices have become more sophisticated and/or of greater significance in the world economy raising new accounting issues that accounting standards have not kept pace in addressing.

The development of common standards for these four issues have been long and complicated and as expressed during the interview process,

“Depending on which side of the ocean you are on, you will have a different view as to whether we have had to change to arrive at consensus with them, or they have had to change to arrive at consensus with us. But I think both sides agree they have conceded something in order to achieve a common standard and that’s a global reality. So can you get the highest quality standard that you see as applicable to the jurisdiction you are working in that you are comfortable with or do you have to agree on a slightly less perfect version than what you had

in mind in order to get buy-in? Sometimes you have to come up with a compromise and a developed country already with its own accounting standards can find this very difficult because it may be perceived as lowering the quality of standards that were in place already.” (Interview# 7)

In line with this insight, a substantially converged solution on revenue recognition is anticipated to be issued in 2014 despite this solution will not meet the project’s initial goal of producing a comprehensive standard and addressing conceptual issues. A similar outcome is anticipated within the next two years on accounting for leases. In both cases, GAAP and IFRS standards were largely converged before the joint project started and the solution proposed is not significantly far from where they started. For the financial instruments and insurance projects the degree of convergence remains unclear. Table 5 summarizes the convergence projects.

6 Discussion and Conclusion

This paper points to processes of convergence within the global accounting standard-setting field. Certainly, our analysis represents neither the beginning of the story of global change in accounting standards, and perhaps not its end as convergence is embedded in much broader movements in governance and regulation that accompany the globalization and financialization of our world. In their efforts to produce a set of meta-standards applicable for worldwide regulation of the financial markets, the FASB and IASB effort towards convergence in particular represents an important experiment for global governance. I expose this effort as one composed of three regimes – direct emulation, difference reduction and progressive redesign – analogous to institutional processes of imitation, editing or translation and co-construction (Djelic 2008). These regimes, and the notions of convergence which they reveal and express, are influenced by the extent of competition and cooperation between the FASB and IASB and their standards.

The first regime observed, primarily in the period of the FASB and IASBs efforts extending from 2002 to 2006, is referred to as direct emulation. This regime is clearly a process of diffusion by imitation in that it involved the copying of a model existing elsewhere into an environment in which this model was either completely lacking or existed in some form but was no longer relevant. Diffusion by

imitation in this setting was driven by a combination of pressures to level the playing field of financial reporting, in particular the E.U.s decision to accept IFRS for domestic financial reporting. This served, on the one hand, to create a shared desire for comparability between GAAP and IFRS in recognition that multinational companies listed on U.S. and European exchanges would be subject to two reporting requirements. At the same time, the adoption of IFRS in the E.U. pushed the IASB as a standard-setting organization into the spotlight creating a pressure for the IASB to legitimize itself and its output to an important new constituency.

The response to these drivers was the imitation of widely used models and/or adoption of recommended models as seen in the direct emulation approach to convergence. As a regime of imitation, one can expect a dominant model (and dominant actor) to serve as a powerful referent and, therefore, this regime is likely to produce (formal) convergence. The direction of convergence observed in this phase, largely leaning towards the IASB emulation of FASB standards, indicates the FASB's policy supremacy during a time when the IASB was learning to work together and formulating its identity. Therefore, in most cases, I find the direct emulation regime exhibits passivity by the IASB, as the recipient standard setter, who accepts GAAP as the best practice model without active engagement to adapt the model in consideration of environmental differences. The IASB's tendency to defer to FASB is evidenced by more than partial success in emulation of GAAP in IFRS while the emulation of IFRS in GAAP is much less prevalent.

The difference reduction regime, observed in the 2006 to 2009 period of the FASB and IASB's efforts, entailed choosing between different models and ideas already existing within the suite of GAAP and IFRS. This choice acknowledges competing models (and competing actors) and reflects a process of diffusion by editing and translation in its aim to generate convergence towards the "better" model through fiddling and adapting the model to fit the particular circumstances. Which model was identified as "better" (i.e. most projects under this regime involved IFRS standards being edited to align with GAAP) reveals the institutional setting in which

these models and ideas were formed as well as who the powerful editors were during this period.

Diffusion by editing in global standard setting took place under pressures to level the playing-field between cross-listed firms. More specifically, this period was set in context of the SECs proposal and acceptance of IFRS for foreign issuers in the U.S.. In the time leading up to the SECs decision to accept IFRS for foreign issuers in the U.S. market, the IASB was under pressure to conform its standards to GAAP, as the SEC viewed these as higher-quality than IFRS. As such, the difference reduction regime reflects the IASBs response to political demands as a stimulus for convergence. These political demands entailed the IASB standards being submitted to a sort of ‘fitness test’ through an approach that aimed to align critical differences between existing GAAP and IFRS standards. Given the IASB desire to see its standards accepted by the SEC, this approach tended to produce standards closer to GAAP than to IFRS; however, it did so with only partial success revealing the limits of editing in comparison to imitation.

The regime observed in the 2009 – 2011 period, one of progressive redesign, points to change that not only modifies models and ideas as in the process of editing and translation but involves significant co-construction of “new”, common models and ideas. In the FASB-IASB effort, this process of co-construction involved an attempt to overhaul and improve models and ideas existing in both sets of standard and replace them with a comprehensive meta-standard. The work on progressive redesign projects was accelerated and became of critical importance under pressure to level the playing-field globally derived by the financial crisis. The period from 2009 on involved persistent pressure for change from regulatory actors who had expanded from capital market actors to state actors and, in particular, the G20 after accounting standards under both models were implicated in the crisis.

In this period, the possibility for improvements to the global financial architecture was linked to the development of a set of meta-standards and more specifically to the incorporation of IFRS into the U.S. system. Here, the FASB and the IASB became more explicit competitors with IFRS being touted as the global

standard to which the U.S. was all but expected to conform. This increased opposition and conflict not only between the FASB-IASB but between principles espoused by them as each body worked to develop standards that fit within their respective institutional settings. Despite the goal to mutually redesign their standards, the goal of global standards was recognized as more and more complicated as patterns of commitment to different models and ideas became evident between the U.S. and international settings. As a result, the outcome of convergence under the progressive redesign approach, while successful from the standpoint that the FASB and IASB standards may be further aligned, has failed to produce comprehensive overhaul and significant change from existing standards. Rather, in the co-construction of a meta-standard representative of the minimum common requirements for global compatibility, convergence is perhaps no longer the appropriate term as the outcome may very well be a meta-standard just ambiguous enough to allow for “informed divergence” (Slaughter, 2004) in different settings.

The analysis suggests that the balancing of cooperative and competitive demands between standard setters and the involvement of regulatory institutions shaping those demands play a significant and dynamic role in the approach to and nature of convergence. In terms of the cooperative dimension, while the FASB and the IASBs efforts progressed from a somewhat voluntary and unstructured initial agreement to a somewhat mandated and quite focused agreement based on pressure by the G20 during the crisis, their cooperative efforts appeared to become more and more strained. Relative to the competitive dimension, after the decision to adopt IFRS in the E.U. and the SEC’s decision to accept IFRS for foreign-listed companies, a growing appreciation for IFRS as a set of standards rivaling U.S. GAAP increased the extent of FASB and IASB competition. With both cooperative and competitive pressures increasing, the goals and objectives of the FASB-IASB became more sophisticated moving from selecting best practices to eliminating differences between standards to overhauling and improving two sets of standards. At the same time, solutions became more and more difficult to rationalize across the standard-setting field.

This research contributes to the literature on accounting regulation and institutions in three ways. First, while the emergence and evolution of standard-setting bodies has been increasingly explored (Zeff, 1972; Miller & Redding, 1988; Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Camfferman & Zeff, 2007; Botzem, 2012), these studies concentrate on explaining the influence of institutional and political pressures on the configuration of standard-setting organizations. At the same time, our knowledge of the factors impacting the way in which standards are developed and formulated by these organizations remains largely underdeveloped. In addition, the knowledge we do have is for the most part focused on one of the two dominant accounting standard setting bodies, the FASB and the IASB, despite joint efforts by these two bodies to bring about compatibility between their respective standards. Thus, an examination of this process seems not only timely but highly relevant in moving toward a greater understanding of GAAP-IFRS convergence. Further, the paucity of work on the convergence process indicates that there is room for providing theoretical and empirical insight as to not only what has occurred but how and why it has occurred.

Second, this paper draws on various neo-institutional perspectives in order to unravel how convergence has occurred over time. A primary interest in neo-institutional theory is in the dynamics of convergence or similarity in forms and ideas; however, there are various ways of accounting for the diffusion of similar forms and ideas. This paper draws on diffusionist accounts – more specifically, imitation, editing or translation and co-construction– in the effort to understand the particular (and changing) nature of convergence in the accounting standard-setting environment. Here, the emphasis is not on the relevance of one theoretical lens over another but on the value of highlighting the differences between the theoretical visions of convergence in whatever form it may take. In addressing these different visions, this paper not only sheds light on the process of producing a set of meta-standards, but also meets calls by Suddaby (2010) to address construct clarity in research, in this case of evolving conceptualizations of convergence between two dominant and competing sets of standards.

Third, while the institutional approach involves identifying various factors in processes of isomorphism, this paper incorporates the political economy of those factors and their influence on the way in which convergence has unfolded. These factors are represented by the particular combinations of institutions, actors and events observed over the time period and what is at stake for those institutions and actors. Therefore, we bring together the factors constraining or enabling convergence and the nature of convergence. As such, this paper contributes to the literature on why accounting regulatory phenomena change in response to economic situations, political mobilizations and social struggles (Arnold, 2012). In particular, I show how competitive and cooperative dynamics play an important role in how accounting standards, and in this case a set of meta-standards applicable worldwide, have been constructed. Incorporating such factors is in line with the notion that co-construction processes entail mediation by a diversity of carriers over time and that this mediation is embedded within a dense and complex context. At the same time, the differences between these visions suggest that more work could be done on understanding the processes and outcomes associated with particular variants of convergence.

Understanding the convergence in accounting standards is important as it highlights the emergence of a global language of accounting anticipated to be accepted for the first time in worldwide capital market regulation. Further, as an economic language, accounting standards are ultimately considered to have distributional effects in society, effects which are perceived to be the outcome of a process encumbered by the potentially conflicting interests of affected stakeholders and institutions. In the case of the convergence of accounting standards, the standard-setting process may have global distributional effects and be subject to an even wider range of interests as it may affect a broader set of stakeholders and institutions with differing perspectives on regulation. Finally, research on the convergence of accounting standards can inform our evaluation of global accounting as a conceptual and practical notion which is useful to the global standard-setting community in understanding the trajectory of convergence and the factors which impact that trajectory. For example, this research may shed light on whether the process results in standards and institutions which are more or less effective as

mechanisms of global governance. Likewise, this paper may shed light on whether more emphasis on a particular approach to convergence and change should be made in promoting (or refuting) the spread of global standards. Additionally, I identify aspects of convergence processes that may be useful to other major players in the global market that are considering moving from a national system of accounting to another system.

The work of the FASB-IASB marks an important episode in global governance and regulation which contributes to debates on governance so vibrant today in sociology, political science and business studies. That said, this study is subject to several limitations. First, the methodology purposefully did not include the entire set of accounting standards. Rather, it focused exclusively on those accounting standards which the FASB and IASB have specifically mentioned as falling under their efforts to converge their respective standards. A longer/shorter period of study and a greater/lesser number of projects could always be argued for a more comprehensive/more detailed study of global accounting change; however, limiting the period and project to the terms of the formal convergence program allows for forces driving this particular process to be isolated and their effects extrapolated to broader thinking on transnational regulation. Second, while parallels may exist, the results of this study are specific to the GAAP and IFRS convergence process and may not be generalizable to other countries working on accounting convergence of a distinct nature.

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Chapter II

On the construction of transnational accounting policy: Dynamics of negotiating order between “space cadets” and “dinosaurs”

Résumé

Le processus d'élaboration des politiques de comptabilité est discuté par une littérature importante et en constante évolution. Cet article ajoute des éléments à cette littérature en expliquant la phase de convergence des politiques transnationales de comptabilité grâce à des efforts produit par le FASB et l'IASB pour construire un ensemble de normes acceptées par tous pour réguler les marchés mondiaux. Plus spécifiquement, cet article examine le processus d'élaboration de politiques comptables transnationaux à travers une étude des débats, se déroulant sur sept ans, autour d'une décision politique particulière visant à trancher entre deux conventions pour mesurer le revenu. J'utilise des documents officiels relatant les procédures du FASB et l'IASB pour analyser les comportements des acteurs impliqués dans cette décision particulière, leur discours changeants et les dynamiques de pouvoir tout au long de l'histoire du débat. Je mobilise l'ordre négocié (Strauss et al., 1963) et les concepts de la théorie institutionnelle pour comprendre la manière dont les acteurs mobilisent leurs ressources de l'acteur, produisent des justifications et pour comprendre la dynamique du pouvoir dans ce processus. L'analyse révèle l'importance de la composition des comités et la dynamique de pouvoir dans la détermination du contenu des normes comptables. En plus, l'analyse montre comment la pouvoir est structuré par deux coalitions, appelées les « Cadets de l'espace » et les « Dinosaures », dont la composition n'est pas seulement mouvante mais reflète souvent des groupements d'acteurs improbables. En outre, cette étude met en évidence les différentes justifications que ces deux coalitions mobilisent pour négocier l'ordre. Les résultats confirment l'importance des processus au niveau micro pour expliquer l'élaboration des politiques de comptabilité (transnationale) au niveau macro. Ces facteurs sont essentiels à l'amélioration de notre compréhension de l'institutionnalisation des règles et normes comptables.

Mots-Clés: normalisation comptable, communautés transnationales, processus de délibération, l'ordre négocié

Abstract

The process of accounting policy-making is addressed within an important and evolving body of literature. This paper adds to that literature in explaining the contemporary phase of transnational accounting policy-making through efforts by the FASB and IASB to construct a set of standards accepted for worldwide market regulation. Specifically, this paper examines the process of transnational accounting policy-making through a study of seven years of debate surrounding a particular policy decision made in selecting between two conventions for the measurement of revenue. I use archival documents in the form of narratives of FASB and IASB proceedings to analyze the actors involved in this particular decision, their changing discourse, and their power dynamics throughout the history of debate. I mobilize the negotiated orders perspective and concepts from institutional theory to theorize actor resources, rationales and power dynamics in the process of constructing a policy decision. The analysis reveals how board composition and power dynamics matter in determining the content of accounting standards. In addition, the analysis reveals how power is structured by two coalitions, referred to as the “Space Cadets” and “Dinosaurs”, whose membership is not only somewhat fluid but often reflects seemingly unlikely groupings of actors. Further, this study highlights the differing rationales that these two coalitions mobilize in the process of negotiating order. The findings support the importance of micro-level processes in explaining the development of macro-level (transnational) accounting policy. Such explanations are crucial to enhancing our broader understanding of the way in which accounting standards and rules are ultimately institutionalized.

Keywords: accounting standard setting, transnational processes/communities, negotiated order

1 Introduction

The last decade has seen an emerging debate over the blurred boundaries of regulatory activity with the concept of transnational²³ regulation at the core of the debate. Regulatory activity occurring in the “accounting regulatory space” (Young, 1994) is at the forefront of this debate, where the contemporary activities of the global accounting profession as well as accounting and auditing standard-setting bodies have been likened to transnational policy-making processes (Loft et al., 2006; Humphrey et al., 2009; Botzem & Quack, 2006; Botzem & Dobusch, 2012). Such processes appear cooperative, presumably aiming to resolve controversial issues and level the playing field across borders. At the same time, these processes have competitive aspects as the resolution of such issues face challenge by a variety of stakeholders confronting uncertainty in an institutionally and politically fragmented world society. We can observe one particular version of competitive-cooperative policy-making in the convergence program of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). Within this program, underway for over a decade, the FASB and the IASB undertook the joint development of a common set of accounting standards. These standards are developed against the background of a diversity of national institutional and political systems. Therefore, a significant opportunity presents itself to unravel how the FASB and the IASB seek and, seemingly, reach agreement on transnational accounting policy decisions within this complex environment.

This paper examines the transnational accounting policy-making process surrounding the efforts of the FASB and the IASB to construct a joint standard on revenue recognition. The particular policy-making process under study was initiated by the FASB following a number of high profile financial statement frauds and misstatements of revenue in the U.S. in the early 2000s. However, in September 2002, the FASB and the IASB formally committed to align their standard-setting programs under the Norwalk Agreement (FASB & IASB, 2002), which included a joint project to

²³ The term transnational is used in this sense to refer to a relation that extends across state boundaries to operate at a global level, not controlled by one central governmental body, and designed to facilitate the pursuit of a common interest between many distinct actors, both public and private, from a multiplicity of nations (Djelic & S.-Andersson, 2006).

redesign their revenue standards. With this commitment, the primary objective of the joint revenue project became developing a standard based on concepts and principles that fit transactions, business models and institutional settings the world over.

The revenue project was anticipated to involve controversial issues with no clear and simple answers. One of these issues concerned a specific policy decision between two competing systems for measuring revenue. Studying specific policy decisions can reveal nuances and trends in the development of standards thereby unveiling context-dependent factors to be confronted either in isolation or as part of broader policy trends (Canning & O'Dwyer, 2013). For example, the particular decision examined here – over measurement of revenue – involves a debate over the merits of fair value versus historical based measures that has been on-going for nearly a century and intensified in the last few decades (e.g. Laux & Leuz, 2009; Power, 2010; Georgiou & Jack, 2011; Müller, 2013). The debate is likely to be exacerbated because alternative techniques for measuring revenue may have considerable and varied consequences for a wealth of different actors. Thus, the empirical setting provides a unique occasion to gain insight into how the FASB and IASB deliberate on a particularly contentious issue.

The analysis focuses on several interrelated aspects of transnational policy-making processes: firstly, how a policy for measuring revenue was deliberated and developed by the FASB and the IASB; secondly, how different factors affected the nature of the deliberations undertaken and the negotiated order; and, lastly, how we might consider a transnational community of standard-setters has taken shape out of these processes. In shedding light on these aspects, I look to detailed proceedings of the FASB and IASB meetings to understand the evolution of board discussions from 2002, when revenue was added to the standard-setters' agenda, to 2008 when a policy decision on measurement was taken. These detailed narratives provide the means to reconstitute the process by which a transnational standard-setting community constructs accounting policy and negotiates order surrounding the question of revenue measurement and to identify the factors affecting this process. In doing so, this paper contributes to the literature on transnational governance and accounting standard-setting processes.

Recent years have seen renewed interest in exploring accounting standard-setting processes. Much of this interest has focused on the emergence and establishment of accounting standard-setting bodies from a structural perspective (Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Camfferman & Zeff, 2007; Botzem, 2012). Such studies concentrate on explaining the influence of institutional and political pressures on the configuration (i.e. frameworks, governance structures, procedural models) of accounting standard-setting organizations; in particular, of the IASB. At the same time, the processes by which standards are developed and formulated by these bodies remains in some ways a “black box”. Further, the knowledge that we do have of the process by which accounting standards are produced has been for the most part either nationally focused (e.g. Robson, 1993; Mezias & Scarscelleta, 1994; Young, 1996; 2003) or focused on the development of international accounting standards (e.g. Hjelström, 2005, Ravenscroft & Williams, 2009; Murphy et al., 2013). In contrast, this paper considers another level of coordination by looking at the production of a transnational standard which aims to reconcile the requirements of two competing international standards – U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS).

Scholars have honed in on standards as important elements of our contemporary transnational regulatory architecture (Brunsson & Jacobsson, 2000; Djelic & den Hond, 2014). For instance, we now understand more about transnational standards – what they are, which actors are involved in transnational standard setting and how transnational standard-setting processes function (Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Timmermans & Epstein, 2010; Botzem, 2012; Botzem & Dobusch, 2012). More and more, we are able to map the ways in which different actors manage to work together and move toward policy agreement in the transnational space (Tamm-Hallstrom, 2004; Djelic & Quack, 2010; Timmermans & Epstein, 2010; Djelic & den Hond, 2014). What research can still reveal more clearly is the extent to which this results from the creation of a transnational community, progressively formulating and formalizing shared understandings, as opposed to an international regulatory space, embodying the negotiation of basically national interest groups (Morgan, 2001).

In addition, with much of the literature focused on transnational standard-setting organizations themselves as the primary unit of analysis, this paper aims to peel back the top layer to reveal the actors who represent²⁴ standard-setting organizations and who determine policy on its behalf- in this case, the board members. Studying board members may be characterized as incomplete, given the often presumed dominance of actors including the Big 4 firms and regulatory actors such as the International Organization of Securities Commissions (IOSCO), the Securities and Exchange Commission (SEC) and the European Commission (EC) in accounting standard-setting processes (Zeff, 2002; Bengtsson, 2011; Arnold, 2012; Ramirez, 2012). However, the role of these powerful players in the policy-making process does not negate the importance of the work performed by the standard setters themselves and the potential influence of board member composition on this work. I follow recent accounting research (Botzem, 2012; Allen & Ramanna, 2013; Jiang et al., 2013; Jiang et al., 2014) in considering that the board members play an important but not yet well understood role in how the actual content of accounting standards are determined.

Finally, this paper draws on the framework of negotiated order (Strauss et al., 1963, Strauss, 1978; 1982) along with concepts from institutional theory, to study a policy-making decision in which actors attempted to introduce new institutional rules thus triggering (re) negotiation of the established order. A primary interest of the negotiated order perspective is in the dynamics involved in deliberative episodes. These dynamics are contextualized by the particular combination of board members and the logics to which they subscribe that affect the balance of power throughout the period under study. At the same time, deliberative episodes are recognized as institutionally embedded, resulting in rich and detailed accounts which link structural context to negotiation context (Basu et al., 1999). As such, the paper also contributes to a growing accounting literature examining the complex interplay between institutional structures

²⁴ FASB and IASB are “represented” by a membership of full-time, experienced professionals. This does not imply any formal responsibility to the professional group(s) a board member may have been affiliated with. Rather, board members are designated as technical experts, independent of economic incentives or commercial motivations, which may interfere with their role in accounting standard setting. In addition to the independent, expert requirement, the IASB also has a requirement for broad geographical representation, which is not applicable to the FASB. Again, this representation does not necessitate formal consultation with the geographic areas with which each board member is affiliated.

and actors with competing assumptions, values and beliefs (e.g. Hyvonen et al., 2009; Guerreiro et al., 2012; Ezzamel et al., 2013; Yu, 2013). Such accounts enhance explanations of accounting policy-making by specifying the way in which actors having potentially different values and beliefs deliberate on transnational accounting policy.

This analysis unveils the resources, or backgrounds and experience, of the actors involved and the rationales employed by those actors in and seeking to influence an outcome (i.e. order) under negotiation. In terms of resources, evaluated on the basis of board members prior professional affiliation(s), this paper shows how board composition and shifts in that composition matter in determining the content of accounting standards. At the same time that board member composition matters, a board member's most recent professional affiliation should not be taken-for-granted as an indicator of his/her positions on an issue. Many board members are in fact multi-positional actors having varied backgrounds and experiences crossing professional boundaries (Huault & Richard, 2012). Therefore, this study shows the need to take a more nuanced view rather than presume that actors' most recent affiliation with a particular group alone will drive his/her value system and that those values are unwavering. In addition, the analysis reveals how board coalitions, often between "unlikely" groups of actors, affect the power dynamics and play a role in deliberation and the ultimate decision reached.

Further, I highlight the different rationales that groups of actors utilize in processes of deliberation and policy-making. The analysis shows a process in which standard setters engaged in extensive efforts to negotiate between two measurement conventions using "conceptual" and "practical" rationales and argumentation. Board members mobilizing conceptually-oriented arguments, referred to as "Space Cadets", generally supported measuring revenue at fair value. On the other hand, board members referred to as "Dinosaurs" employed practice-oriented arguments in their promotion of revenue measured on a historical basis.²⁵ Giving attention to the mobilization of such arguments and their politics of signification (Djelic, 2013) helps deepen our

²⁵ The terms "Space Cadets" and "Dinosaurs" were used in three of the eleven interviews. Each of the interviewees used the terms openly and with endearment. In each case, the interviewee expressed the idea that Space Cadets were proponents of fair value and oriented towards conceptual change, while Dinosaurs were proponents of the historical method and comfortable with the current practical guidance.

understanding of the outcomes of policy-making processes. The findings support the importance of micro-level processes in explaining the development of macro-level (transnational) accounting policy. Such explanations are crucial to enhancing our broader understanding of the way in which accounting standards and rules are ultimately institutionalized.

The next section discusses the literature on transnational policy-making and links that to the literature on accounting policy-making. Section 3 then combines perspectives on negotiated order (Strauss et al., 1963) with concepts from institutional theory in order to frame the process of transnational accounting policy-making. Section 4 outlines the research methods. Following that is a presentation of the case analyzing the process through which order is negotiated surrounding a particular policy decision over several stages. The final section discusses the findings and concludes.

2 Transnational Accounting Policy-making and Negotiated Order

Debates surrounding the transnational policy-making space emerged over the last two decades as our world became more intertwined and globalized (Morgan, 2001; Djelic & Kleiner, 2006; Djelic & Sahlin, 2009). Accounting policy-making debates, on the other hand, found their place in the late 1970s (Watts & Zimmerman, 1978) and have been evolving ever since; recently, to encompass transnational developments (Loft et al., 2006; Botzem & Quack, 2006; Humphrey et al., 2009). The next sections present discussions surrounding transnational policy making, broadly speaking, and accounting policy-making, more specifically, with a focus on what we know about communities within these spaces and how these communities work together.

2.1 Policy-making in the Transnational Regulatory Space

Transnational policy-making processes take place under three scenarios referred to as the expert, statist and community routes to policy-making (Djelic & Kleiner, 2006). In their purest form, each scenario follows different doctrines of rule-making and rule-taking and yields distinct products in the process. For example, where the expert scenario is characterized by the production of standards by an expert rule-making body, the community scenario is exemplified by the negotiation of common beliefs by rule-

makers and rule-takers along with expert input (Djelic & Kleiner, 2006). In today's complex world, combinations of these routes to policy-making are to be expected as in the contemporary story of transnational accounting regulation. Such hybridizations produce what Djelic and Sahlin-Andersson (2006) refer to as a "patchwork" regulatory space wherein constellations of actors seek to shape policy-making debates and outcomes either as direct rule-makers or as participants to the process (Djelic & Sahlin, 2010).

Within this space, communities can be distinguished more generally as a social formation whose "members make, or believe they make, a similar sense of things either generally or with respect to specific and significant interests and, further, that they think that sense may differ from one made elsewhere" (Cohen et al., 1985: p16). In highlighting the relevance of communities to the study of transnational phenomena, we must also speak to the concepts of professional and epistemic communities. Professional communities are generally nationally focused and have a recognized expertise in a given discipline (Djelic & Quack, 2010a). In contrast, Haas (1992) defines the epistemic community as a network of professionals with expertise in a particular policy area and whose knowledge is respected within that area. As such, epistemic communities may consist of professionals from a variety of disciplines but they usually have a shared set of beliefs, shared notions of validity and a common policy orientation (Djelic & Quack, 2010a).

Building from there, *transnational* communities consist of social actors located in multiple national settings who recognize a shared set of interests in policy issues cutting across borders which are distinct from nationally based interests (Morgan, 2001). According to Morgan (2001), for any particular actor, membership in a transnational community is only one possible form of involvement and affiliation that may be combined with (or comes on top of) other affiliations, derived from nationality, profession, shared practices, ideologies or knowledge base (Morgan 2001; Djelic & Quack, 2010b). As members of transnational communities retain multiple community affiliations, transnational communities are likely to exhibit a certain amount of internal complexity as well as a fair degree of within-community heterogeneity and conflict

(Djelic & Quack, 2010b). Being a space where contrasting and conflicting perspectives can be discussed, deliberated and negotiated, these communities structure public arenas from which broadly acceptable solutions to complex policy issues can emerge. It is at this point that the notion of transnational community reveals its value over and above the concepts of professional and epistemic communities.

Following Djelic & Quack (2010b), this research asserts that value of the transnational community concept to understanding governance and policy-making arrangements. This value lies in the potential of community building mechanisms to (re) align the cognitive and normative orientations of its members over time through processes that lead in the direction of broadly acceptable (global) solutions. As such, transnational communities can play an important role in fostering preference transformation in some or all of its members resulting from “learning processes; an expression of mutual adjustment under peer pressure; or coercion through more or less formal sanctioning or threat of exclusion” (Djelic & Quack, 2010b: p403). Therefore, analysis of a transnational community presents the opportunity to explore fluidity and dynamism in member preferences and to explain the mechanisms underlying that fluidity and dynamism.

One explanation may be found in the idea that members of transnational communities tend to be ‘rooted cosmopolitans’ (Djelic & Quack, 2010a; 2010b). The notion of rooted cosmopolitans suggests a community of intellectuals without boundaries in the sense of individuals engaged in knowledge production and recognizing each other as belonging to similar social and cognitive strata (Hannerz, 1992). These cosmopolitans benefit from being in a situation of ‘multipositionality’ stemming from their ability to move between different statuses, arenas and regulatory collages in belonging to or having been affiliated with several institutions (Huault et al., 2012). At the same time, they remain rooted to different degrees in local settings by nature of the relevance and impact they may desire to have on different policy-making efforts and debates at that level (Hannerz, 1992; Djelic & Quack, 2010a). Therefore, such actors develop policy in an environment in which collaboration combines with competition, elevating the importance of negotiation and agreement (Djelic & S.-Andersson, 2006;

Djelic & Sahlin, 2010). However, as Djelic and Quack (2010a) highlight, we have much to learn about the ways in which negotiating and reaching agreement on collective policy decisions combine and interact with power and resources. This paper proposes to contribute to such discussions through an approach focused on deliberations between the two dominant and competing standard setting bodies involved in transnational accounting policy-making.

2.2 Policy-making in the Accounting Regulatory Space

The policy-making model of accounting standard-setting (i.e. due process) entails a series of activities open to stakeholder participation or observation as well as activities conducted between the board members and staff (IFRS Foundation, 2010; FAF, 2011). Accounting research on the due process of standard-setting is largely focused on the stakeholder participation aspect of this process in terms of lobbying efforts made by different groups of affected stakeholders. The literature tends to focus on three stakeholder groups – financial statement preparers, financial statement users (i.e. investors/analysts), and auditors (e.g. Tandy & Wilburn, 1992; Kenny & Larson, 1993; Kwok & Sharp, 2005; Larson, 2007). A further division among the financial statement preparers has them distinguished between non-financial and financial services types to account for the rise of banking and financial institutions in the contemporary economic environment (Jorissen et al., 2012). Studies are then undertaken with the aim of explaining attempts to influence the results of standard setting in terms of the motivation to participate, frequency of participation and mode of participation of the various stakeholder groups (e.g. Watts & Zimmerman, 1978; Tandy & Wilburn, 1992; Kenny & Larson, 1993; Kwok & Sharp, 2005; Larson, 2007; Jorissen et al., 2012). A small stream of literature then seeks to understand standard-setters' responses to such lobbying efforts and the potential for standard setters to manage the influence exerted by stakeholders.

Early research focused on standard-setters' political adeptness (Horngren, 1973) and strategic alignment with certain interests (Haring, 1979; Puro, 1984; Mezas & Chung, 1989; Mckee, Williams & Frasier, 1991) as responses to stakeholder pressure. Later, researchers turned to more symbolic resources employed by standard setters to

manage and resist stakeholder pressure. For instance, standard setters manage pressure by employing (an appearance of) inclusivity (Miller & Redding, 1988; Botzem & Quack, 2006), by promoting independence and objectivity (Gerboth, 1987) as well as by deferring to established conceptual guidelines (Hines, 1989; 1991) as a means of defense. In a similar way, more recent works show how standard setters resist outside influence by asserting their knowledge about and appropriateness of “good accounting” (Young, 1996) and, most recently, by mobilizing the decision-useful ideology (Young, 2006; Ravenscroft & Williams, 2009). However, a crucial part of the policy-making process which occurs in understanding the problem and identifying possible solutions to that problem remains underexplored in the literature (Fogarty et al., 1994). Many critical decisions are, in fact, already taken in the process of understanding the problem and its possible solutions, well before the point at which stakeholders are invited to participate. This paper follows Fogarty et al. (1994) who encourage more scholarly exploration of these critical decisions as well as inquiry into the extent and source of power of the standard setters themselves in making them.

A small but growing number of studies within the accounting literature focus explicitly on the power of board members in the development of standards. One such study, undertaken in the international space, examines the first two full years of IASB proceedings and analyzes board member domination and discourse (Walton, 2009). Using discourse analytic techniques, Walton (2009) finds the board to be heavily comprised of Anglo-Saxon educated members, four of whom dominate debates focused primarily on fair value and the conceptual framework in this period. Botzem (2012), taking a longer-term network approach, finds the membership of the IASB to be dominated by Anglo-American auditing professionals without delving too far into discursive debates. In the U.S. environment, Allen and Ramanna (2013) investigate the role of standard setters by linking the professional and political characteristics of FASB members and the nature of the standards they propose. The authors find that FASB members with backgrounds in financial services are more likely to propose standards advancing fair-value methods (Allen & Ramanna, 2013). Following on this, Jiang et al., (2014) evidence the link between board member characteristics and FASB members’ voting decisions - in particular dissenting votes - finding that members with preparer and

academic backgrounds are more likely to put forth minority views. While Allen & Ramanna (2013) indicate that no individual board member is instrumental in influencing the standard setting process, the work of Jiang et al. (2013) suggests otherwise. Their work provides initial evidence of a single FASB board member's influence on a controversial accounting policy proposal by looking at how the stock market reacted to news of that board member's departure (Jiang et al., 2013).

The studies mentioned above stimulate our understanding of the role of standard setters themselves as focal actors in the policy-making process; however, there is still much to be work to be done. For example, accounting policy making research has not specifically focused on the efforts of the FASB and the IASB to construct a set of common accounting standards. This construction process aims to reconcile the requirements of two sets of standards (and standard setters) and begs the question of how these two standard-setting bodies goes about doing so in order to reach collective policy decisions. In addressing this question, this paper views the way in which standard setters reach policy decisions and determine the content of standards as a process of negotiating order and presents the literature on this framework in the next section.

3 Negotiating Order within a Transnational Community

Standard setters deliberate the views expressed by affected stakeholders, balanced with their own particular views, with the goal of reaching consensus, on the resolution of a particular accounting problem (Sutton, 1984). However, consensus, in the accounting regulatory space, does not imply unanimous agreement but rather a majority agreement achieved through an active (and possibly political) effort to find a way to deal with a particular policy question. In order to better understand this effort, I look to the negotiated order framework (Strauss et al., 1963; Strauss, 1978; 1982) blended with insights from institutional theory.

The negotiated order perspective (Strauss et al., 1963) can be traced to work on the reproduction of social orders²⁶ through interactional processes (Mead, 1934).

²⁶ Social orders in this sense refer to systems of institutions and patterns of interactions and customs

However, the approach differs from the interactionist perspective of Mead - or Goffman and Weick - for whom the unit of analysis is a situation and the focus on how individuals select pertinent cues in that situation and interpret or make sense of them. While the interactionist dimension is present in the work of Strauss in terms of discourse and communication, the focus is more on how order is constructed by or within a collective and the role of contextual elements in the construction process. For instance, Strauss et al. (1963) put forth that organizations are social orders and interactions within, between and around organizations are to a large extent socially constructed. According to Strauss et al. (1963), this social construction is not accidental but reflects the interests that actors have in these organizations. Such interests are often conflicting and likely to change over time, which may lead to changes in the organizations themselves. Strauss et al. (1963) contend that change depends on both inter- and intra-organizational interactions and on the institutionalized rules which guide these interactions. While institutionalized rules are expected to guide interactions and stimulate action, these rules are often incomplete, ambiguous, or unclear (Strauss et al., 1963). As a consequence, interactions involving argumentation, persuasion, diplomacy and negotiation take place in order for actors with potentially competing interests to bring about action or reach decisions (Maines, 1982; Strauss, 1978).

The term “negotiation” as employed by Strauss has quite a broad and inclusive meaning, to include actions such as bargaining, compromising, making arrangements, getting tacit understandings, exchanging, engaging in collusion and so on (Strauss et al., 1963, Strauss 1978). At the same time, the author(s) see a number of characteristics as common across these terms, including: (i) involving interaction, or communication; (ii) where an agreement is reached; and (iii) as a result each actor may (or may not) be changed, and may have to adjust and/or internally adapt to the agreement. Where all three are present, we can say that negotiation of order occurs (Strauss et al., 1963). In this sense, policy decisions are the outcome of a process of negotiating order as they involve communication between policy makers in order to reach agreement that may require adjustment and adaptation by the actors involved. The process is such that agreement may, at any specific point in time, be evaluated, renewed, adjusted or

capable of continually reproducing conditions essential for its own existence (Strauss, 1978).

changed as a result of both changes in the broader environment as well as ongoing negotiation between involved parties (Strauss, 1978; Fine, 1984; Rahaman & Lawrence, 2001). Thus, negotiations of social orders are continuous and do not necessarily end once an outcome (i.e. policy, rule or procedure) is arrived at in a specific negotiation episode. Thus, while agreement on policy decisions may be viewed as the product of past negotiations, it also serves as the input to future (re) negotiations of order if the context is amenable to change (Maines, 1977; Strauss, 1978).

The negotiated order framework distinguishes between structural context and negotiation context (Strauss, 1978, 1982). Structural context is loosely defined as the larger institutional environment - hierarchy, rules/procedures, and regulatory codes- that provides the context within which interactions take place and shapes the interplay between multiple actors with overlapping or competing interests (Fine, 1984; Basu et al., 1999). While structural context may partly be constitutive in shaping negotiated orders, the ultimate (re) establishment of order depends on the negotiation context (Fine, 1984). The negotiation context is defined by the properties that directly influence interactions (within or) between individuals, groups, and organizations (Strauss, 1978; 1982; Maines, 1982). Strauss (1982) identifies a wide range of dimensions, which determine the properties of the negotiation context, including assumptions, values and beliefs; resources and capabilities; and power dynamics.²⁷

Endemic to the negotiation of order is the probability of discrepancies between the assumptions, values, and beliefs of the participants to any interaction (Strauss et al., 1963). The institutional literature refers to these as the ‘institutional logics’ by which individuals and organizations give meaning to their daily activity, organize time and space, and reproduce their lives and experiences (Friedland & Alford, 1991; Thornton and Occasio, 2008; Thornton et al., 2012). These logics, as principle frames of reference that motivate action, shape the behavior of individuals, organizations and communities and bestow them with the possibility to enact change (Friedland & Alford, 1991). However, in situations in which a multiplicity of logics exists, the potential for change

²⁷ This paper does not argue these particular dimensions to be all encompassing as elements of the negotiation context (e.g. Strauss, 1978); rather, they serve as a template for the analysis of dimensions relevant to the story of deliberation and construction in transnational accounting policy-making.

can be affected by competition and contention among actors that profess allegiance to particular logics. These situations require actors to carry out deliberative work and negotiation through the mobilization of logics and their politics of signification (Djelic, 2013).

Resources, in terms of the number of actors and their capabilities, are central to the negotiation of order and undoubtedly have an important impact on the process (Strauss et al. 1963). For instance, the nature of the past professional experiences of the actors involved in the transnational accounting policy-making process affects their capabilities and is likely to influence their assumptions, values and beliefs. Such actors can also be ‘multipositional’ (Huault & Richard, 2012) with affiliations to multiple professional groups. Through their multipositionality, actors in the transnational accounting space may have been exposed to, comprehend and be capable of shifting between different systems of values and beliefs in the process of deliberating and negotiating order. The extent to which actors values and beliefs converge influences the ‘balance of power’ in this process. Strauss et al. (1963) argue that this balance of power is a necessary precondition for negotiating order yet it is precisely this balance that actors seek to (re) negotiate. This seems particularly relevant to development, maintenance and change in transnational accounting policy where the balance of power is seemingly critical to policy decisions.

This paper adopts a blend of negotiated order and institutional theory as a framework for analyzing transnational accounting policy-making. Both negotiated order and institutional perspectives ensure that the analysis of negotiation episodes is firmly embedded in the political and historically conditioned context in which they occur (Basu et al., 1999). Additionally, negotiated order theory allows for a consideration of the dynamics involved in specific deliberative episodes in which values and beliefs and resource availability interact to affect the balance of power and, ultimately, how policy is determined. This view of accounting policy construction is one influenced by structural as well as interactional elements rather than accounting technologies alone. Therefore, a negotiated order frame moves the analysis beyond the purely technical to emphasize the dynamic aspects of power, resources and rationales within transnational

communities involved in negotiating policy. The usefulness of this framework to transnational governance stories being that it highlights the unstable character of social orders and the flexibility of logics by diverse actors faced with the need to reach agreement. In particular, this research examines how the evolution of accounting logics and institutional factors influenced the order negotiated within a transnational accounting policy on revenue recognition.

4 Research Strategy & Methods

This study represents an effort to understand a single case of the standard-setters' process of elaborating and taking a decision on a hotly contested issue. A case study approach is useful in investigating accounting standard-setting decisions as they represent complex and dynamic phenomena with many elements; refer to practices that may be extra-ordinary, unusual or infrequent; and are phenomena in which the context is crucial because it affects the phenomenon being studied (Cooper & Morgan, 2008). Single-cases, selected due to their unusual relevance and exemplary substance, provide the opportunity to explore a significant phenomenon under extreme circumstances (Sigglekow, 2007) producing a rich description of that phenomenon and its underlying mechanisms. Elaborating on standard setters' process of negotiating order in policy making within the transnational standard-setting environment lends itself to single-case analysis. Therefore, this paper subscribes to the notion that "each standard has its own history, and it is the specificity of that history, that makes the standard a compelling topic of social analysis" (Timmermans and Epstein, 2010: p75). At the same time, I identify three natural breaks or stages in the period under study and outline each stage in turn allowing for a comparison of sub-cases within the single case. In analyzing this case, the method employed is primarily a study of archival documents in the form of detailed proceedings of board minutes supplemented by a number of semi-structured interviews with key actors. I follow Ventresca & Mohr (2001) in their view that archival documents are appropriate in identifying critical actors (and potential interviewees), interpreting their discourse and ideologies, and revealing conflicts, contests and power relationships.

4.1 Case Selection

The empirical case selected to study processes of negotiating order relates to one specific policy-decision within the FASB and IASB convergence program. This policy-making decision involves the selection between two competing conventions for measuring revenue transactions taken within the context of a broader revenue project. The revenue project has been underway since 2002 when the initial stance was to reorient the measurement of revenue towards a fair value convention (FASB, 2002). The period under study extends from that year through the end of 2008 when the FASB and IASB issued a public document indicating their preference towards a historical cost approach (referred to as the transaction price approach) for measuring revenue.²⁸ The issuance of this initial public document signals the point at which stakeholders are encouraged to formally register their opinions on the preferences indicated by the standard setter. As the focus is on the process by which the FASB and IASB reached a decision on a highly contentious issue, this study stops at the December 2008 issuance of the document in which their decision was made public and does not take stakeholders response to that decision into consideration.²⁹ At this point, FASB-IASB efforts continue towards issuance of the final standard; however, the measurement decision remains largely unchanged.

Several reasons motivated the choice of studying this decision and the debates leading up to it. First, the project on revenue was one of four critical convergence projects of the FASB and IASB and was identified as addressing major differences between current FASB and IASB revenue standards. As such, it was anticipated to involve controversial issues with no easy answers. Second, the nature of revenue as having universal significance to financial reporting was expected to generate a diversity of interests and manifest additional tensions between arguments surrounding different possible approaches to revenue. Finally, the main decision examined here involved

²⁸ The discussion paper, or preliminary views document, while increasingly common, is not a mandatory step in standard-setting due process. This document provides a view of the issue being addressed, possible approaches to the issue, and the standard setters' initial preferences in order to solicit early input on major, new topics.

²⁹ While the possibility exists for external stakeholders to impact deliberations throughout the standard-setting process; during the period under study there is little reference to interaction with external stakeholders. Despite standard-setting has since changed, the interviewees indicated that at this time staff and board members had "been doing their research and spinning their wheels behind the scenes"; therefore, it seems reasonable to exclude the consideration of external stakeholders from the analysis.

debates over two measurement conventions that have a long history of battling for prominence in the accounting field. Here, the debate is likely to be amplified because alternative measurement techniques for revenue have noteworthy consequences for various actors. This combination of factors provides an important opportunity to gain insights into how the FASB and IASB members deliberate and reach agreement on a particularly contentious issue, negotiating order in the process.

4.2 Research Design

In analyzing this particular accounting policy decision, I expand on the research design of Walton (2009) in relying on archival documents in the form of detailed proceedings of 67 board meetings specifically discussing the revenue project (Table 7). These consist of the separate board deliberations of the FASB and the IASB as well as joint board deliberations from when the boards met together approximately every six months over the period under study. FASB, IASB and joint board minutes were compiled by the respective staffs of each board with two sets of minutes produced for each of the joint board meetings. In addition, I consulted proceedings of IASB meetings and joint meetings prepared by IFRS Monitor, a subscriber-based service, which reports on international accounting standard setting.³⁰

These proceedings were first reviewed to gain an understanding of the structural context in terms of the significant events occurring in the standard-setting environment pertaining to revenue recognition (Figure 1). In conjunction with reviewing the board minutes, additional standard-setting documents were reviewed including press releases and summaries of the FASB agenda paper and FASB-IASB discussion paper issued in relation to the revenue project. In addition to providing the structural context in which the project was being developed, this initial review aided in identifying the tension between the two alternative measurement approaches to revenue recognition. I isolated a key event related to this tension— an accounting policy decision taken by the boards in

³⁰ IFRS Monitor is compiled by technical reporters who attend the meetings of the IASB as observers and provide subscribers with detailed account of the proceedings. Peter Walton, Professor & Co-Chair Financial Reporting KPMG, is Managing Editor of this service and has provided monthly reports dating back to 2001.

identifying one measurement model as more appropriate than another; a decision that runs counter to trends in standard setting over the last few decades.

From the detailed proceedings, I analyze board membership and the evolution of board discussions on the measurement of revenue from the project's initiation in 2002 to the point the decision was taken in 2008. These board proceedings and the process by which they are prepared have distinct qualities. First, the individual(s) preparing them create a close, but not exact, narrative through observation of (but non-participation in) discussions taking place in the board meetings.³¹ Second, the proceedings of each meeting are in some way responsive to the others, in that discussions of previous meetings may be revisited in subsequent meetings, and are connected throughout time. Grant & Marshak (2011) define texts of this nature as representing a "conversation" produced as part of a coherent dialogue among two (or more) people that is linked together both temporally and rhetorically, as opposed to being discrete and unrelated texts. Approaching the board proceedings in this manner, allows for the identification of the actors involved in the conversation as well as for the exploration of interplay between the actors and their discourse during the debate over the selection of a revenue measurement model. The archival data is then supplemented by 11 interviews with key informants (Table 8) with the interview data used primarily to support accounts of the development of the measurement policy in the meeting minutes but also to further explicate these accounts (see Appendix 3 for interview instrument).³²

4.3 Data Collection & Analysis

³¹ These proceedings may carry limitations because the narrative could have been strategically manipulated through processes such as editing and filtering. Walton (2009) provides evidence of the completeness, accuracy, and objectivity of the detail contained within the IFRS Monitor proceedings. In addition, I performed cross-checking of minutes compiled by the FASB and the IASB, against each other and against IFRS Monitor as an independent source, for additional verification of the completeness of information reported and on any editing or filtering undertaken.

³² I identified staff members on the FASB and IASB project teams attending more than 3 meetings over the 7-year period. I contacted the 18 FASB and 6 IASB staff members and conducted interviews with 6 FASB and 2 IASB staff (33% response rate). In addition, I interviewed 3 informants close to the project but having a sort of "observer" perspective. Given that 7 of the 18 FASB staff were post graduate technical assistants who play a much less critical role on the project and, more importantly, that a point of saturation was reached with the 11 interviewees, I am comfortable with the coverage received from the interviews.

I first identified the key actors as comprised of FASB and IASB board members and the respective staff members specifically assigned to the revenue project.³³ Along with the detailed board proceedings, publicly available information facilitated building the background of each member including their years of involvement in the project, their country of origin, their most recent affiliation, prior affiliations and, in particular, prior affiliation as an audit professional. I follow prior literature (Botzem, 2012) in categorizing each member on the basis of their most recent professional affiliation as: academic, auditor, (non-financial) preparer, regulator or user with the exception that the users are split into analysts and financial services (Tables 7 and 8). This categorization, selected as starting point for understanding the resources involved, is shown at an aggregate level in Figure 2. From there I identified the strength of the voice of each board member within each period using discourse analytic software to count the number of times each member's name was mentioned in the meetings as well as the length of the board member's statements.³⁴ I then aggregated the strength of board member voices by affiliation to determine the extent to which each professional affiliation contributed to the discussion over the 7 year period (Figure 3).

To analyze rationales, I isolate the discourse of each board member within separate chronological narratives and analyze each member's particular assumptions, values and beliefs over the course of deliberations. I use the rationales that members provide in support of or in opposition to each of the measurement conventions as a proxy for the logics they adhere to at a given time (Figure 4). Analysis is performed on board member discourse following Miles and Huberman (1994) and Yin (1994), where significant themes and concepts were labeled, distinguished and identified within each account. I employ a comparative study of accounts checking for similarities and

³³ The staff members play an important role in policy-making as they research, develop and present solutions to accounting issues to the board. While the way in which they develop and present solutions to the board may influence the process of negotiating order; the study is limited specifically to board member deliberations as the staff do not (generally) provide opinions/arguments for one solution or another and are not (formally) involved in decision-making.

³⁴ Using MaXQDA software I coded the passages in the board minutes on the basis of which board member contributed the passage. A passage can be a sentence or a paragraph and starts from the point at which the board member is identified as speaking until another board or staff member begins to speak. The length of a passage is measured in terms of characters. As a double check of the completeness of the coding, I asked the software to count the number of times each board members name was mentioned and compared this to the codes.

differences in the themes and concepts across individual and category as well as for overall consistency in terms of the nature and timing of discussions. This accentuates the debates occurring around the two measurement alternatives under consideration, the positions/rationales of the board members and any evolution in these positions/rationales leading up to the decision. In conjunction with this, I conducted an analysis of how the measurement debate progressed within and between the FASB and IASB in terms of who supported each measurement convention. The combination of the aggregate voice of each professional group and their position on measurement aims to capture the dynamic aspects of power and logics during the policy-making period (Figure 4).

5 Case Overview

This section presents the case analysis. First, I set the stage for the debate over the measurement of revenue by briefly presenting how revenue came to be considered problematic and what solutions were proposed. Then I divide the analysis into distinct stages tracing the chronology of the process of negotiating order over the 2002 to 2008 period. This presentation of the case blends structural context into the negotiation context as the changing environment within which board deliberations on revenue measurement took place impact the outcome of negotiations in each period.

5.1 Setting the Stage for Negotiating Order

In January 2002, the FASB issued a proposal for a project to produce a comprehensive accounting standard on revenue. In this proposal, the FASB identified that the revenue project was initiated to eliminate perceived contradictions between existing conceptual guidance and detailed authoritative literature in the U.S setting (FASB, 2002). On the one hand, the FASB pointed to conflicting definitions of and criteria for revenues contained within its conceptual framework. On the other hand, the FASB pointed to a mass of revenue literature, comprising detailed guidance applicable to particular transactions or industries, and having different degrees of authority within GAAP. In combination, these factors were denoted as potentially producing application differences in practice thereby affecting the comparability of revenues across firms and industries. In putting forth these issues, the FASB insinuated that U.S. rules were in

some way broken, a claim that was bolstered by reference to a number of U.S. accounting scandals in which firms had manipulated revenues.

The proposal generated comments from U.S. constituents indicating their overarching support for adding revenue to the FASB agenda. This support, however, was not without variation as to how the project should proceed. In particular, comments varied relative to two main themes. First, opinions varied in terms of those who preferred a balance sheet focused measure of revenue based on measuring (changes in) assets and liabilities and those who preferred a (traditional) income statement measure based on the firm's operating cycle and earnings process. Second, preferences differed in terms of those who felt that revenue accounting required completely overhauling versus simply improving existing standards. For example, some constituents preferred an approach improving existing standards indicating that time spent on conceptual revisions would direct resources away from "real" (i.e. practical) issues which stemmed from areas in which guidance was either too complex or inadequate. Other constituents suggested that a complete overhaul of revenue was necessary to produce a standard on revenue that would apply to all business generally and would eliminate inconsistencies associated with current industry-specific guidance.

By June 2002, the FASB added the revenue project to its agenda. On the IASB side, the board had also been considering a revision to existing revenue standards (IAS 11 and IAS 18). Both IASs were developed in the early 1980s and are among the most dated of the IASBs standards. The two standards were identified for revision in consideration of their age, their relevance to the current business environment and their comprehensiveness. Thus, in September 2002, when the FASB and the IASB formally agreed through the Norwalk Agreement (FASB & IASB, 2002) to align their standard-setting programs, their standards on revenue were included. Through the Norwalk Agreement, revenue became an IASB project without the IASB having solicited input from its constituents. In light of the boards' joint work, the primary objectives of the project were cast as (re) developing both conceptual and practical guidance that fit transactions, business models and institutional settings the world over.

Debates within and between the standard-setting bodies began with discussions of the problems with the current approach to revenue recognition being driven by incompatibilities in the conceptual framework. To address these problems, the standard setters promoted a conceptual approach, referred to as “revolutionary”, focused on measuring (changes in) assets and liabilities in the balance sheet.

“It had been tentatively decided that the new project would follow an asset/liability approach and try to test whether this approach would deal with some of the questions with an earnings approach which had given regulators problems in the past.” (Joint, 2002)

Part of what made this approach revolutionary was that it involved measuring assets and liabilities arising from revenue transactions at fair value. In the early years, this was cause for debate as existing FASB and IASB guidance contained different overall views of fair value:

“the FASB conceptual framework (SFAC 7) had identified fair value as the appropriate approach to [initial] measurement; however, the FASB explicitly states that its concepts statements do not form a part of GAAP. They hold no more weight than an article in the Journal of Accountancy.... At the same time, the IASB [conceptual framework which is explicitly considered to form part of IFRS] does not take a position on initial measurement. Rather, the IASB had four measurement alternatives with the relevant measurement approach addressed separately in each standard and the same approach was not used in all standards.” (IASB, 2002)

However, in parallel to the revenue project, the FASB was in the midst of developing a standard on fair value measurement (SFAS 157) that would clarify the concept and application of fair value in GAAP, and the FASB board members initially supported fair value as it was being developed within this standard. In addition, FASB members cited other recent guidance and projects predicated on fair value indicating that “moving away from fair value measurement would be a step backwards” (FASB, 2002).³⁵ However, by late 2004, both boards were frustrated with “being led through the same material on the fair value model again and again” yet “it was not presented in a balanced way as they never looked at the cons, never explored the negative consequences of this approach. It was almost a matter of religion.” (Joint, 2004)

³⁵ The board mentioned guidance on asset retirement obligations (SFAS 143), guarantor’s accounting and disclosure for guarantees (Interpretation 45) and accounting for transfers of financial assets and extinguishments of liabilities (SFAS 140) as well as the business combinations and purchase method procedures projects. (FASB, 2003)

This frustration was fueled partially by the boards' lack of agreement on revenue definitions and concepts that should have formed the basis for the standard and, ultimately these debates were deferred to a separate project to converge the FASB and IASBs conceptual frameworks in October 2004.³⁶ In addition, as the January 1, 2005 date for the mandatory adoption of IFRS in the E.U. approached, European banks and insurance companies expressed discontent with the potential consequences that certain fair value standards would have for their business and elevated their concerns to the political level (Walton, 2004). As a result of the controversy, in the EU's process of ratifying IFRS into European law, the EC essentially "carved-out" some fair value aspects of one of the IASB standards. Subsequently, the IASB amended certain aspects of the issue but not before a number of potentially undesirable effects of fair value had been broadcast to the world (Walton, 2004). Even though the EU fair value debate was not directly linked to revenue recognition, a shift in perspective away from the use of fair-value in measuring revenue manifested itself within a year.

In 2005, the FASB proposed a measurement convention largely similar to the traditional measurement of revenue, referred to as the transaction price approach, as an alternative way to measure assets and liabilities in revenue arrangements and the IASB "agreed to explore" the alternative. However, the distinction between the FASBs commitment to the transaction price approach and the IASBs agreement to explore it rapidly became evident.

"[We] favor fair value but agreed to go along with the transaction price option on the basis that it was doing something rather than nothing", and "were willing to go with the transaction price alternative but were not convinced it would solve any of the issues of the fair value alternative; rather, it simply changed the discomfort factor." (IASB, 2005)

The boards, having clearly committed to convergence, were seeking resolution to an apparent deadlock between the fair value and transaction price methods and decided in

³⁶Two chapters of the FASB and IASB Conceptual Frameworks, on the Objectives and Qualitative Characteristics of financial information, were converged and issued after the period under study. The rest of the work was ultimately postponed in order that the boards focus on 'higher priority issues' and remains incomplete; therefore, the revenue measure has been decided before the frameworks of the boards have been completely aligned.

October 2006 to split into small groups dedicated to developing each of the two models further.

“Better progress could be made if the two models for revenue recognition were explored at the same time, as the development of each model results in too many compromises at an early stage. The two groups, containing advocates of the particular model, will work outside the boardroom to develop their model before returning to next year for a full discussion.” (IASB, 2006)

Thus, for the next year, FASB and IASB board members championing each model worked in a small group format on developing the two approaches for measuring revenue. Each group contained one FASB member and two IASB members. The group advising on the development of the fair value based model included one auditor and two academics while the group of advisors developing the transaction price based model included two auditors and one member with a financial services background. These small groups worked on developing the fair value and transaction price approaches to revenue recognition from October 2006 with the presentation of and deliberation on the two approaches resuming in October 2007. Table 11 reflects the models in the form they appeared at that time.

5.2 Negotiation Episodes: Resources, Power Dynamics, Rationales

The section above has set the stage – describing the institutional context and the background to the debates that took place over the period of deliberation. In this section, the intertwined and evolving sub-debates over measurement at fair value and at transaction price (i.e. historical cost) are situated within the negotiated order framework by presenting the resources, power dynamics and logics at stake in the project. Resources refer to the composition and affiliations of the board and board member affiliations while the balance of power refers to the extent to which board member discourse indicated support for the two measurement conventions.

Those board members supporting the fair value model are referred to as “Space Cadets” and those board members who are proponents of the transaction price convention as “Dinosaurs”. These terms arose out of interviews with key actors as in this quote:

“We started meeting with board members in different camps– calling them the Space Cadets and Dinosaurs. The Space Cadets were very pro-... not just fair value but their way of seeing what

gave rise to revenue and in measurement as well they were much more willing to consider alternative measures than the other group. The other group, the Dinosaurs, sort of said nothing is really broken so let's just not change it [measurement] that much and had very different views again of what gave rise to revenue." (Interview #11)

Whether board members adhere to the Space Cadet or Dinosaur logic is determined by the rationales board members provide in support for or in opposition to the fair value and transaction price conventions over the three phases. Three primary rationales were observed in negotiations over the two measurement conventions. These rationales revolved around (1) the decision usefulness of the information produced; (2) the pattern of revenue recognized³⁷ and (3) the complexity of measuring revenue³⁸ under each approach. The following sections explore the dynamics of negotiating order in transnational policy by linking resources, balance of power and rationales in each period.

5.2.1 Phase 1: Development of Fair Value Model (2002 – 2004)

The IASB membership was formed as a board of 14 members in June 2001 with the board members' most recent professional experience split between academics (2), auditors (3), preparers (4), and standard setters (5). The board membership of the IASB remained stable during this period with only the replacement of one preparer board member by another in 2004. The voices of the IASB's two academic members are prominent in this period as are the contributions of the members with auditing experience. The discourse of the IASB board members was highly cautious regarding the project's initial focus on a fair value measurement model for revenue. While the IASB showed a high degree of support for the fair value approach, many board members were hesitantly supportive, pointing out that "[if] they were going to create a new model, they were going to have to get rid of 30 years of preconceptions and, in some cases, they had 60 years of prejudices to overcome" (IASB, 2002). In addition, the youth of the IASB, with its still-developing organization, and the fact that the FASB had gone through the agenda setting process for revenue recognition while the IASB had not

³⁷ The pattern of revenue recognition, while largely a question of the timing of when revenue is recorded, is determined based on the measurement convention.

³⁸ The complexity or simplicity of measurement relates to the techniques involved in determining the amount of revenue to be recognized under each of the proposed approaches.

formally done so meant that while the project was “joint” in many senses, it remained a largely FASB-driven project.

The FASB itself was comprised of 7 members with their most recent experience split between academic (1), auditors (3), analyst (1), and preparers (2). The FASB largely retained its structure in this period exchanging two members with preparer experience, one for a preparer affiliated with financial services. During this first phase, the prominence of the voice of the FASB’s academic member is significant while the preparer voices are the least prominent. The remaining FASB member voices are approximately evenly exerted; however, the voice of the board member with a financial services background was present only in the last year of the period which implies this member contributed quite a bit to discussion in that one year.

The early discourse of FASB board members started out highly complementary of the original proposal to measure revenue at fair value with the majority supporting a fair value model for revenue. At the same time, the board members acknowledged the challenges in overcoming potential weaknesses in the fair value measurement and identified those weaknesses as relating to: the decision usefulness of the approach, the pattern of recognizing revenues at contract inception, and the availability and reliability of fair value measures. However, these were seen as worthwhile challenges to overcome and, in meetings throughout the early years, board members referred to the approach as “conceptually superior to an earnings process approach” and, similarly stated, “vastly superior to the traditional accounting approach to carving up amounts” as well as “more representationally faithful to the economics of the transaction” and “leading to a better answer” (FASB, 2002).

One of the early rationales used by the board members during this phase revolved around the decision usefulness of the measurement convention. For example, Space Cadets put forth arguments for the decision usefulness of revenue information produced under the fair value model, stating that:

“The fair value model reflects an entity’s efficiency (revenue) and inefficiency (loss) over the contracting process relative to the market.... This model may be useful to analysts in better understanding an entity’s business model and profitability as well as improving corporate governance because entities will report profit margins on economic components of their

contracts. Where an entity performs certain components at a loss, its business model may necessitate an adjustment.” (Joint, 2004: A2)

Supporters maintained that this would improve comparability between industries and would result in recognizing revenue that is most representative of the economic activities that took place. However, the Dinosaurs showed reservations about the usefulness of a fair value approach:

“While the fair value model may be conceptually sound, we need to consider whether this approach is really more useful.... changing the way that (in) efficiencies are represented will make it more difficult for analysts to forecast margins and revenues. Therefore, we might be losing predictive ability, not helping to better predict future cash flows.” (Joint, 2004: A3)

A second set of rationales put forth in support for /opposition to the fair value model related to the pattern of revenue that it produced in that it afforded the potential for revenue to be recognized on the day a contract was initiated, regardless of whether the entity had completed performance of the contract on that day. This potential was referred to as “selling revenue”. Selling revenue was essentially likened to a market access charge; an amount paid by the customer to gain access to a market that it ordinarily could not access. Here, Space Cadets adhered to the notion that:

“in a contract with a customer, the amount a customer is willing to pay equals the sum of the entity’s obligation to provide goods/services as well as obligations to provide selling access and selling convenience. Revenue can arise at the inception of a contract because the entity’s selling effort is completed and delivered by obtaining the contract with the customer.” (FASB, 2004: A1)

Proponents believed the fair value model would produce a more relevant measure of revenue while opponents of fair value did not subscribe to this notion. Instead, they considered that revenue arrangements should focus only on the entity’s obligations to perform after the contract has been obtained. More specifically, Dinosaurs were of the opinion that:

“Revenues should not be recognized until the entity has been relieved of its obligation to its customer (either when the entity is legally released from the contract or when the entity performs by delivering goods and services). Selling is not an element in a transaction with a customer since a customer would not pay separately for those activities. The customer has not released the reporting entity from any obligation in completing selling activities.” (FASB, 2004: P2)

Finally, during this phase, board members developed arguments pertaining to the complexity of the fair value measurement model in terms of the availability and reliability of data used to determine fair value. A fair value measure was claimed by Space Cadets to establish distance from the entity’s view and locate value within the

“objective” judgment of the market, which was denoted as a simple and reliable mechanism. However, Dinosaurs argued that fair values would be “rarely observable” pointing out that:

“where no such market exists, fair values would be based first on ‘observable inputs’ and last on ‘unobservable inputs’ to estimation models; therefore, the objectivity and simplicity of the market is replaced by the subjectivity and complexity inherent in seeking assumptions and calculating an amount.” (FASB, 2004: A1)

As deliberations progressed, some additional skepticism towards fair value measurement became apparent, for example, where members voiced concern that “they had accepted using fair value as a working principle, but now it seemed to be the letter of the law.” The most skeptical raised early concerns about operationality, as seen below.

“We would not want to be told at the end of the process that the model was not workable in practice, but then find the Board was stuck because it had publicly signed up for it. We should not sign up unconditionally to something before we know whether it would work in practice.” (IASB, 2004: A2)

By the end of the period, the issues with the fair value model, as well as board members’ doubts about it, had been set out. In October 2004, the FASB announced its intention to begin developing a more historically based model built on transaction price. This offered a chance for those who were particularly nervous to negotiate for an alternative to fair value.

5.2.2 Phase 2: Development of Historical Cost/Transaction Price Model (2005-2006)

Where the initial stage had been driven by the FASB, by the end of 2004 the IASB took note that “it had been dragging its heels and was holding up the FASB” (IASB, 2004) and aimed to be a more equal partner. This aim was facilitated in that the composition of the IASB during the second phase remained unchanged with the exception of one preparer representative being replaced by another preparer representative. This meant that 13 members of the IASB had three shared years of experience on the project as well as on the board more generally. During this period, the IASB’s academic and auditing members’ contributions to board discussions persist. At the same time, the IASB shifted from a clear majority support for the measurement of revenue at fair value towards a balance as time progressed. Therefore, the discourse of

the IASB board members in the second stage revealed board members both clearly in favor of fair value measurement and clearly opposed to it.

The FASB, in this phase, retained four members who had been involved in the project from the initial years while exchanging one analyst for another in 2005 and one academic for another in 2006. The voice of the academic member remained significant and was countered by the prominent voice of the member from financial services, which increased notably from the first phase. Additionally, the voice of the new analyst member was less prominent than that of the prior analyst. Ultimately, the balance of shifted within the FASB to the point that argumentation for measuring revenue under a historical transaction price approach became just slightly more common than for the fair value approach. Here, the transaction price approach was touted as producing the “most appropriate” pattern and “most reliable” measure of revenue.

On the other hand, arguments supporting the decision usefulness, or relevance, of the transaction price approach were actually used in quite a limited fashion during this period. Rather, it was the opponents of the model, the Space Cadets, who used decision usefulness to argue that the transaction price approach

“would result in revenue information that was no more useful than that produced under the current revenue accounting system which raised the wider question of the relevance (economic faithfulness) of the information produced. Transaction price was not an economic or accounting concept – it had been invented by standard setters.” (Joint, 2006: A2)

However, supporters of the transaction price approach defended the information produced by the model as being more informative than the fair value approach because transaction price was

“anchored in the reality of what the entity and customer actually intend to do in the contract as opposed to based on hypothetical scenario and (possibly) hypothetical market price.” (IASB, 2006: A1)

More common in this period were rationales surrounding the pattern of revenue produced by the transaction price model. The Dinosaurs, as proponents of this model, argued that

“The transaction price model provides a better description of the pattern that occurs under revenue. It uses the amount the customer is willing to pay to measure the entity’s obligation to deliver goods and services - that is the amount agreed upon by the parties to the contract. In the performance period, the customer benefits only when the reporting entity performs. The reporting entity is relieved from its obligation when the customer has to pay, in other words, on delivery of goods and services.” (Joint, 2006: P3)

Here, Dinosaurs highlighted what they saw as a key benefit of the model as being that it does not recognize revenue at the initiation of a contract. These members indicated that their concerns regarding recognizing revenue on initiation of the contract under fair value stemmed from the opportunities that this may create for entities to structure transactions in such a way that they may “frontload” or accelerate revenue. They argued that this could result from entities either intentionally omitting components from a contract or under/overstating values in order to produce more/less revenue at contract initiation. At the same time, Space Cadets pointed out how

“actions of omission and mis-measurement were not necessarily prevented by the transaction price approach and would allow entity’s to manipulate the timing of revenue, just in a different manner.” (FASB, 2006: A2)

Similar to the first period, board members asserted arguments having to do with the availability and reliability of data used to determine transaction price, with Dinosaurs claiming

“the core idea is the amount that was agreed between the supplier and customer, which was entity-specific and contract-specific and therefore an inherently reliable measure since it represents the value of the transaction to the parties involved and not the market’s judgment of that value.” (IASB, 2005: A2)

However, Spaced Cadets countered that, according to the standard-setter’s conceptual frameworks, reliability had several characteristics and the transaction price model met only one of those – verifiability- but not that of representational faithfulness or neutrality. In addition, once the price agreed between the supplier and customer was allocated to different components of the contract, verifiability of the allocation would be no easier than under the fair value method since estimation processes would still be involved. Thus, Space Cadets views were summed up in this period as

“trying to remember why the Boards had gone down this path [transaction price approach] to revenue recognition. There was the question of up-front profit and there was the reliability of measurement issue. We would like to see whether they had solved any of these problems subsequently.” (Joint, 2005: A2)

5.2.3 Phase 3: Fair Value vs Transaction Price Debate (2007 – 2008)

In phase three, the FASB exchanged an auditor member in 2007 for a board member whose most recent experience was as FASB technical director but who had spent 25 years as an auditor³⁹. During the third phase, the FASB’s academic member

³⁹ The FASB also replaced a second member with audit experience with a member experienced as an

and financial services member continued to dominate discussions with the remaining FASB member voices fairly consistently represented. Throughout this stage, the discourse of members of the FASB indicated that many of its members had shifted even further towards support for the historical transaction price approach with the exception of one board member from the academic community who continued to exert that fair value was the more relevant measurement attribute, even threatening to dissent.

The IASB, on the other hand, turned over several of its original members, replacing an academic, a preparer, and an auditor with two securities exchange representatives and an analyst. The IASB changes meant that FASB and IASB were fairly comparably organized in this stage. In addition, the contribution of the IASB's academic member and the auditing members' that had been so prominent appeared to decrease and no particular affiliation appears to stand out. Similar to the FASB, the IASB discourse also revealed a critical shift towards argumentation supporting the transaction price method over the fair value method.

The rationales put forth by board members during this phase included those referenced in first and second phases of the project – decision usefulness, pattern of revenue, and complexity of the models. Related to the decision usefulness rationale, board members came back to the discussion of the type of information each model would produce and how this may (or may not) be useful to financial statement users. Fair value proponents argued that

“a company is valued by looking at all contracts in the backlog and estimating future profit based on the timing and amounts of future cash flows. A better and more useful measure of future profit is one based on the amount it will ultimately cost the company to satisfy its future contractual obligations which may be different from what the customer originally agreed to pay for.” (FASB, 2008: A1)

At the same time, the Space Cadets acknowledged their doubts that constituents were ready to move to that type of accounting. Dinosaurs agreed and reiterated their argument that

“actual margins of the entity produced by a transaction price approach are more relevant and more useful than hypothetical market margins produced by fair value. [Under the transaction price model,] the total amount the customer will pay equals the entity's obligation to perform,

analyst in 2008: however, this board member did not participate to the particular deliberations on which this paper is focused so he is excluded from the analysis.

which equals the total cash flows and this is highly predictive of the sustainability of revenue for the reporting entity.” (FASB, 2008: P2)

In terms of the rationale related to the pattern of revenue, board members argumentation remained focused on: (1) the notion of revenue recognized at the inception of a contract from the first phase and (2) the uncertainty or risk of measurement error associated with each model and opportunities that might create for manipulating the timing of revenue. Relative to the first argument, the notion of revenue at contract inception, Space Cadets continued to support that

“there is something of value at contract inception. Revenue-generating activities such as developing a business model and advertising start well before a contract has been arranged or signed. Often, getting the customer is the key event, so there should be at least a possibility of revenue at contract inception.”(FASB, 2008: A2)

Dinosaurs, on the other hand, maintained their view that

“efforts to generate revenue are ongoing selling, general, and administrative expense necessary to run the business. Consequently, there should be no revenue when a contract is entered into in normal arrangements with customers because the entity has not yet done anything specific to fulfilling the contract.” (FASB, 2008: P1)

According to interview data, these same board members were also concerned with potential opportunities for entities to manipulate fair value in order to recognize more revenue upfront.

“Because they couldn’t prove what selling revenue actually was – it’s some kind of residual being the difference between the customer consideration or asset side and the fair value of performance obligations on the liability side - they thought they would have created a massive abuse opportunity because profit could be manipulated up front.” (Interview#12)

In defense of the fair value model, the Space Cadets maintained their earlier argument that the

“risk of error is also present in the transaction price approach because estimation processes are required to allocate the transaction price to different components of the contract. Therefore, the ability to distort is present in both models – it is just that the opportunities for distortion are different”. (IASB, 2008: P3)

Finally, the arguments underlying the complexity rationale refer to the availability of inputs to each measurement convention and what that meant for the reliability of revenue reporting as well as for the understandability of and ease of implementing each model in practice. While Dinosaurs denoted the fair value model as “overly complex” and fair value as “difficult to verify”, they promoted the transaction price approach as “simple for constituents to apply where the transaction price was observable and easy to verify” (Joint, 2008). The board members presented similar

stories as in the first two phases in terms of the availability of inputs with Dinosaurs arguing that “market prices would not be available and for many contracts fair value would be estimated using entity inputs that were not verifiable” (FASB, 2008). However, Space Cadets also challenged the verifiability of transaction prices in relation to a prior argument that the transaction price model required allocation or estimation processes much like those of the fair value model. And as revealed by one interviewee,

“the problem of determining a value for items in the contract doesn’t go away. You still have to establish a device for allocating the total amount of the contract and normally you look to the price at which the separate components can be sold in the market and estimate that when the price does not exist.” (Interview#15)

In terms of the operationality of the models, Dinosaurs identified the transaction price model as explainable to and understandable by constituents because it

“Resonates with both parties of the transaction in that it directly reflects what each party has agreed to in the contract. Moreover, since this is a universal accounting standard, it needs to be readily understandable and recognizable by everyone in an organization – the transaction price model is understandable even to those that are not CPAs.” (FASB, 2008: P3)

While Space Cadets did not refute the operationality of the transaction price model; they instead criticized the model as an evolutionary rather than revolutionary approach to change that did not accomplish the original objectives of the project.

6 Discussion and Conclusion

With a focus on transnational policy-making, this paper has pointed to processes of negotiating order out of contentious issues, in particular on the issue of the use of fair value in revenue measurement. Certainly, this case represents neither the beginning of the story of fair value measurement in transnational accounting policy nor its end. The fight for fair value in revenue is embedded in a much broader movement involving the rise of financial markets, investors and decision-useful information; the grounding of accounting in the valuation of assets and liabilities; and the emergence of expert-driven accounting standard setting (Power, 2010). Still, the decision not to measure revenue under a fair value convention marks a turn in accounting policy-making away from a decade-long trend of fair-value oriented standards issued by the FASB and IASB as well as a global change program that has in some ways come to be equated with fair value (Walton, 2004; Walton, 2006; Power, 2010; Müller, 2013).

This paper explores how transnational policy-making processes in the field of accounting were negotiated and shaped around a contentious policy decision from 2002 to 2008. The analysis focused on several interrelated aspects of this process: (1) how members of the FASB and IASB deliberated and developed a policy for measuring revenue; (2) how different factors affected the nature of deliberations undertaken and eventual order negotiated; and (3) how, in the process, we might consider a transnational community of standard-setters has taken shape. To frame this analysis, I mobilized the negotiated orders perspectives in conjunction with the concept of logics from institutional theory. Drawing on these theoretical resources, this paper reveals how resources, dynamics of power and value systems intersect in processes of negotiating order within a community.

In terms of resources, I show the composition of the FASB and IASB board membership and how it has changed or remained stable over the period under consideration. The analysis indicates the FASB membership to be fairly stable over and dominated by audit professionals either directly (or indirectly through their prior affiliations). Similarly, the IASB membership has been dominated by members with experience in auditing and remained this way over the period. Further, the IASB reallocated one academic seat to accommodate the inclusion of the investor/analyst community on the board and two auditor seats to include securities regulators. As in the FASB case, the membership of professional auditors in the IASB is also substantial not only in terms of members' direct previous experience as auditors but in terms of those who have a prior affiliation with professional audit firms earlier in their career. Therefore, this paper shows that, despite appearing to slightly diversify board member representation on the basis of their most recent affiliation, the backgrounds of many (if not most) board members remains conditioned on prior affiliation with the audit profession.

In understanding the power dynamics between proponents of fair value versus the historical revenue model, I first looked to the strength of voice exhibited by each professional group over the period. I observed the voice of academics to be predominant within both the FASB and IASB throughout the debate. At the second level, the

prominence of the financial services member (FASB) and auditing members (IASB) is evident. However, it's not only the strength of voice of different professional groups that matters. It also matters how these members use their voice in negotiations to affect shifts towards one position on revenue measurement over another; especially considering those shifts lead the board away from what scholars have tended to argue to be a very broad trend towards fair value measurement. During the early stages of deliberation, a majority within both boards viewed fair value as a 'revolutionary' approach; one superior to traditional (historical) revenue accounting. The dynamics of deliberation documented in this paper help explain the failed institutionalization of fair value in the measurement of revenue despite such strong initial backing. Throughout the period explored here, debates remained largely polarizing; split between the "Space Cadets" who favoured the fair value approach to revenue and the "Dinosaurs" who firmly opposed it.

A group of Space Cadets, particularly those with academic⁴⁰ and auditing affiliations, initiated and launched the fight for fair value. They used rationales promoting conceptual inconsistencies in the existing revenue guidance to turn the measurement of revenue into an issue. Within both boards, the academics and auditors, worked on framing a discourse of conceptual superiority that connected fair value to the predictive ability of revenue information, the objectivity and reliability of the market as a source of value, and the possibility of selling revenue as a market access charge to promote the measurement of revenue as a superior conceptual model. Initially, board members with preparer affiliations jumped on the band wagon, presenting rationales essentially compatible with this conceptual framing. The greatest antagonists to this framing were the FASB members affiliated with financial services and financial analysts who, from the start, were clearly positioned in the Dinosaur camp as opponents of fair value. This represents an exception to the accounting research asserting that board members with financial backgrounds are more likely to support fair value-oriented

⁴⁰ Two of three academics, specifically the two academics trained in U.S. institutions, were consistently and prominently in the Space Cadet camp while the third members, a U.K. academic, was in the Dinosaur camp.

standards (Allen and Ramanna, 2013), and begs the question of in which cases financial experts (and others) are more likely to support fair value and in which they are not.

A closer look at board member backgrounds reveals the financial services member to have a prior affiliation with one of the Big 4 audit firms. This member's single voice was most prominent throughout the entire seven-year period of deliberation. Progressively, during the second stage of the project, a number of preparers and auditors claimed a pattern of rationales aligned with this financial services board member, creating significant distance from the Space Cadets and, thereby, revealing themselves as Dinosaurs. In the process, they appropriated the fair value fight while imposing a profoundly transformed frame steeped in highlighting the practical inferiority of the fair value model. Dinosaurs shifted the focus from predictive ability to the reliability of revenue information, from the market to the entity as a reliable source of value, and from selling revenue as market access to selling revenue as opportunity for revenue manipulation. In a period of 5 years, the power dynamics changed significantly with the financial members leading the way and instigating the challenge but the preparers and auditors asserting themselves, and playing a key role as they seized the opportunity to frame the traditional approach as superior in practice.

By the third stage of the project, despite the voice of the remaining academic and auditing Space Cadets remained prominent and conceptually focused, they were ineffective at (re) convincing their Dinosaur counterparts of the merits of the fair value approach. In this stage, board members affiliated with auditors, analysts, financial services and preparers alike expanded on arguments promoting the practicality of the transaction price approach. The Dinosaurs presented the transaction price approach as simple, understandable, and easy to implement and not requiring specialized knowledge. At the same time, they honed in on the availability of and verifiability of information produced by the transaction price model as reducing risk of error and mismeasurement. In spite of efforts by Space Cadets to discredit the historically-oriented transaction price model, fair value had gone from being defined as a model for revolutionary change to becoming the ultimate expression of uncertainty and error, and potentially encouraging the manipulation of revenue that had been an impetus for the project in the first place.

This study has important implications for studies of transnational governance and accounting policy-making alike. First, this study contributes to a richer understanding of processes by which accounting standards are constructed by transnational policy-making bodies and articulated as solutions to global accounting issues. In doing so, the paper builds on the first chapter of this dissertation in which the FASB and the IASB process of producing a common standard is likened to a co-construction process, in which ideas and models are (re) packaged through mediation by a dense network of actors of many kinds and many interests (Djelic, 2008). This paper draws on the FASB and IASB revenue recognition project as an example of how co-construction operates in practice. Under this particular mechanism of coordination, we might expect an existing model to (re) assert its dominance, we might see the emergence of a hybrid model, or we might anticipate an additional layer surfacing in the form of a meta-standard⁴¹ (Djelic & den Hond, 2014). The analysis of this particular policy-making decision illustrates a case in which attempts to dethrone the dominant model were taken but ultimately failed. While this paper highlights the way in which co-construction may involve rationalization of a sort of ‘global’ status quo, it is not merely a story of the resilience of institutions as we cannot project this particular outcome to all co-construction processes. As such, the results encourage further exploration of co-construction processes and support Djelic & den Hond (2014) in their calls for research on the potential for multiplicity and plurality, as opposed to rationalization or reduction of diversity, to result from such processes.

Second, this study enhances explanations of the accounting policy-making process by specifying how a community of standard setters engages with counterparts holding potentially competing sets of values and beliefs. The competing sets of values and beliefs, exhibited by the Space Cadet and Dinosaur discourse, cut across the boundaries of the FASB and IASB in such a way that actors affiliated with a professional group came to hold similar views both within and across the FASB and the IASB such that institutional and political settings were less important than professional affiliation. This does not mean to say that all members of a profession hold identical

⁴¹ According to Endres (2010), a meta-standard is one which sets the basic requirements and then allows the regulated community to interpret compliance with the standard locally. It does so by minimizing general principles, supporting minimum criteria (elements, conditions, processes).

values and beliefs. Rather, this study reinforces the view of Durocher and Gendron (2012) that affiliation with a professional group cannot be taken for granted as an indicator of values and beliefs. In fact, despite eventual alignment, the case analysis reveals the possibility not only for contestation between (and across) members of the same profession but also for shifting member preferences within a professional group.

It is this fluidity and dynamism in member preferences that the notion of a transnational community – a concept larger than the professional or the epistemic - helps us to understand. This notion suggests a membership comprised of individuals connected by nature of their cosmopolitan/elite status and by moving between positions – in this case, within regulatory bodies, multinational corporations and global audit firms. While multipositionality relieves actors of the constraints of particular worlds (professional affiliations or otherwise) and enables them to consider rationales from competing worlds and adapt their views accordingly, the cosmopolitan aspect at the same time exerts pressure to conform. Therefore, the added value in this story lays not only in its focus on communities but more in the way it reveals a transnational community taking shape in the process of two standard-setting bodies engaged in the construction of a common standard.

The policy-making decision under study did not emerge in a vacuum and policy developments at the global as well as national level in the U.S. may have impacted the trajectory of the project. However, it is disingenuous to assume that the standard setters merely go through the motions of deliberation only to enact mandates emanating from higher-level state or market regulators. The analysis suggests that the quest to prioritize studies of power in accounting policy-making arrangements should not lead us to ignore studies of the detailed processes through which policies are constructed and rules are ultimately institutionalized. Despite the nature of power and influence in accounting policy-making, we should not readily presume outcomes of standard setting to be decided ex ante by standard setters or powerful figures, but subject these outcomes to continuing, careful scrutiny.

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Chapter III

The rhetoric of justification: The process of constructing what's “just” in global accounting standards

Résumé

Cet article étudie les mécanismes rhétoriques utilisés par les normalisateurs pour convaincre leur audience (et eux-mêmes) du bien-fondé de leurs décisions. Une façon d'étudier ceci est de concevoir ces mécanismes comme un processus de justification, par lequel les normalisateurs convainquent les lecteurs que leurs décisions sont « justes ». Toutefois, l'impératif de justifier implique un choix qui implique, souvent, des systèmes concurrents de sens. J'analyse le choix des normalisateurs par le biais de deux conventions sur la mesure du revenu – la juste valeur et le prix de la transaction originale - comme des systèmes concurrents de sens. J'utilise des comptes rendus de réunions de normalisation pour montrer comment les normalisateurs légitiment leur choix de la fixation du prix de transaction originale. Ceci est contraire aux tendances de la mesure normative durant les dernières décennies. Je mets en évidence un processus dans lesquels les normalisateurs discutent des décisions de normalisation controversées par leur audience grâce à des justifications qui engagent les systèmes de sens. Ce processus implique la construction de terminologies renforçant la mesure au prix de transaction originale d'une manière. Ces dernières renforcent la légitimité de la décision prise par les normalisateurs et rend la décision plus « juste ». Dans ce cas, le processus de justification des normalisateurs reflète au final les limites de la juste valeur, en tant que système de sens, inhérent au processus de financiarisation et participant grandement à l'émergence de la domination de ce dernier. Elle n'est donc pas la solution incontestable pour toutes les questions que pose la comptabilité.

Mots-Clés: processus de normalisation comptable, justification, systèmes de sens, juste valeur

Abstract

This paper focuses on the rhetorical mechanisms used by standard setters to persuade their public audience (and themselves) of the merits of their decisions. One way to study this is as a process of justification, in which standard setters convince readers that their decisions are “just”. However, the imperative to justify implies a choice and, often, underlying choices lay competing systems of meaning. I analyze the standard setters’ choice between two conventions for the measurement of revenue - fair value and original transaction price- as competing meaning systems. I use proceedings of standard-setting meetings to show how the boards legitimized their choice of the original transaction price convention, which runs counter to measurement trends in standard setting over the past decades. I show a process at play in which standard setters address controversial standard-setting decisions to their public audience through justifications that engage with meaning systems. This process involves the construction of concepts which reinforce measurement at original transaction price in a way that ensures the legitimacy of the standard-setters’ decision and the perception of those decisions as “just”. In this case, the standard-setters’ justification process ultimately reflects the limits of fair value as a meaning system which has been an important by-product of financialization processes and has a particular usefulness but which is not the unquestioned solution to all accounting issues.

Keywords: standard-setting processes, justification, meaning systems, measurement

1 Introduction

“A fundamental conceptual issue [facing accounting standard setters] is the extent to which the standard should move away from traditional cost based accounting to marking assets and liabilities to market, euphemistically referred to as ‘fair value’ accounting.”⁴²

Paul A. Volker, (former) Chairman
Trustees of IASC Foundation

Fair value accounting (FVA) refers to a method for measuring a firm’s assets and liabilities which looks to transactions between market participants (which are assumed to be somehow fair) in the determination of the current price (value) of those assets and liabilities. Fair value has had a long, unsteady history in conception and application, losing favor after the 1930s market collapse only to gain notoriety again since the 1960s (Georgiou & Jack, 2011). Over the next 40 years, fair value not only reestablished its place among an array of measurement conventions but also appeared to acquire prominence in both policy and practice (Power, 2010). This prominence has been linked to inflationary issues of the 1970s (Robson, 1994) and to financial stability issues with the development of financial assets and the financial services sector of the economy (Nolke, 2010). Therefore, the reemergence of FVA was not without controversy, yet discord over certain of its features did not slow the propagation of FVA.

Previous literature articulated a number of conditions supporting the propagation of FVA and linked its appearance over the last few decades to processes of the ‘financialization of accounting’ (Arnold, 2009; Hopwood, 2009; Power, 2010; Müller, 2013). Conditions underlying the financialization process include: the rise of financial markets, investors and decision-useful information (Whitley, 1986; Young, 2006; Arrighi, 2007; Hitz, 2007); the grounding of accounting in the valuation of assets and liabilities (Richard, 2004; Dichev, 2008; Ronen, 2008); and the emergence of expert-driven accounting standard setting (Tamm-Hallstrom, 2004; Perry & Nolke, 2006; Botzem, 2012). However, the largest financial crisis since the 1930s brought the question of ‘appropriate’ accounting valuation techniques (back) into the limelight as actors at multiple levels across the global stage began, again, to debate its merits and shortcomings (André et al., 2009, Laux & Leuz, 2009; Magnan, 2009). Part of this debate focused on the work of the world’s leading accounting standard-setting bodies,

⁴² Statement before the Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee of the U.S. House of Representatives, Washington DC, June 7, 2001.

the FASB and the IASB, who have issued a number of FVA-oriented standards over the past decade and whose global change program has in some ways come to be equated with FVA (Walton, 2004; McGregor, 2007).

Yet if we look behind the scenes, obstacles to the propagation of fair value accounting in the FASB and IASB convergence process are evident. Within this process, one has only to look to the joint project to produce a global standard on revenue recognition for an instance in which a fair value approach was developed and intensely deliberated but was ultimately rejected for a more traditional, historically anchored model. Therefore, this paper reveals a case in which a proposed reorientation in accounting for revenue following a fair value approach was abandoned at a time in which conditions were by all appearances tightly interconnected and reinforced the rise of fair value in other areas of accounting (Power, 2010). The case runs counter to trends in standard setting over the past few decades and, at some level, contradicts earlier assertions by standard setters themselves that ‘fair value is here to stay’ (McGregor, 2007). In doing so, it highlights the importance of understanding the peculiarities of the standard-setting process and particularly decisions surrounding different accounting conventions and their place in our financialized world. In shedding light on these peculiarities, the analysis focuses on two interrelated aspects of standard-setting processes: firstly, how a decision regarding a convention for measuring revenue was justified to the standard-setters’ public audience, and secondly, how (the legitimacy of) this justification was constructed through “definition framing”.

Through the FASB-IASB decision on the measurement of revenue, I focus on understanding the link between evolving FASB and IASB concepts constructed in reaching their decision and the justifications they ultimately provide for this decision in public documents. I analyze board deliberations over a 7-year period and the resulting standard-setting document issued to understand how the FASB-IASB justified, to themselves and to their public, the advancement of one measurement system over another. I look to the literature on political and institutional forces to help explain this phenomenon. Despite a wealth of research on the extent to which political (and institutional) forces shape accounting standard setting, I follow on Gipper et al. (2013)

and Ezzamel et al. (2013) who indicate our knowledge of these forces to be fairly limited and largely neglected in the past decade. On that basis, this paper contributes to literature examining accounting standard-setting processes in several ways.

First, while the literature on accounting standard setting reveals the process to be highly political (Cooper & Sherer, 1984; Fogarty et al., 1994), the majority of research focuses on the political force of stakeholders in their attempt to exert power/influence over standard-setting organizations and outcomes (e.g. Watts & Zimmerman, 1978; Hope & Gray, 1982; Sutton, 1984; Tandy & Wilburn, 1992; Schalow, 1995; MacArthur, 1996; Saemann, 1999; Larson, 2002; Kwok & Sharp, 2005; Larson, 2007; Jorissen et al., 2011). In addition, a small part of the literature represents studies of standard setting organizations' responses to such attempts and ability to manage the exertion of influence in their role as decision-makers (e.g. Horngren, 1973; Haring, 1979; Johnson & Solomons, 1984; Puro, 1985; Miller & Redding, 1988; Hines, 1989; 1991; Mezias & Chung, 1989; Mckee, Williams & Frasier, 1991). As opposed to focusing on the political force of interested stakeholders (and the management of that force), I shed light on the political force of standard setters themselves which we know much less about.

Second, Fogarty et al. (1994) categorize the political force of standard setting as stemming from three sources: power/influence, meaning systems, and rhetoric. Where a stream of literature has begun to focus on the power/influence of standard setters (Walton, 2009; Botzem, 2012; Allan & Ramanna, 2013; Jiang et al., 2014), this paper focuses on meaning systems and rhetoric as important but not yet well understood sources of standard-setters' political force. In doing so, I build on small but noteworthy literature which links complex financial accounting issues to broader meaning systems and discursive mechanisms (Robson, 1993; Young, 1996; 2003; 2006). In particular, I focus on the work performed by standard setters towards constructing accounts for standard-setting decisions in which multiple meaning systems are at hand. Scholars have suggested that rhetoric plays a key role in the construction of such accounts, aiding in the creation, maintenance or reparation of legitimacy around a contentious decision (Philips et al., 2004; Suddaby & Greenwood, 2005; Philips & Malhotra, 2008). However, little attention has been paid to the fact that legitimacy may require actors, in

this case standard setters, to justify their constructions to their public audience (Patriotta et al., 2011).

Therefore, the third contribution of this paper is that it draws on the framework of Boltanski and Thévenot ([1991], 2006), or B&T, to study how contentious decisions are justified in situations where multiple meaning systems exist. I follow Annisette and Richardson (2011) who denote justifications surrounding the use of fair value accounting to be a potential area in which the application of B&T (2006) could be fruitful. In this framework, meaning systems are referred to as ‘orders of worth’; these represent a toolkit of resources that actors can call upon at will to promote particular justifications (Boltanski & Thévenot, 2006). Organizational theorists (Cloutier & Langley, 2013) have recently suggested that the conceptualization of meaning systems as orders of worth can help address what is missing from current conceptualizations of meaning systems as institutional logics (Friedland & Alford, 1991; Thornton & Ocasio, 2008; Thornton et al., 2012). Cloutier and Langley (2013) indicate that one of the ways in which B&T’s work may do this involves bringing the justificatory (or moral) element back in as mechanism for deepening our understanding of institutional processes in pluralistic settings. Therefore, I contribute to a nascent accounting literature employing the framework of B&T (Patriotta et al., 2011; Annisette & Trevedi, 2012; Ramirez 2013) as well as more generally to the accounting literature focused on the interplay between institutional processes and competing assumptions, values and beliefs (e.g. Hyvonen et al., 2009; Guerreiro et al., 2012; Ezzamel et al., 2013; Yu, 2013).

These findings highlight how standard setters justify their position by mobilizing higher order principles (i.e. orders of worth) that enabled them to publicly justify a controversial decision. In developing justifications within a public arena, the standard setters provide rationales consistent with socially accepted meaning systems. To do so, the standard setters actively engage with different meaning systems to build arguments to the (apparent) satisfaction of their stakeholders in the foreground and use rhetorical mechanisms in the background to construct concepts that buffer their positions. I identify the rhetorical mechanisms by which standard setters construct concepts as involving definition framing. First, I find that concepts are constructed which support

the standard-setters' justifications in that they have the power of exclusivity to dictate which transactions and items are appropriate to consider and which are not based on the defined concept. At the same time, I find that concepts have partial foreclosure capability which means that concepts are framed in such a way that they shut down the debate regarding competing meaning systems and clearly lend support to one of the alternatives, yet they are not absolute in the sense that the standard-setters' future decisions are not restricted by the concepts developed in one particular standard.

The remainder of this paper is structured as follows. The next section discusses the literature on the political aspects of standard setting with a focus on rhetoric as a form of politics, developing the art of definition framing in standard-setting processes. I then combine perspectives on justification with concepts from institutional theory in order to frame the process of accounting standard-setting. Section 3 presents the research method. Following that, I present the case analyzing the process by which the standard setters justify a policy decision to their stakeholders. In the final section, I discuss the implications this case has for understanding the mechanisms involved in the global standard setting process.

2 Literature Review

This paper approaches the study of accounting standard-setting as a political process. Debates on the politics of accounting-standard setting found their place in the accounting literature in the late 1970s (e.g. Watts & Zimmerman, 1978) and since then have focused to a great extent on the power/influence of constituents through lobbying studies. In our focus on constituents, we have looked much less to the standard setters themselves as powerful and influential actors or to the political force of meaning systems and rhetoric in affecting change. The next sections highlight these political forces as important particularly when considering that standard setters make policy decisions that must be justified and legitimized to a public audience.

2.1 Politics and Accounting Standard Setting

Common charges of the politics of the accounting standard-setting process refer to evidence that the outcomes of accounting standard-setting operate for the benefit of

some groups and to the detriment of others (Cooper & Sherer, 1984). These charges have been addressed in a particular stream of literature on the politics of standard setting which identifies interested parties and their motivations. The largest group of this literature is represented by studies examining the lobbying process which reports on certain group's attempts to influence the results of standard setting to their benefit (Watts & Zimmerman, 1978; Hope & Gray, 1982; Sutton, 1984; Tandy & Wilburn, 1992; Schalow, 1995; MacArthur, 1996; Saemann, 1999; Larson, 2002; Kwok & Sharp, 2005; Larson, 2007; Jorissen et al., 2011). A smaller group of literature then represents studies of standard-setter's responses to lobbying, which looks at the capabilities of the standard setters to manage the exertion of political influence.

This has been studied from the perspective of relatively reactive modes of negotiation focused on political adeptness and marketing skills (Horngren, 1973) to more proactive modes of strategic alignment (Haring, 1979; Puro, 1985; Mezias & Chung, 1989; Mckee, Williams & Frasier, 1991). Standard-setters political management activities have also been studied in terms of the critical resources they employ including inclusivity (Miller & Redding, 1988; Botzem & Quack, 2006), consensus building (Johnson & Solomons, 1984) and conceptual frameworks (Hines, 1989; 1991). The process of political management is also affected by the standard-setter's need to appear independent and objective in the pursuit of standards that satisfy the public interest⁴³, as well as by intellectual discipline and the constraints of agreement about "good accounting" (Gerboth, 1987; Young, 1996). The limitation of the studies within this stream is that, while they recognize the potential for conflict between standard setters and interested parties, they fail to fully specify the forces driving actors' behaviors (Fogarty et al., 1994).

According to Fogarty et al. (1994), political forces driving the behaviors of actors in the accounting standard-setting process can be better understood by recognizing those actions as constituted not only by actors' power/influence but also by

⁴³The public interest focus of standard setting considers that the purpose of financial information is to provide the information needed by parties who control economic resources. The standard setters are accountable to provide information to these parties that aids in the allocation of resources efficiently in the economy. However, critics of the politics of accounting standard-setting take issue over who the public actually refers to what is actually in the interest of this public.

meaning systems and rhetoric. Relative to power/influence, Fogarty et al. (1994) goes further to denote that politics encompasses a consideration of power that is limited not only to the power of interested parties to influence standard setting bodies and of standard-setting bodies to manage that influence; but also to the extent and source of power of the standard setters themselves. In this light, a number of studies have taken to understand power through the emergence of the IASB as an international standard-setting organization and the elevation of its standards to a position rivaling U.S. standards (e.g. Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Camfferman & Zeff, 2007; Botzem, 2012). However, these studies focus on the structural and relational aspects of the IASBs rise to power and less on power/influence in the process of constructing a standard or the more explicit role of standard setters in that process.

A paucity of studies have been conducted within the accounting literature focused on power of individual board members in the construction of accounting standards. For example, two studies examine IASB board member domination and find the board to be heavily comprised of, and dominated by, Anglo-Saxon educated members (Walton, 2009) and Anglo-American auditing professionals (Botzem, 2012). Further, in the U.S. environment, two recent studies investigate FASB board member characteristics (professional, personal and political) and link those to the nature of standards proposed (Allen & Ramanna, 2013) and the likelihood of dissenting votes (Jiang et al., 2014). Thus, while a stream of literature has begun to focus on the power/influence of standard setters in the process of developing standards, this paper focuses instead on meaning systems and rhetoric as sources of political force.

Reflecting on the role of meaning systems, Fogarty et al. (1994) identify ideology to be a second important view of political force in standard setting. Here, Laughlin & Puxty (1983) provided early insight into the ideological aspect by expanding the idea of interested parties into a framework of socially constructed world views of users and producers. In a more recent paper, Nolke and Perry (2007) denote the historical cost and fair value systems of measurement as constructing different economic realities which reflect sectoral interests in the production and financial sectors of the economy. In another example, Murphy et al. (2012) follow the evolution of the FASB

and IASBs conceptual frameworks as ‘living laws’ in terms of their consequences for two ideologies of financial reporting: user (i.e. investor) decision-making and stewardship. Other researchers have focused not on conflicts between ideologies but the seeming lack of conflict. In this sense, Young (1996) critiqued the “taken-for-granted” ideology of standard setting in denoting the process based on the presumption that the purpose of financial reporting is to provide investors with decision-useful information.

Finally, as meaning systems are often made manifest through language, Fogarty et al. (1994) prioritize the role of language and, more specifically, language exercised through rhetoric, as a third political force in standard-setting processes. Classical views of rhetoric denote it as influencing others through purely stylistic or ornamental effect (Suddaby & Greenwood, 2005; Green & Li, 2011); as in, “that’s just rhetoric” implying language that is all style, no substance. Accounting research has touched on this view of rhetoric in revealing, for example, that while the FASB speaks in a language that maintains the provision of information useful in making economic decisions as its primary objective, this emphasis is seemingly made with limited knowledge about the information needs and decision processes of actual financial statement users (Young, 2006). In a similar fashion, Ravenscroft and Williams (2009) challenge the decision-useful ideology as a foundation for standard setting referring to it as a metaphor for the ‘imaginary world of neoclassical economics’ which has resulted in the development of indefensible standards. Here, metaphor operates not merely as stylistic rhetoric but as a powerful force actively involved in the creation and dissemination of meaning in accounting (Walters-York, 1996; Walters & Young, 2008).

In this sense, classical views of rhetoric are augmented by views designating rhetoric as the way in which language and discourse, employed in the process of persuasion, construct our society and our knowledge of it (Suddaby & Greenwood, 2005; Green & Li, 2011). For example, Robson (1993) argued that actors’ conflicting interests in accounting debates are better demonstrated in terms of the discourse that actors employ in the debate (i.e. the meanings they give to concepts and the emphasis they place on those concepts), than through a taken-for-granted assertion of self-interested behavior. Rather than ornamental effect, rhetoric becomes more about

terminologies, language devices, and argumentation which constrains (enables) actors' thoughts in a particular discipline and with regards to a particular meaning system (Green & Li, 2011). For instance, Young (2003) argues that standard setters employ language devices such as categorization and silencing in attempt to persuade us not only that a particular standard-setting decision is "good" but also that the standard setter is "good". More recently, Young and Williams (2010) indicated standard-setting decisions to involve the selection from among different values and perspectives to be emphasized in supporting and justifying a "technical" decision. In both cases, standard setters set the boundaries within which debates over accounting standards take place; in essence, determining what constitutes a valid (valued) argument for or against any standard through the exercise of rhetorical mechanisms (Young & Williams, 2010).

In my view, rhetorical mechanisms have been understudied in the accounting literature as we still know relatively little about the way in which these mechanisms are employed by standard setters to construct and justify decisions. In particular, this paper asserts that the language surrounding standard-setting decisions needs to be assessed in a rhetorical/political light sensitive to the need for standard setters to justify such decisions to their projected audience. The next section addresses perspectives on this need to justify decisions by building on insights from Boltanski and Thévenot's ([1991], 2006) work *On Justification*.

2.2 Justification and the Role of Institutions

According to Rawls (1971), justification is argumentation addressed to those who may disagree with us (or to ourselves) when we are of competing minds. Extending this into accounting standard setting, Gaa (1988) distinguishes justification as argumentation provided for an accounting policy decision, as a basis for explaining that decision to interested parties. Inherent in that remains the notion that interested parties may disagree with standard setters, or be of competing minds, and thus standard setters must convince them of the merits of their decisions. This paper aims to delve further into the justificatory aspect of the standard-setting process by drawing on the work of Boltanski and Thévenot ([1991], 2006), *On Justification*. The authors' work considers the imperative to justify a salient feature of our world and promotes the process of

justification to the actors with whom we engage as well as to ourselves (Boltanski & Thévenot, 2006). In explaining the imperative to justify, B&T (2006) highlight how engagement involves the recognition that actors within our world often disagree and must be convinced of the appropriateness of the principles upon which our arguments are founded.

In providing an explanation for how disagreements can be overcome, B&T start with an assumption of pluralism based on the observation that justificatory accounts tend to be made in reference to a number of broad conceptions of the “common good” invoked in modern society (Cloutier & Langley, 2013). B&T (2006) chose classic works of political philosophy as illustrative of six different conceptions of the “common good” which provide the means by which we evaluate the appropriateness (“justness”), or worth, of actions and whereby agreement may be (re) established. The six conceptions, referred to as ‘orders of worth’, are distinguished as the following worlds: inspired, domestic, fame, civic, market, and industrial (Table 12).⁴⁴ Each of these worlds represents an institutionalized system of belief based on a (hypothetical) model of a good society which acts as a standard for determining what is worthy within that society (Annisette & Richardson, 2011; Annisette & Trivedi, 2012).

Briefly speaking, in the *inspired world*, what is most valued is that which is innovative and creative. The creative journey with its passion and spontaneity, moments of suffering and elation, is what life is all about. Actors in this world dream, imagine, take risks and “live”. In contrast, the *domestic world* values family in the symbolic sense and the tradition, loyalty and trustworthiness that it represents. Life in this world is about being part of the family unit and respecting where one comes from. Actors in the domestic world preserve, protect, nurture the family (symbolic or otherwise) to which they belong. In the *world of fame*, visibility, recognition, and influence are most valued. Actors in this world seek fame and popularity and any and all means of achieving it are legitimate as their worth is determined by others.

⁴⁴ Extensions of the original framework identified a *green world* (Lafaye and Thévenot, 1993) and a *projective city* (Boltanski & Chiapello ([1999]; 2005), however, I restrict my analysis to in the present paper to the six original worlds/cities as their empirical plausibility has been established to a greater extent.

The *civic world* values duty to the collective welfare most in the form of that which is official, representative, and free. A dutiful life in this world follows the motto of “all for one and one for all”. Actors in the civic world derive worth from being part of a collective which they join freely. In the *market world*, what is most valued is money and economic exchange. Life in this world is about profit and wealth with actors in this world deemed worthy if they know how to “win” in the market. Finally, the *industrial world* values efficiency and operationality in the productive sense. Scientific methods and reliable measures and statistics are critical to life in this world and support actors in their professional, expert, and efficiency seeking endeavors.

While B&Ts ‘orders of worth’ are in many ways similar to ‘institutional logics’ (Friedland & Alford, 1991; Thornton & Ocasio, 2008; Thornton et al., 2012), with both serving as core principles underscoring action, they are also distinct (Cloutier & Langley, 2013). For instance, the institutional logics framework often assumes that actors make sense of the world in a pre-determined way (i.e. are dictated by a dominant logic) (Cloutier & Langley, 2013). In contrast, the orders of worth framework assumes actors can draw from different orders and use them strategically when there is a disagreement over the appropriate course of action to follow (Annisette & Richardson, 2011). Therefore, rather than suggesting that a dominant form of ‘justness’ exists, B&T instead suggest that there are multiple ways in which particular actions can be deemed just, and disagreements resolved, by reference to the six ‘orders of worth’ (Boltanski & Thévenot, 2006). In this sense, the orders become resources which actors have the flexibility to mobilize not only by using the same higher order principle to justify one position or its opposite but also by shifting from one world of justification to another depending on the situation (Patriotta et al., 2011; Ramirez, 2013). In either case, actors do so by critically assessing modes of evaluation within other orders and drawing on elements from select worlds to argue why that perspective should apply in a given situation (Cloutier & Langley, 2013).

For instance, Patriotta et al. (2011) study how different orders of worth were mobilized to legitimize action as controversy over a nuclear accident evolved from defense of nuclear energy as a less costly source (market order), to finding a solution to

the problem of energy (civic order), to ultimately to recasting nuclear energy as a trustworthy exemplar (domestic order). Annisette & Trevedi, (2012), on the other hand, employed B&Ts framework in the identification and characterization of justificatory discourse around debates over the entry of “foreigners” into the Canadian accounting profession, showing how domestic, industrial and market orders came into play in the evolving identity and legitimacy of immigrant accountants. Finally, Ramirez (2013) finds that in a situation in which actors can freely express themselves, legitimacy (of the actors) may be jeopardized if the actors cannot reach agreement on relative worth.

In summary, B&T’s work acknowledges the existence of a plurality of meaning systems, ‘orders of worth’; it recognizes the flexibility of actors as able to mobilize these orders of worth for the purpose of reaching agreement on appropriate courses of action; and it specifies the process whereby those courses of action are justified (through reference to orders of worth) in the public arena. The remainder of this paper will draw on the above ideas to examine in detail the dynamics involved in justifying controversial accounting standard-setting decisions surrounding the debate over fair value measurement in revenue recognition. I, first, explore how actors mobilize orders of worth, justify their positions in the public arena, and seek compromise among competing meaning systems in this particular empirical context. Second, I reveal the role of rhetorical mechanisms in the process by which standard setters construct what’s “just”.

3 Why this Justification Process?

Central to the dynamics of financial accounting is the historical role of measurement conventions. Debates over measurement conventions have played out to varying degrees in the Anglo-American environment⁴⁵ for over a century both in standard setting and in practice. The purpose of this section is not to review a long, comprehensive history of measurement techniques but to roughly establish the debates. The focus here is on fair value accounting (FVA) and its primary antagonist historical cost accounting (HCA)⁴⁶ and depicting the ebbs and flows of these two models in the

⁴⁵ This section develops the history accounting valuation from an Anglo-American perspective under the view that international standard-setting, which is the subject of this paper, has been heavily influenced by Anglo-American economic and political forces (Botzem & Quack, 2006).

⁴⁶ As in Power (2010), I recognize that other measurement techniques exist and that arguments against fair

regulatory framework. The historical perspective is presented mainly as background reflecting the increased prominence of FVA in the contemporary period and building the case for studying a standard setting decision that seemingly deviates from this trend.

Up until the 20th century, while companies were required to publish accounts, they faced virtually no U.S. or U.K. regulations governing the practice of doing so (Moehrle & Reynolds-Moehrle, 2011; Napier, 2010). After the 1929 market crash and ensuing depression, however, a common belief cropped up linking these economic tragedies to accounting practices. As a result, the U.K. Companies Act of 1929 (U.K. Act) and the U.S. Securities and Exchange Commission (SEC) and related Acts of 1933 and 1934 arose out of the crisis and with them compulsory regulations governing accounting by listed companies in the U.K. and U.S. setting. While neither of these regulations pushed for particular measurement techniques (Georgiou & Jack, 2011), with the increasing size and complexity of business, HCA was accepted as a practical expedient rather than on theoretical grounds in the U.K. (Chambers, 1995) and highly encouraged by regulatory actors in the U.S. (Zeff 1972, 1999).

Even with evidence that historical cost valuation was effectively the default position for most firms, the concept of ‘reflecting the business’, with its link to current or market value, was also present (Chambers, 1994). Inflationary pressures in the decades following the crash would see debates over HCA-based methods heat up, with arguments from academics, practitioners and professionals alike touting the lack of economic reality reflected by HCA-based accounts (Georgiou & Jack, 2011). In the U.K., the Companies Act of 1948 was put in place to address this by calling on companies to file financial information showing a ‘true and fair view’⁴⁷. The notion of economic reality inherent in the true and fair view, with its undertones of FVA, would gain acceptance over the next two decades in the U.K. and the U.S. but not without resistance.

value do not automatically translate into arguments for historical cost accounting and vice versa.

⁴⁷ The true and fair concept, as referred to in this paper, can be understood as the recognition, measurement, presentation and disclosure of financial information in a way that reflects economic reality, or in other words a full and accurate depiction of the activities of a business enterprise.

In the U.S., discord on accounting issues including the HCA and FVA debate led to a 1958 study which advocated the use of current values in the measure of both inventory and fixed assets (Sprouse & Moonitz, 1962). However, the U.S. standard-setting body issued a statement in which it discarded the study as “too radically different from present generally accepted accounting principles for acceptance at this time” (APB, 1962). While the study was used as an instrument for rationalizing the status quo, it also was a precursor to changing perspectives on accounting evident during the period. For example, the U.S. academic community issued a publication in 1966 focused on redirecting financial information towards aiding the users of such information in predicting future earnings; concluding that financial reporting should display information drawn from both the HCA and FVA models (Zeff, 1999). In the U.K., changing perspectives were evident in the work of Edwards and Bell (1961), Chambers (1966) and Sterling (1970) touting alternative valuation systems - replacement cost, net realizable value, and current exit value, respectively - each representing differentiated versions of FVA and revealing the period’s focus on ‘information usefulness’.

Thus, the 1970s commenced with evidence of a growing predilection towards “decision-useful information” that better depicted economic reality; however, whether that meant information produced under a fair value model or otherwise remained open to debate. Regardless, after 40 years of relative resistance to or at least indifference towards valuation techniques other than HCA, it seemed a changing of the guard was underway (Zeff, 2007). Responsibility for this change would even fall to new guards with the 1970 creation of the Accounting Standards Committee (ASC)⁴⁸ in the U.K. and the 1973 creation of the FASB in the U.S.⁴⁹. Guiding the FASB in this endeavor was a report of the accounting profession supporting the decision-useful approach as the objective of financial information which concluded that “financial statements cannot be best served by the exclusive use of a single valuation basis” (AICPA, Trueblood Report, *Objectives*

⁴⁸ Originally the Accounting Standards Steering Committee renamed the ASC in 1976.

⁴⁹ While the ASC would later be overhauled again due to its perceived lack of independence, inadequate process of public consultation, and lack of authority, the FASB was established as a full-time, independent accounting standard-setting body with a formal due process procedure to which the SEC deferred the establishment of accounting standards and principles. For specifics on the relationship between the U.S. SEC and the FASB, refer to the commentary published by Zeff (2010).

of Financial Statements, 1974), thus preserving a mixed measurement approach and setting the stage for valuation debates that continue to this day.

From the 1970s onward, the importance of a series of events in the world economic and political landscape in further loosening the embrace of HCA cannot be downplayed. For example, the prospect (and reality) of double digit inflation throughout the late 1960s and 1970s resulted in the requirement to restate historic cost figures at current replacement cost through supplementary disclosures in the U.S. (Zeff, 2007) and, similarly, in the U.K (Tweedie & Whittington, 1984). The U.K. went one step further introducing ‘alternative valuation rules’ in the Company Act of 1981 allowing a variety of valuation bases and, departing from the long-standing U.S. mentality, permitting upward valuations to allow assets to be valued at greater than historic cost (Georgiou & Jack, 2011).

However, the speed at which current value information was accepted into U.S. accounts was much slower, with the FASBs attempts to push through current value accounting for oil and gas reserves (SFAS 69, 1982) as well as for troubled-debt restructuring (SFAS 15, 1977) hindered by the lobbying efforts of the oil and gas and banking industries, respectively. In the case of SFAS 15, the FASBs decision not to require the write-down or recognition of losses after debt restructuring allowed banks to maintain loans at their historical cost despite being worth much less, thereby avoiding losses on bad loans and upholding the appearance of solvency (Georgiou and Jack, 2011). This practice is considered to have prolonged and deepened the mid-1980s crisis faced by banks and savings and loan institutions and led to a revision of standards which injected fair value into the accounting for the impairment of loans (SFAS 114, 1993).

From the early 1990s, U.S. standard setters would issue a series of standards expanding fair value requirements in the valuation of financial assets and liabilities beginning with a standard requiring the disclosure of the fair value of financial instruments (SFAS 107, 1991). Two years later, the FASB required certain debt and equity securities be carried at fair value in the balance sheet and changes in fair value to be recognized (SFAS 115, 1993). This requirement was augmented in 1998, when the FASB adopted a standard that required derivatives to be measured at fair value (SFAS

133, 1998). Further, when the FASB initially proposed a standard on accounting for employee stock options that involved estimating the fair value of stock options (SFAS 123, 1995), firms had the choice of reporting fair value by footnote disclosure; however, this decision was overturned and companies required to record fair value in their financial statements in the wake of Enron and other reporting debacles 10 years later (SFAS 123R, 2005).

By the early 2000s, several standards on accounting for non-financial assets also referred to fair value. For instance, standards on goodwill and other intangibles (SFAS 142) and long-lived assets (SFAS 144) were issued in 2001 providing guidance for the recognition and measurement of asset impairment. In 2006, the FASB issued a standard, SFAS No. 157, *Fair Value Measurements*, which provided a definition of fair value, established a framework for developing fair value estimates, and required expanded disclosures about those estimates. In that standard, the FASB defines fair value as: “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (SFAS 157, 2006). However, SFAS 157 does not prescribe any particular accounting treatment or require FVA so much as specify how fair value is to be determined when required by another standard. SFAS 157 was supplemented by SFAS 159 *Fair Value Option* which attempts to clarify the financial assets and liabilities that firms may measure at fair value and the disclosures they are required to make (SFAS 159, 2007). In that same year the standard issued on business combinations (SFAS 141(R), 2007) required the use of fair value to record assets and liabilities acquired and represented the first standard-setting initiative undertaken jointly by the FASB and the IASB in effort to curb differences between U.S. GAAP and IFRS.

The use of fair value accounting in IFRS⁵⁰ has developed along similar lines to the U.S.. Under IAS/IFRS, the term 'fair value' was first used in 1982 in issuing IAS 16 *Accounting for Property, Plant and Equipment*. Within the next five years, reference to

⁵⁰ The European Commission formally made international accounting standards (IFRS) the only acceptable accounting standards for European listings in 2002 (EC Regulation 1606/2002), therefore the discussion diverts from the previous section to focus on the development of fair value in IFRS in recognition that IFRS are often acknowledged to be closely aligned to U.K. accounting.

fair value was also made within standards on leases (IAS 17), revenue recognition (IAS 18), government grants and assistance (IAS 20), business combinations (IAS 22, later IFRS 3, 2008) and investments (IAS 25, later IAS 39, 2004 and IAS 40, 2004). In more recent years, the use of fair value was extended through standards on impairment of assets (IAS 36, 2004), intangible assets (IAS 38, 2004), share-based payments (IFRS 2, 2004) and the financial instruments project which has produced standards on financial instruments in a staged approach which come under one umbrella with the completion of IFRS 9.

Until recently, IAS/IFRS did not contain comprehensive guidance on fair value, but rather dealt with it on a standard-by-standard basis which may have impacted the perspective that IFRS is more or less fair value oriented than U.S. GAAP. With the issue of IFRS 13 (2012), the IASB standard on fair value measurement, the FASB and IASB definitions of fair value and frameworks for determining fair values are aligned capping a decade of increasing use of fair value in IASB, as well as FASB, standard setting. Yet if we look to contemporary standard-setting efforts the magnitude of this trend is less clear as, in this case, attempts to promulgate fair value in revenue recognition have not been successful. This study aims to uncover the standard-setters' process of justifying their selection between measurement conventions for revenue recognition during a project in which the standard setters developed and debated a fair value model before ultimately conceding a non-fair value based approach.

4 Research Strategy & Methods

This study represents an effort to understand a single case of the standard-setters' process of justifying a decision on a hotly contested issue to their public audience. In effort to understand the standard-setters' process of justification, this case follows the evolution of debates from their initiation through the point the standard-setting decision was taken. The case study method is useful in investigating accounting standard-setting processes as they represent complex and dynamic phenomena with many elements; refer to practices that may be extra-ordinary, unusual or infrequent; and are phenomena in which the context is crucial because it affects the phenomenon being studied (Cooper & Morgan, 2008). The process by which standard setters legitimate and justify their

policy-making decisions encompasses many of these characteristics and therefore lends itself to case analysis. In analyzing this case, the method employed is primarily a study of archival documents in the form of a proposal containing the policy decision under study issued by the standard setters as well as detailed proceedings of standard-setting minutes. These archival documents are also supplemented by a number of semi-structured interviews with key actors.

4.1 Case Selection: Identifying an Accounting Dispute

This study of justification focuses on a dispute that took place in the global standard setting environment regarding an appropriate valuation technique, or model, for the measurement of revenue. Several reasons have motivated the choice of studying this dispute. First, the project on revenue is one of four critical projects of the FASB and IASB which has been under joint consideration for a period of 10 years. This project was identified as addressing major differences between current FASB and IASB revenue standards. As such, it involves controversial accounting issues with no clear or easy answer which are expected to exacerbate the dispute and complicate the development of a standard. Second, the nature of revenue as having universal significance to financial reporting was expected to generate a wealth and diversity of interest in the project and manifest additional tensions between arguments surrounding different possible approaches to revenue. Finally, the main dispute examined here – over the revenue measurement model – involved a debate over the merits of two competing measurement systems that has been on-going in the standard-setting field for nearly a century and intensified in the last two decades. Here, dispute is likely to arise because alternative measurement techniques for revenue have different consequences for various actors. This combination provides a unique opportunity to gain insights into the FASB and IASBs process of justification both during the debate as well as once a decision has been taken.

4.2 Research Design

To understand the role of justification in the process of accounting standard-setting, we explore the interplay among the ‘orders of worth’ and relevant actors during a dispute that revolved around the selection of revenue measurement model in the FASB

and IASBs project to develop a standard on revenue recognition. This project has been underway since 2002; the year in which the FASB and the IASB formally agreed to work together bringing revenue recognition under joint standard-setting consideration. The period of study thus begins in 2002 and extends to 2008 which represents the year the FASB and IASB issued a public document⁵¹ indicating their preference towards a particular measurement model for revenue. At this point, FASB-IASB efforts continue towards completion and issuance of a final revenue standard; however, the measurement model selected by the boards remains (largely) unchanged.

The main data sources used are standard setting documents, press releases and publications issued by the FASB and IASB on revenue and other related standards, and the proceedings of 67 board meetings specifically discussing revenue (Table 7). The board minutes consist of separate board deliberations of the FASB (26) and the IASB (33) as well as joint (8) board deliberations when the boards met together compiled by the respective staffs of each board. In addition, we consulted proceedings of IASB and joint meetings prepared by IFRS Monitor⁵², a subscriber-based electronic service which reports on international accounting standard setting. Although these data sources provided a window on the dispute under investigation, they may carry important limitations as data sources because the information reported could have been strategically manipulated through processes such as editing and filtering. I cross-checked the minutes compiled by FASB against those of the IASB and those compiled by IFRS Monitor on similar subject matter and believe this affords valuable insight as to the completeness of information reported and on editing processes undertaken by the boards. Finally, this data was supplemented by 11 of interviews with key informants (Table 8) with the interview data used both in aiding the initial analysis as well as confirming the results (see Appendix 3 for interview instrument).

⁵¹ The discussion paper provides the public with a view of the issue being addressed, possible approaches to the issue, and the standard setters' initial preferences in order to solicit early input on major, new topics.

⁵² IFRS Monitor is compiled by technical reporters who attend the meetings of the IASB as observers and provide subscribers with detailed analysis of the proceedings. Peter Walton, ESSEC Professor & Co-Chair Financial Reporting KPMG, is Managing Editor of this service and agreed to provide access to historical reports.

4.3 Data Collection & Analysis

An initial understanding of the project was obtained through high level review of press releases and summaries of the agenda paper and discussion paper issued in relation to the revenue project. This understanding allowed for an overview of the case to be gleaned and the tension between two alternative measurement approaches to revenue to be identified. After the high level review, a second reading was undertaken. In this reading, a key event was isolated– the decision taken by the boards in identifying one measurement model as more appropriate than another. In addition, I distinguished the justifications presented for this decision, including claims made about the two alternative models, reasoning and evidence provided to support these claims. At the same time, I took note of any objections or questions the standard setters had defended their claims against and the argumentation for such defense.

As the primary interest is in the discourse of justification, I used the proceedings of board meetings to study the evolution of the standard-setters deliberations on the measurement of revenue over time in order to bring out the debates occurring between the two alternatives under consideration and eventually to understand the link between the deliberations taking place in the background and the justification given in the foreground. Detailed analysis was performed on board meeting minutes following Miles and Huberman (1994) and Yin (1994), where I first arranged each set of board meetings (FASB, IASB, and joint) into chronological account and then identified and labeled significant themes and concepts within each account. I employed a comparative study of accounts checking for similarities and differences in the themes and concepts and overall consistency in terms of the nature and timing of discussions. Later, I combined the accounts into one comprehensive chronological dataset and then reorganized this dataset on the basis of themes and concepts in order to analyze how different concepts had evolved over time. The themes and concepts arising from the study of the meeting minutes were then analyzed against the justifications given in the discussion paper leading to a critical assessment of the standard-setters' justification process. This critical assessment was guided by the previously introduced 'orders of work' framework of Boltanski and Thevenot ([1991], 2006).

5 How Orders of Worth Shaped Accounting Standard Setting

This section aims to present the changing dynamics of the revenue recognition project. First, I set the stage for the debate over the measurement of revenue by briefly presenting how revenue came to be considered problematic and what solutions were proposed. Then I divide the analysis into distinct stages linking the rationales provided within each stage to orders of worth over the 2002 to 2008 period.

5.1 A Test of Worth: Measurement of Revenue

In January 2002, the FASB broached the subject of a major project towards a comprehensive accounting standard on revenue. They did so by issuing a proposal for public comment on the addition of revenue to their standard setting agenda. In this proposal, the FASB indicated the primary reason for taking on a revision to revenue as “elimination of the perceived incompatibilities between existing broad conceptual guidance and detailed authoritative literature” (FASB, 2002). On the one hand, the FASB pointed to conflicting definitions of and criteria for revenues contained within its conceptual guidance. For example, FASB Concepts Statement No. 6 – *Elements of Financial Statements* - defines revenues in terms of changes in assets and liabilities. However, another definition of revenue is contained in FASB Concepts Statement No. 5 – *Recognition and Measurement* - with its focus not on changes in assets and liabilities, but rather on the culmination of an ‘earnings process’.

On the other hand, the FASB pointed to a mass of revenue recognition literature, comprising detailed guidance applicable to particular transactions or industries, and having different degrees of authority within the U.S. GAAP hierarchy. In combination, these factors were identified as having the potential to produce differences in practice thereby affecting the comparability of revenues across firms and industries. In putting forth these issues, the FASB insinuated that U.S. rules were in some way “broken”, supported by reference to accounting scandals in which firms had manipulated revenues. By June 2002, the FASB added a project to its agenda to develop a comprehensive standard on revenue. Not long after, in September 2002, the FASB and IASB formally agreed to work together to eliminate differences in their respective standards, including the standards on revenue (FASB & IASB, 2002).

On the IASB side, two international standards (IAS) and a limited number of interpretations guide revenue. Both revenue standards were developed in the early 1980s and are among the most ancient standards despite later revisions as part of an IAS improvements project. The two standards were identified for revision by the IASB in 2001 in consideration of their age, their relevance to the current business environment and their comprehensiveness; however, revenue had never been formally added to the IASB agenda. Through the agreement with the FASB, revenue became an IASB agenda project without having solicited input from constituents. Whereas “U.S. rules are broken” had encouraged the addition of a revenue standard to the FASB agenda, this had to be recast in light of the boards’ joint work. In doing so, the primary objective of the project on revenue became (re) developing conceptual guidance for revenue in conjunction with a comprehensive standard based on concepts and principles that fit transactions, business models and institutional settings world over.

The standard setters planned for the project to be conducted in two stages pursued simultaneously. One stage involved developing conceptual guidance pertaining to recognition and measurement concepts that would form the basis for a comprehensive standard. The other stage involved building an inventory of revenue models existing in current guidance as well as models widely regarded as acceptable in practice. The inventory would serve as a baseline against which conceptual guidance for a comprehensive standard on revenue could be tested. The development of the concepts underlying revenue were approached from the perspective of changes in assets and liabilities; however, after spending some time on the definitions of and criteria for revenues/gains and assets/liabilities, the boards ultimately concluded that refining global conceptual definitions and criteria was not within the scope of the project. At that point, they refocused their work on developing and considering the criteria for when and how contract revenues would be recognized and measured within the existing conceptual framework.

One of the major topics of discussion from the earliest phase of developing the standard involved the convention for measuring revenue. The discussion over revenue measurement became one of the most hotly contested and controversial subjects debated

by the two boards. Content analysis of documents revealed two intertwined and evolving sub-debates over measurement at fair value and at transaction price (i.e. historical cost). These sub-debates are used as a template for presenting the standard-setters' deliberations throughout the period of development and reflect the main orders of worth shaping the debate on revenue measurement.

5.2 Fair Value: The Origins of the Market Order Debate

Based on early interactions, the standard setters supported an approach that would measure revenue, in terms of contract assets and contract liabilities, at fair value. The combination of a conceptual reorientation towards measurement of contract assets and liabilities and the use of fair value that accompanied this reorientation represent a major change to current accounting for revenue in both the U.S. and international sphere. Recognizing this, the boards spent their first two years in discussion over the merits of this reorientation and in consideration of how the proposed approach would translate into practice. Arguments supporting this approach were primarily framed within the market order with undertones of the inspired and civic worlds.

According to B&T (2006), the ordering of the market world is based on the efficiency of markets, including competition, rivalry and the capacity to satisfy self-interest and preferences. The market order values the worth of objects (goods and services) and wealth/success of beings (customers and suppliers) evidenced by the relevance of monetary value, prices and payback (Boltanski & Thévenot, 2006). In contrast, a state of unworthiness refers to situations of loss, stagnation or failure. The reflection of market order in the measurement of revenue revolves around such questions as: What measure is competitive (relative to the market)? Is the measure relevant ('free' exchange of goods/services)? How well does the measure reflect market value?

Based on the boards' joint meetings in 2002 and 2003, the standard setters seemingly agreed that fair value was an efficient, relevant and economically faithful measurement attribute. For instance, I observed comments on how

“the benchmark becomes the market value of an obligation satisfied by the most efficient supplier, you make a performance profit or loss depending on how efficient or inefficient you are relative to the market.” (Joint, 2004)

In this case, the “efficiency” that is being referred to is not productive efficiency but market efficiency where a firm’s worth is assessed against the performance of its competitors. The statement also highlights the unworthiness of market inefficiency and loss. Another mobilization of the market order was made through reference to the fair value approach as “more representationally (economically) faithful” (FASB, 2003) in the sense that

“revenue should focus on the economics of transactions rather than aim to produce smooth results (unless that is truly the economic result of the transaction).” (FASB, 2003)

This statement reflects the element of the market order that evaluates freely-moving, short-term exchange (changes in value) as relevant as opposed to the planned, longer-term reliability focus of the industrial order.

While proponents of fair value primarily mobilized elements of the market world to convey their support for fair value as a measurement convention, more subtle references to the inspired and civic worlds were also evident. In particular, standard setters mobilized elements of the inspired world in its evaluation of innovative and revolutionary action and elements of the civic world through the standard-setters’ role as “officials” acting in the interest of citizens of the free market. For instance, the standard setters considered their work new and path-breaking as in

“if they were going to create a new model, they were going to have to get rid of 30 years of preconceptions over firm performance to which another board member added that, in his case, he had 60 years of prejudices to overcome.” (IASB, 2002)

Further, the boards furnished explanations based on the approach being “conceptually superior to an earnings process approach” (FASB, 2003), meaning that which is produced under the application of existing revenue standards was unworthy as it did not meet the visionary worth of the inspired world. Additionally, market arguments were supported by reference to the standard-setters official role in developing (fair value in) other standard setting projects. Here, the boards indicated that fair value estimates would be “formed within the boundaries of the fair value hierarchy developed

in the Fair Value Measurement Project⁵³” and cited other recent guidance requiring the use of fair value estimates. Such references were used to imply that assertions not based on fair value were not fit (i.e. unworthy) for consideration in standard setting at the time.

However, any initial consensus on the subject started to disintegrate by the October 2004 board meeting during which the boards expressed that certain questions had arisen within the Fair Value Measurement project regarding the fair value approach. These questions were derived in large part from concerns about the reliability of fair value measures and operational issues in the complexity of determining those measures and about the pattern of revenue recognition under the fair value approach. Thus, throughout the course of a year support for the fair value model had eroded to the point where a change in the project’s course was inevitable.

5.3 Transaction Price: Relocating the Debate in the Industrial Order

By late 2004, board deliberations on the fair value approach reached a stalemate and the standard setters agreed to explore an alternative approach where contract liabilities would be measured by allocating the total transaction price based on the relative standalone selling price of each separately identifiable component rather than measured at fair value. While both approaches require the identification of assets and liabilities, they differ critically in terms of how the liabilities are measured at contract inception (and thereafter) and in terms of the potential impact the measurement approach has on the timing and amount of revenue. Arguments supporting the transaction price approach were largely steeped in the language of the industrial order with traces of the domestic order and the civic order.

B&T (2006) denote the ordering of the industrial world is based on the technical efficiency or performance of objects (tools and resources) and beings (professionals and experts), their productivity, and their capacity to ensure normal operations and to

⁵³ The Fair Value Measurement Project was initiated by the FASB who produced SFAS 157 *Fair Value Measurements* in September 2006. In the IASB environment, a project on Fair Value Measurement was added to the IASB agenda in September 2005 and became a convergence project under which the FASB standard was emulated to produce IFRS 13 in May 2011. Both standards define fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (SFAS 157: p2; IFRS 13: p9)

respond usefully to needs. The state of worthiness corresponds to a situation where beings are effective, functional, reliable, controllable and operational (Boltanski & Thévenot, 2006). By contrast, the state of unworthiness refers to situations where productivity is no longer ensured, creating potential incidents, risks or random events that challenge organizational efficiency. The industrial debate over revenue measurement revolves around such questions as: What measure is operational? How reliable is the measure? Can the measure be controlled?

The transaction price approach was first developed and presented during the period from about mid 2005 through mid 2006. Based on board meetings during this period, proponents developed counter-claims to the merits of fair value asserting that transaction price was an operational, reliable and verifiable measurement attribute. For example, I observed claims that

“[the transaction price] is the amount that was agreed between the supplier and customer, which was entity-specific and contract-specific and therefore an inherently reliable measure since it represents the value of the transaction to the parties involved and not the market’s judgment of that value.” (IASB, 2005)

This shows assignment of worth to productive efficiency where a firm is assessed against its own internal, entity- and contract-specific, reference as opposed to benchmarked against the outside market. The statement also highlights the unworthiness of “value judgments” as opposed to “measurable facts” which imply little risk or randomness. Another mobilization of the industrial order was made through the idea that, under the transaction price approach, “information necessary to determine it should be readily available” (FASB, 2005). This statement reflects elements of the industrial order that evaluate operationality and measurability, based on readily available information with which to measure, as relevant as opposed to the valuation aspect of the market order, positioned as requiring estimates due to unavailable information.

Proponents of the transaction price approach chiefly mobilized elements of the industrial world in transmitting their support for this particular approach to measuring revenue, yet domestic and civic values were also detected, with the civic world mobilized in a different manner relative to the ‘civic’ fair value arguments. More specifically, standard setters activated the domestic world in their evaluation of the

worth of tradition and convention (in the sense of custom and practice) in preserving trustworthiness. For instance, they provided arguments based on the approach being “easier to put into practice” and “more understandable” relative to fair value measurement. Further, relative to the civic world, standard setters called up their role as officials acting as professionals and experts in determining the “public interest” through reference to their constituents. Here, they noted that the transaction price approach:

“is explainable to constituents because it references the amount that would be received from a customer in the transaction. The approach also alleviates some of the difficulty associated with fair value.” (FASB, 2005)

Additionally, the boards claimed “the fair value approach lacked the support of auditors, preparers, users and regulators alike”. These statements imply that any assertions not based on transaction price were outside of (or not worthy for) consideration in the standard.

However, in deliberations on the transaction price approach, the boards understood that many of the issues inherent to the fair value approach were also issues under the transaction price approach and the two approaches needed to be further distinguished in order for the boards to reach consensus on one or the other. Therefore, the question of which approach would win out would remain open until the models had been developed thoroughly enough and presented clearly enough for the boards to take a preliminary view. Thus, in October 2006, the boards designated their technical staff and two small groups of advisors drawn from both boards to complete the development of each approach, a task which would take one full year.

5.4 Fair Value and Transaction Price: The Market vs Industrial Debate Escalates

The market and industrial sub-debates generated a broader dispute during the standard-setting deliberations which took place from late 2007 and into mid-2008 when a decision was ultimately taken. The decision taken within the discussion paper (DP) is prefaced by presenting competing views on the fair value and transaction price conventions according to the board member’s overall attitudes towards the two conventions. Opponents and proponents of each convention may have adopted different combinations of justification over time; however, I focus on the extreme positions on the measurement of revenue as opposed to those positions that are shifting or unclear.

Although such a dichotomy oversimplifies the description of the dispute, it enables appreciation of how the meaning systems to which the board members subscribed affected the dynamics of justification at an overall level.

The board members supporting the fair value convention and opposing the original transaction price approach relied to a greater extent on the market order of worth than did their contenders in the dispute. The market order continued to be reflected in the discourse by arguments which referred to revenue as a measure of an entity's performance relative to external evidence by comparison to a third-party and why this made conceptual sense. This discourse also highlighted the importance of timely, up-to-date remeasurement of changes in that performance consistent with the short-term time horizon of the market world. On the other hand, the board members opposing fair value measurement and supporting the original transaction price approach relied much more frequently on the industrial order of worth. The industrial order was consistently reflected in the discourse by arguments referring to revenue as a measure of an entity's performance relative to internal evidence based on the direct relationship between the entity and its customer. Here, the discourse focused on anchoring the measurement of performance in a historical figure consistent with the longer-term horizon of the industrial world.

In December 2008, seven years after the revenue recognition project had been initiated; the boards issued a public document for comment. Early chapters introduced problems that had been identified with GAAP and IFRS revenue recognition standards, proposed a solution to those problems in the form of a conceptual model focused on assets (rights) and liabilities (obligations), and defined concepts underlying the conceptual model being proposed. Later chapters specified how obligations are identified, how those obligations are satisfied and the basis on which those obligations are (re) measured. The chapter covering the basis on which performance obligations are (re) measured presented what was by then labeled the current exit price approach (fair value) and the original transaction price approach and indicated the Boards' preference for the original transaction price model over the current exit price model. The two primary models are summarized in Table 11.

This preliminary analysis of the case highlighted that the boards' discourse shifted between rationales over the period of deliberation. First, we see the use of the market rationale from 2002 through 2004. Second, there was a marked turn towards the industrial rationale from 2005 to 2006. Third, there was the period from 2007 to 2008 during which the two rationales were further refined and debated and a decision taken. The second part of the case analysis addresses the importance of justification in the standard-setters' decision-making process by looking at how the standard setters constructed support for these rationales.

6 How Standard Setters Constructed their Justifications

Building on the previous discussion, I analyze the decision taken by the standard setters in the measurement of revenue and the justifications provided by the standard setters for that decision. The board presented two primary rationales for rejecting (accepting) the fair value (transaction price) approach which revolved around the pattern of revenue recognized and the complexity (simplicity) of measuring performance obligations under each approach. They also identified the risk of measurement error associated with the fair value approach as a third reason for its rejection; however, I view this as being intertwined with the other rationales and therefore have presented it as such. I focus on the justifications presented for opposing the fair value convention and promoting the transaction price convention and consider overall patterns in the justifications put forth for the standard-setters' decision while revisiting the links between these justifications and orders of worth.

6.1 Pattern of Recognition

The pattern of revenue recognition, while largely a question of the timing of when revenue is recorded, is driven by the measurement convention. The boards explained their views on the pattern of revenue recognition in consideration of several points at which revenue could be recognized: at the inception of a contract and, subsequently, when obligations are satisfied or remain outstanding at the financial statement date.

In terms of revenue recognition at contract inception, the DP highlighted that, under the fair value approach, the possibility existed for revenue or loss to be recorded at the inception of the contract, indicating that “in most cases, it would result in the recognition of revenue” (DP, 2008; Section 5.18). Such revenue was considered to arise from pre-contracting benefits and costs (loss) associated with the entity obtaining the customer and the contract over its competitors. The notion of revenue at contract inception can be understood as follows:

“If you think conceptually about the total revenue and margin in a sale with a customer, there is a fulfillment margin, derived from delivering goods and services, and a selling margin so you why shouldn’t you be able to recognize the selling margin portion when you complete the sale and the fulfillment margin as you satisfy your obligations.” (Interview #13)

Proponents of fair value believed recognizing revenue in this manner would produce a more decision-useful measure of revenue from both pre-contract activities to secure the customer and obligations to transfer promised goods/services. Thus, modes of evaluation in this line of thinking spoke both to economic faithfulness in market exchange as well as, and perhaps even more so, to the inspired world in its appreciation of the ability of actors as visionaries of a new, and revolutionary, way of accounting for revenue by thinking about revenue in a different way.

Fair value opponents, on the other hand, did not subscribe to the notion that pre-contract, or selling, activities represent a part of revenue under the contract. Rather, the transaction price approach would focus only “revenue recognized when an entity transfers an asset [goods or services] to the customer” (DP, 2008; Section 5.28) and not on any benefits/costs related to an entity’s activities to obtain a contract. Under the transaction price approach, contract assets and contract liabilities would be equivalent on contract initiation, by design, so that no revenue (loss) would be recorded on the basis of entering into a contract. Thus, this thought pattern addressed primarily the domestic world with its admiration of the ability of actors, as trust-keepers of convention and custom, to defend the way we currently think about revenue as well as to the reliability valued by the industrial world. However, as the defense acknowledged, even the trustworthy and reliable transaction price can sometimes misrepresent the entity’s obligation to transfer goods and services to a customer. For example, the transaction price typically:

“over-states an entity’s performance obligations at contract inception since the costs and margins associated with obtaining the contract will be included in the transaction price and allocated to identifiable performance obligations on a relative basis”. (DP, 2008; Section 5.35)

Despite this, the DP aired on the side of reliability of the industrial order and the tradition of the domestic order with the standard setters concluding that they were:

“uncomfortable with an approach that allows an entity to recognize revenue before the entity transfers to the customer any of the goods and services that are promised in the contract (as is the case under the fair value measurement approach)”. (DP, 2008; Section 5.20)

Further, the possibility of revenue (loss) on contract initiation was indicated to create a practical issue stemming from a concern that entities would have (and take) the opportunity to underestimate their performance obligations in order to recognize even more revenue upfront. This possibility, referred to as ‘risk of error’, was seen as resulting from the following:

“If an entity fails to identify a performance obligation at contract inception (i.e. misidentification), then that error would result in an entity recognizing too much revenue at contract inception.” [Furthermore,] “if the entity understates (overstates) the measurement of a performance obligation (i.e. mismeasurement), then that error would also be included in profit (or loss) at contract inception.” (DP, 2008; Section 5.23)

The transaction price approach, on the other hand, was seen to “reduce the risks of recognizing revenue at contract inception as a result of error” (DP, 2008; Section 5.33), basically by preventing revenue at contract inception from being recognized at all. These arguments call to mind the civic world through indirect reference to standard-setters’ role as officials having a duty to protect the rights and welfare of the collective interest from harm. As interpreted here, the

“[boards] didn’t like the Day 1 profit and backed off the idea just as they’ve done in virtually every case except IAS 39 [financial instruments], stepped back because of difficulty in measuring fair value for each component and because profit could be manipulated up front. That’s where fair value hits the buffers of prudent accounting and they thought they would have created a massive abuse opportunity.” (Interview #12)

What was downplayed in the DP, however, was how risk of error under the transaction price approach would also potentially impact revenue in a similar way. While the approach would prevent revenue from being recognized on contract initiation, the opportunity to under/over-estimate or even neglect the measure of separate performance obligations would not be prevented. Therefore, the ability to distort the

timing of reported revenue was present in both models; however, the opportunities for distortion were different. Regardless, the DP concluded that standard setters were:

“concerned with a [fair value] approach because it might be difficult for an entity to establish whether revenue recognized at contract inception is the result of error rather than from an increase in net contract position.” (DP, 2008; Section 5.24)

The standard setters also explained their views on the possibility for re-measurement of performance obligations when satisfied and/or when unsatisfied at each reporting date. Considerations involved how re-measurement would impact reported revenue and where and how this impact would be reported. The main apprehension arose around the idea that a fluctuation in the fair value of performance obligations since initial measurement could create volatility in an entity’s reported revenue. Where the volatility arising from changes in the value of obligations are considered worthy under the short-term horizon and free-moving characteristic of the market order, the boards’ countered that view instead arguing that

“an approach that explicitly measures performance obligations at each financial statement date is unnecessarily complex for most contracts with customers. In most contracts with customers, the most significant change in an entity’s performance obligations arises from the transfer of goods and services to the customer to satisfy those obligations. Changes for other reasons are not significant in most contracts with customers. That is either because the values of the goods and services promised in those contracts are not inherently volatile or because those contracts are of short duration, which itself minimizes the risk of volatility.” (DP, 2008: Section 5.39)

Under the transaction price approach, revenue is not recognized until the entity transfers goods and services to the customer. At that time, revenue is reported in an amount equal to the initial measurement of the obligation. There is no re-measurement under this model so, in the end, the total revenue recognized will equal the original transaction price.⁵⁴ The standard setters presented this model as (apparently) alleviating questions surrounding volatility in reported revenue, implying the unworthiness of situations of risk or randomness as compared to the worth of measurable facts and longer-term stability as in the industrial order. However, if as the boards claimed, most contracts being of a short duration are not inherently volatile, then the argument against the creation of volatility by the fair value approach is inherently weakened.

⁵⁴ Reported revenue would equal transaction price except in situations in which, through a kind of impairment test, the performance obligation is judged to no longer represent the entity’s costs to fulfill its obligation to the customer. In this case, an increase to the amount of the obligation results in loss recognition; however, such cases were presumed to occur infrequently.

Interestingly, in justifying their views on the pattern of recognition under the transaction price approach, what the DP neglected to make fully clear is that:

“the timing issue of when to recognize revenue – first how do I define what I have to do, later how do I judge whether have I done something and finally have I earned revenue when I complete a transaction or have I earned revenue at some point in between? You have these issues with or without fair value.” (Interview #15)

6.2 Complexity of Measurement

The complexity or simplicity of measurement relates to the techniques involved in determining the amount of revenue recognized under each of the proposed approaches. The standard setters presented justifications regarding complexity relative to the availability of data and its link to the reliability of reported revenue, the hypothetical nature of estimations involved as well as for the overall understandability of the two approaches.

Under the fair value approach, a performance obligation is measured at the amount the entity would be required to pay to transfer its obligations to an “independent third party”. Ideally, fair value is observed in an active market for identical obligations establishing distance from the entity’s view of value; however, where active markets don’t exist, the judgment of the market is replaced by judgment inherent in estimation. The boards denoted that fair values of many obligations would be “rarely observable” and “would typically require the use of estimates” which would “be complex and the resulting measurement might be difficult to verify” (DP, 2008; Section 5.21). Underlying this was the idea that fair value was:

“akin to having some mystical, magical market that knows the price for various things and you ought to benchmark what a company is doing against that market price. But what constitutes a market? Reality is that there is not a market price per se for many separate obligations so you then go to a hypothetical market, and many feel there is something special about revenue that ought to be representative of what’s actually going on rather than something hypothetical.” (Interview #9)

On the other hand, under the transaction price approach, the total transaction price is allocated to separate performance obligations on the basis of its “stand-alone selling price”. The boards denoted this stand-alone price as:

“the price at which the entity would sell that good or service if it was sold separately at contract inception (that is, not as part of a bundle of goods and services)..... The best evidence of that price is the selling price of a good or service when the entity actually sells that good or service

separately. In some cases, neither the entity nor any other entity sells the good or service separately and selling prices are not observable. In those cases, the entity would then estimate them.” (DP, 2008; Section 5.46)

This meant that the challenges inherent to the fair value approach, where the market data supporting fair value of individual obligations may not be available and require estimation, could also be inherent to the transaction price approach. Here, the selling price data supporting the allocation of the total transaction price may also not be available within the entity and, hence, may be determined through reference to competitors pricing or may involve an estimation process. As acknowledged in this comment,

“the problem of determining a value for separate items in the contract doesn’t go away. You still have to establish an allocation device for customer consideration and normally you look to the price at which those items can be sold and estimate that when the price does not exist.” (Interview #12)

Therefore, the question is whether the entity’s estimating process for allocating selling prices under the transaction price approach is more or less complex and more or less reliable than estimates under fair value. Rather than address this question in the DP, the boards instead mobilized the industrial order in claiming that the transaction price approach was based on more readily available information which supported its worth as measurable and operational approach.

The second view of complexity presented in the DP focused on the hypothetical nature of the fair value model, which reflects a criticism of the inspired and market worlds in which imagined events taking place in theoretical market are deemed unworthy. For example, the boards’ claimed it was:

“counter-intuitive to have a measurement approach based on transferring obligations to a third party when the entity neither intends nor has the ability to transfer them.” (DP, 2008; Section 5.20)

Yet by the same token, the transaction price approach would also contain a hypothetical aspect in the sense that measurement was based on selling performance obligations separately when the entity, similarly, neither intends nor has the ability to sell them on a stand-alone basis. Still, the transaction price approach was deemed more realistic in that the entity intends to satisfy its performance obligations by providing the goods and services promised in the contract to the customer, not by transferring them to another

party. This argument commends the industrial and domestic worlds underlying the transaction price approach by reference to an entity abiding by its actual plan, or intention, and to an entity's duty, or obligation, to keep a promise, respectively. As summarized in this statement:

“Taking fair value away, removed an element of complexity around a very important financial metric, anchoring the revenue transaction in ‘reality’ - the actual agreement between company and customer- which lessens room for interpretation, making it easier to audit [verify].”
(Interview #13)

Ultimately, the boards agreed that there are measurement issues in both the fair value and the transaction price approach, but acknowledged “greater comfort with those issues in the transaction price approach” (FASB, 2008) and indicated its preference for this approach in the DP. It did so primarily through criticism of the market and inspired worlds and appreciation of the industrial and domestic orders. However, it's not only a matter of mobilizing orders of worth in order to justify and legitimate a decision but ensuring that the concepts underlying decisions are aligned with and support that justification. In the next section, I show how standards are developed and justified through rhetorical mechanisms, involving definition and framing, in reference to set of concepts which designed to represent an appropriate foundation from which decisions are built and can later be judged.

6.3 Standard Setters' Construction of What's “Just”

At the final level of analysis, I reveal how the standard setters (re) constructed the conceptual foundations of revenue. This (re) construction involved the definition and framing of two concepts central to the revenue standard: contracts with customers and performance obligations. This section shows how the way in which these concepts were ultimately defined and framed provided the standard setters with support for their decision for the transaction price approach. Based on the particular patterns of construction observed, the standard setters were able to support their justifications for why fair value approach to measurement was deemed inappropriate as a measurement attribute.

Early on, the boards debated “what should be included in or excluded from the definition of revenue-generating activities” (Joint, 2004). The point being to identify the

sources from which revenue should be considered to arise. The boards considered two sources: where the *sale* of assets to a customer is a significant event for certain entities and where the *enhancement* of assets is a significant event for other entities (i.e. commodities firms)⁵⁵. The boards stressed that an entity must have a customer before it can recognize revenue, one board member noted that he “doesn’t think a timber company should recognize revenue as the trees grow, it’s the sale of the tree that matters” (Joint, 2005). Here, the boards distinguished revenue-generating activities as based on:

“whether or not an activity was intended for a customer, which would reserve the term revenue exclusively for transactions with customers; where the transfer of products to a customer is the source of revenues as opposed to the entity’s actual production of the products.” (IASB, 2004).

At the same time, the boards worked to clarify the terms customer and product. The definition of a customer was initially proposed as “any entity that purchases the reporting entity’s products” (IASB, 2005).⁵⁶ At the same time an entity’s exchange with a customer was deemed important, so was what was being exchanged – a product. The definition of products was proposed as “goods, services, or other rights, tangible or intangible” (IASB, 2005).⁵⁷ Where certain members denoted these terms as “obvious and unnecessary seeing as everyone had done without them for the past 30 years” (IASB, 2005), their debate and further distinction resulted in an important turn for the revenue standard. This turn involved, first, distinguishing a “customer” from other types of entities with whom a reporting entity may have entered into arrangements and, second, qualifying the definition of “products” as including only goods and services.

For instance, the DP ultimately referred to revenue transactions as those in which a customer “has agreed with the reporting entity to obtain assets in the form of a good or service” (DP, 2008: Section 2.21). This placed the focus of revenue on a contractual

⁵⁵ The FASB conceptual framework indicates that revenues may arise from certain productive efforts (i.e. creation of commodities) (FASB, 1974) while the IASB conceptual framework does not address this (IASB, 1989).

⁵⁶ This definition was identified as being similar to the definition in EITF 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, which was effective November 2002. The definition of customer per EITF 02-16 was “Any entity that purchases another vendor’s products (for resale, regardless of whether that entity is a distributor or wholesaler, retailer, or other type of reseller).”

⁵⁷ This definition was identified as based on the definition in IAS 18, *Revenue*, which was originally issued in 1982.

arrangement between the party providing and the party obtaining the assets, which ruled out the fair value approach with its focus on a “theoretical” arrangement to transfer the reporting entity’s duty to provide the goods to a third, independent party. In addition, the exclusion of ‘other rights’ from the definition of products addressed the notion that:

“loans appear to meet the definition of other rights and financial institutions providing loans to a customer is not a revenue-generating activity. In the same vein, broker/dealers [of securities and derivatives] do not have transactions with customers and they record increases which are gains.”
(Joint, 2005)

By excluding ‘other rights’, the standard setters essentially eliminated the consideration of transactions for which a fair value measure of revenue, with its focus on both third-party market transactions and gains resulting from those third-party transactions, might be more appropriate.

This section revealed how board deliberations on revenues from contracts with customers combined commonly understood concepts – revenues, customers, and products - from within the existing conceptual framework and from existing standards while allowing the boards the possibility to exclude certain classes of transactions from consideration through the way in which those concepts were framed. Still, from this basis it might appear that either measurement approach could have been justified for contracts with customers; however, the next section will show how the boards further refined revenue-related concepts, in particular the concept of performance obligations, in order to foreclose their decision on the issue at hand.

Narrowing the focus of the revenue standard to “contracts with customers” was a mechanism by which the boards limited the scope of the project to arrangements in which:

“a contract exists between the reporting entity and its customer and, as such, the entity’s performance on that contract is the real underlying economic substance of a revenue transaction” (Joint, 2006)

This statement emphasizes the importance of performance to contracts with customers. In clarifying the role of performance in contracts, the boards developed the notion of the “performance obligation”, a concept which arose out of the revenue project. The term obligation was supplemented for the term liability in an early stage of the project and distinguished by qualifying the obligation as one necessitating *performance*. The debates

over performance involved considering what constitutes performance and when performance has occurred.

In terms of what constitutes performance, the view was that obligations involved the entity having to “do something” to get revenue, where you could not have revenue if “nothing had happened” or “nothing had been completed” (IASB, 2006). In further deliberations on this concept, the boards identified two elements of the concept of a performance obligation as being an enforceable promise and transfer of economic benefits. Relative to the first element, a promise was identified as “enforceable if the customer can require the entity to fulfill that promise” (FASB, 2008). The second element, the transfer of economic benefits (i.e. assets) entailed providing a benefit to a customer and it was indicated that in contracts with customers this benefit is typically in the form of goods or services. The combination of these elements resulted in a definition of performance obligations as “a promise an entity makes within a contract to transfer economic benefits (goods or services) to the customer” (DP, 2008; Section 3.2).

As standard setters had defined it, “doing something” meant transferring goods and services that had been agreed by contract with a customer. As such, the boards’ justification for rejecting the fair value approach due to the pattern of revenue recognition it produced was legitimized since the fair value approach allowed the recognition of revenue from selling activities which did not meet the definition of a performance obligation. Activities in obtaining the contract did not meet the performance obligation definition in the sense that the entity had not transferred any economic benefit to a customer that the customer would be willing to compensate them for through the act of obtaining a contract with that customer.

Likewise, the boards’ justification for rejecting the fair value approach due to its focus on hypothetical intent to transfer the obligation was rationalized through the boards’ definition of performance as requiring the entity itself to do something, not to transfer its obligation to someone else to perform for them. Finally, the boards’ justification for rejecting the fair value approach due to the complexity of measurement was validated by the requirement that a contract with a customer involved each party agreeing to give and receive something of equal value (FASB, 2008). Therefore, by

nature of exchange, the consideration promised by the customer should equal the value of the goods or services promised by the entity and since the fair value approach allowed for a difference between these two, it was not an appropriate measurement attribute for contracts with customers (FASB, 2008).

On the basis of how the concepts of contracts with customers and performance obligations were framed, the standard setters signaled their preference towards scoping certain contracts which did not involve the transfer of control of goods or services to customers out of the revenue standard completely. They identified contracts for leases, insurance, and financial instruments as those contracts which would follow alternative measurement models since those models would produce more decision-useful information (DP, 2008; Section S11). For all other contracts, the transaction price model was argued to be a more appropriate approach to measuring revenue. By accepting different measurement models for different contracts, the standard setters would essentially concede the initial objective set out for their joint project on revenue recognition to develop a comprehensive standard based on concepts and principles that fit transactions, business models and institutional environments across the world. In doing so, they would acknowledge fair value as a system which has a particular usefulness but is not the unquestioned solution to all accounting issues. As summarized in this comment:

“When you think about fair value, utility is highest when you have a high volume of market exchange elements so if you think about financial instruments, you’re talking about publicly traded assets – debt, equity and securities – it’s extremely useful and pretty easy to apply. When you move down the liquidity continuum and you are dealing with more tangible assets that are non-publicly traded, fair value is more difficult and the answer you might get from three different people that hold something similar could be very different so fair value loses its utility and becomes more difficult to apply.” (Interview #17)

7 Implications and Conclusion

This paper has pointed to processes of justifying contentious decisions on accounting policy, in particular on the issue of fair value measurement. The case highlighted within this paper does not represent the first of fair value measurement decisions in accounting policy nor should we expect it to be the last. Controversial standard-setting decisions, such as the appropriate measurement model for revenue,

constitute tests of worth in the sense that they pose a challenge to or a disruption of meaning systems and the conventions espoused by those systems. The controversy involves the development of competing accounts of potential solutions and the mobilization of orders of worth in order to publicly justify those accounts. From an ‘orders of worth’ perspective, revenue measured using a socially accepted convention and referring to commonly accepted higher order principles in a given situation, enjoys a higher status. Accordingly, a dispute over conventions exposes the potential unworthiness of one meaning system versus another.

This study contributes to a richer understanding of the politics of standard setting in terms of the force of standard setters in constructing and justifying decisions when disputes arise. I follow prior research which indicates that accounting standard-setting bodies cannot claim a technical innocence for their processes and decisions as standards are filled with choices involving which value, or meaning system, to select for emphasis in supporting their decisions (Young & Williams, 2010). In particular, I use B&Ts (2006) work on justification to enhance explanations of the standard-setting process by acknowledging the necessity to justify standard-setting decisions to stakeholders and specifying how standard setters engage with a multiplicity of orders of worth in doing so. At the same time, the role of rhetorical mechanisms in building up these justifications cannot be neglected. Therefore, this work builds on previous work on the standard-setting process which denotes the standard setters as setting the discursive boundaries within which debates over accounting standards are to take place; in essence, determining what constitutes a valid and invalid argument for or against any standard (Young and Williams, 2010). This paper attempts to show the process by which they construct and justify such arguments relative to a particular dispute.

I approach the study of dispute through the case of the FASB and IASBs joint project to develop a standard on revenue recognition with a central focus on understanding the standard-setters’ process of justifying their decision not to accept fair value measurement in revenue recognition. This decision is interesting because it represents a deviant case in a period during which fair value measurement has been perceived as increasing in prominence. In studying this decision, I analyze the

justifications given by the standard setters in published standard-setting documents and explore how the basis for these justifications are deliberated in the background and constructed to legitimize decisions occurring in the foreground.

In this case, I reveal the rationales standard setters employed in justifying their evaluation of fair value measurement as a convention “unworthy” in the accounting for revenue from contracts with customers. In their rejection of fair value in revenue recognition, the standard setters provided two primary justifications referring to: (1) the pattern of revenue recognition as allowing revenue from activities occurring before a contract was in place and (2) the complexity of measurement based on a hypothetical market and a hypothetical transfer of responsibility for performance to a third party. In the foreground of the DP, these justifications mobilized orders of worth which ultimately reproached the market and inspired worlds and assigned praise to the industrial and domestic orders. However, in the background of board deliberations the mobilization of these orders depends on the standard-setters’ rhetorical work on constructing what is “just”. I show how this construction occurs through the definition and framing of concepts that support the ultimate policy decision and refute any decision to the contrary.

I found the rhetorical mechanism of definition framing to use familiar concepts, including existing definitions of assets, liabilities, revenues, customers and products, as a launching point. Extending from those familiar concepts, the standard setters developed more refined notions of revenues from contracts with customers, defined in such a way that certain transactions would be excluded from the standard and once those transactions had been excluded, measurement at transaction price seemed more natural and logical for the remaining contracts (*power of exclusivity*). In addition, the standard setters essentially foreclosed on the use of fair value of revenue recognition through framing the concept of a contract as an exchange involving performance obligations (requiring the entity to act in some way to fulfill their end of the exchange) and that performance as involving the transfer of control of economic resources (goods and services). While the way in which these concepts were framed closes the door to fair value in revenue from contracts with customers, it remains open for consideration on

other issues such that future standard-setting decisions are not restricted (*partial foreclosure capacity*).

These findings have important implications for accounting policy-making. First, the accounting-standard setters are usually regarded as conducting their responsibilities in the public interest and as such they have an important role in maintaining this regard even as they help shape the outcome of standard-setting controversies. Second, the study highlights a complex process of controversy politicization whereby orders of worth are invoked in supporting or undermining justifications for standard-setting decisions through discursive practice. Finally, the environment within which accounting standard setters conduct their activities is subject to tests of worth which may threaten the institutional existence of both the standards and the standard-setting body. These tests of worth engage the standard setters in public controversies which require them to construct convincing arguments and provide rationales appealing to the public interest's sense of "justness". The temporal pattern of justifications for alternative conventions for revenue measurement suggests that standard setters should anticipate controversies as early as possible and consider discursive strategies in response.

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Conclusion

1 Implications for Current and Future Research

This dissertation has important implications for studies of transnational governance and accounting policy-making alike and addresses a number of gaps in these literatures. First, this work contributes to a richer understanding of policy-making processes, in this case, the process by which a common set of accounting standards is developed and articulated as the solution to global accounting issues. It does so by highlighting different theoretical visions of convergence as accounts of imitation, editing or translation and, ultimately, co-construction (Djelic, 2008). Second, this research touches on the notion of transnational community in revealing how two standard setters, working together to negotiate order in accounting convergence, build a broader sense of community in the process. As opposed to focusing on the standard-setting organization as a whole, this work sheds light on the force of the members of the standard-setting organization which we know much less about. Third, I draw on institutional and political perspectives to examine the complex interplay between institutional structures and influential actors with potentially competing meaning systems and how these are enacted in transnational policy-making processes. In these ways, I see this research as contributing broadly, from both an empirical and theoretical standpoint, to the literature on transnational governance and accounting standard setting with more explicit theoretical contributions to the literature on accounting institutions and politics of standard setting. This section highlights the contributions of this dissertation, acknowledges potential limitations and identifies avenues for future research.

1.1 Empirical Contributions

This dissertation makes empirical contributions at multiple levels. First, this dissertation contributes to our understanding of convergence processes taking place at the transnational level. Since the late 1970s, and for varying reasons, accounting has become a phenomenon with increasing (transnational) scope and reach. With accounting regulations moving from a nationally inscribed process to a transnational process, recent years have seen renewed interest in exploring accounting standards and standard setting. Much of this interest has focused on the emergence and establishment

of accounting standard-setting bodies from a structural perspective (Tamm-Hallstrom, 2004; Botzem & Quack, 2006; Camfferman & Zeff, 2007; Botzem, 2012). Such studies concentrate on explaining the influence of institutional and political pressures on the configuration (i.e. frameworks, governance structures, procedural models) of accounting standard-setting organizations; in particular, of the IASB. At the same time, the processes by which standards are developed and formulated by these bodies remains in some ways a “black box”. Further, the knowledge that we do have of the process by which accounting standards are produced has been for the most part either nationally focused (e.g. Robson, 1993; Mezas & Scarscelleta, 1994; Young, 1996; 2003) or focused on the development of international accounting standards (e.g. Hjelström, 2005; Ravenscroft & Williams, 2009; Murphy et al., 2013). In contrast, this research considers another level of coordination by looking at the production of standards, which aim to reconcile the requirements of two competing international standards – GAAP and IFRS. The paucity of work on the convergence process indicates that there is room for providing empirical insight as to not only what has occurred but how and why it has occurred. Therefore, an examination of GAAP- IFRS convergence seems not only timely but highly relevant in aiding researchers and practitioners alike in moving toward a greater understanding of trends in the accounting standard setting field.

Second, Chapter II and III focus on one particular case, the FASB-IASB revenue project, selected to study processes of convergence. In doing so, this dissertation subscribes to the notion that “each standard has its own history, and it is the specificity of that history, that makes the standard a compelling topic of social analysis” (Timmermans and Epstein, 2010: p75). The reasons motivating the choice of studying this project and the debates surrounding have been explained in previous sections of this dissertation. To recap, those reasons include the fact that the project is one of four critical projects promoted as addressing major differences between current FASB and IASB standards. In addition, with revenue representing an important financial statement element, this particular project was expected to produce significant debate between actors with different interests in the way that revenue is accounted for. Finally, the main decision examined involved debates over two measurement conventions –fair value and historical cost - that have a long history of battling for prominence in the accounting

field. This combination of factors provides an important empirical contribution as a window to how the FASB and IASB joint standard-setting effort has unfolded in relation to this project and this particularly contentious decision.

Third, with much of the literature focused on the standard-setting organization as the primary unit of analysis, this dissertation peels back the top layer to reveal the actors who represent standard-setting organizations and who determine policy on its behalf- in this case, the board members. Studying board members may be characterized as incomplete, given the oft presumed dominance of actors including the Big 4 firms and regulatory actors such as IOSCO, the SEC and the EC in accounting standard-setting processes (Zeff, 2002; Bengtsson, 2011; Arnold, 2012; Ramirez, 2012). However, the role of these powerful players in the policy-making process does not negate the importance of the work performed by the standard setters themselves and the influence of board member composition on this work. I contribute to recent accounting research (Botzem, 2012; Allen & Ramanna, 2013; Jiang et al., 2013; Jiang et al., 2014) in considering that board members play an important but not yet well understood role in how the actual content of accounting standards are determined.

1.2 Theoretical Contributions

This research makes theoretical contributions to both institutional and political perspectives. First, this work meets calls by Suddaby (2010) to address construct clarity in research, in this case of different conceptualizations of convergence between two dominant and competing sets of accounting standards. In doing so, I draw on various neo-institutional perspectives in order to unravel the notion of convergence. A primary interest in neo-institutional theory is in the dynamics of convergence or similarity in forms and ideas; however, there are various ways of accounting for these dynamics. This paper draws on diffusionist accounts – more specifically, accounts of imitation, editing or translation and, ultimately, co-construction (Djelic, 2008) – in effort to understand the particular (and changing) nature of convergence in the accounting standard-setting environment. At the same time, the emphasis is not on the relevance of one theoretical lens over another but on the value of highlighting the differences between the theoretical visions of convergence in whatever form it may take.

While an institutional approach involves identifying various actors and events in processes of isomorphism, Chapter I goes one step further to incorporate the political economy of those actors and events and their influence on the way in which convergence has unfolded. As such, this dissertation contributes to the literature on how accounting phenomena change in response to economic situations, political mobilizations and social struggles (Arnold, 2012). In particular, Chapter I shows how competitive and cooperative dynamics between the FASB and the IASB play a role in how accounting standards, and in this case a set of meta-standards applicable worldwide, have been constructed. Incorporating such factors is in line with the notion that co-construction processes entail mediation by a diversity of carriers over time and that this mediation is embedded within a dense and complex context (Djelic, 2008). At the same time, the differences between diffusionist regimes suggest that more work could be done on understanding the processes and outcomes associated with particular variants of convergence. I address institutional and political aspects of processes of constructing convergence in the later chapters of this dissertation with a focus on the role of powerful actors and meaning systems in the co-construction process.

Relative to powerful actors, the majority of research focuses on the force of stakeholders in their attempt to exert power/influence over standard-setting organizations and outcomes (e.g. Watts & Zimmerman, 1978; Hope & Gray, 1982; Sutton, 1984; Tandy & Wilburn, 1992; Schalow, 1995; MacArthur, 1996; Saemann, 1999; Larson, 2002; Kwok & Sharp, 2005; Larson, 2007; Jorissen et al., 2011). In addition, a small part of the literature represents studies of standard-setting organizations' responses to such attempts and ability to manage the exertion of influence in their role as decision-makers (e.g. Horngren, 1973; Haring, 1979; Johnson & Solomons, 1984; Puro, 1985; Miller & Redding, 1988; Hines, 1989; 1991; Mezas & Chung, 1989; Mckee, Williams & Frasier, 1991). As opposed to focusing on the force of interested stakeholders (and the management of that force), I shed light on the force of standard-setters themselves which we know much less about.

Chapter II focuses on the links between standard setters, as powerful/influential actors, and the meaning systems to which they subscribe. Where a stream of literature

has begun to study the power/influence of standard setters (Walton, 2009; Botzem, 2012; Allan & Ramanna, 2013; Jiang et al., 2014), such studies have focused more on revealing the professional and political backgrounds of board members without delving too far into discursive debates and decision-making. This dissertation contributes to a richer understanding of the standard setting process in terms of how standard setters reach decisions amidst conflict and controversy stemming from competing meaning systems. In developing this understanding, Chapter II draws on the framework of negotiated order (Strauss et al., 1963, Strauss, 1978; 1982) along with concepts from institutional theory, to study a policy-making decision in which actors attempted to introduce a competing meaning system thus triggering (re) negotiation of the established order.

A primary interest of the negotiated order perspective is in the dynamics involved in deliberative episodes. These dynamics are contextualized by the particular combination of board members and the logics to which they subscribe that affect the power dynamics throughout the period under study. At the same time, deliberative episodes are recognized as institutionally embedded, resulting in rich and detailed accounts which link structural context to negotiation context (Basu et al., 1999). As such, the paper contributes to a growing accounting literature examining the complex interplay between institutional structures and actors with competing assumptions, values and beliefs (e.g. Hyvonen et al., 2009; Guerreiro et al., 2012; Ezzamel et al., 2013; Yu, 2013). This interplay is reflected in the progressive (re) formulation and formalization of shared understandings of order made possible as a broader, transnational community of accounting standard setters takes shape. On this basis, this particular chapter also contributes to the literature on transnational communities and the way in which those communities reach collective policy decisions (Djelic and Quack, 2010a; 2010b).

Chapter III then sheds light on the link between competing values, assumptions and beliefs and rhetorical mechanism, as an important but not yet well understood source of standard-setters' political force. Building on literature linking complex financial accounting issues to broader meaning systems and discursive mechanisms (Robson, 1993; Young, 1996; 2003; 2006), I focus on the work performed by standard

setters towards constructing accounts for standard-setting decisions in which multiple meaning systems are at hand. Scholars have suggested that rhetoric plays a key role in the construction of such accounts, aiding in the creation, maintenance or reparation of legitimacy around a contentious decision (Philips et al., 2004; Suddaby & Greenwood, 2005; Philips & Malhotra, 2008). However, little attention has been paid to the fact that legitimacy may require actors, in this case standard setters, to justify their constructions to their public audience (Patriotta et al., 2011). Therefore, Chapter III contributes to discussions on the politicization of standard setting in revealing how standard setters use discursive strategies to resolve controversial issues while maintaining their legitimacy (Robson & Young, 2009).

Another contribution of Chapter III is that it draws on the framework of Boltanski and Thévenot ([1991], 2006), or B&T, to study how contentious decisions are justified in situations where multiple meaning systems exist. I follow Annisette and Richardson (2011) who denote justifications surrounding the use of fair value accounting to be a potential area in which the application of B&T could be fruitful. In this framework, meaning systems, referred to as ‘orders of worth’, represent a toolkit of resources that actors can call upon at will to promote particular justifications (Boltanski & Thévenot, 2006). Organizational theorists (Cloutier & Langley, 2013) have recently suggested that the conceptualization of meaning systems as orders of worth can help address what is missing from current conceptualizations of meaning systems as institutional logics (Friedland & Alford, 1991; Thornton & Ocasio, 2008; Thornton et al., 2012). Cloutier and Langley (2013) indicate that one of the ways in which B&T’s work may do this involves bringing the justificatory (or moral) element back in as mechanism for deepening our understanding of institutional processes in pluralistic settings. Therefore, in addition to contributing to the accounting literature focused on the interplay between institutional processes and competing assumptions, values and beliefs, this work contributes to a nascent accounting literature employing the framework of B&T (Patriotta et al., 2011; Annisette & Trevedi, 2012; Ramirez 2013) to do so.

1.3 Limitations and Future Research

This dissertation employed a case study method blended with historical, process perspectives to examine how the convergence of a common set of standards has evolved from a conceptual and procedural standpoint. The study aims to shed both exploratory and explanatory light on global standard setting and how global standards are constructed. While the case method as applied within this dissertation is focused less on building theory to be generalized to other empirical settings, there are certainly aspects of the results that are not restricted only to the accounting standard-setting field but that would likely be found in a number of governance fields encountering the globalization of their standards.

For instance, this dissertation may be informative to governance and regulatory projects outside of private sector financial accounting. As such, a future project would study the emergence of the International Public Sector Accounting Standards Board (IPSASB) in governing the development of public sector (i.e. at the level of the nation-state) accounting regulation. Such regulation has a more direct public social orientation and applicability across varied public institutional settings yet is subject to a private, independent standard-setting process similar to that of the market-oriented FASB and IASB standards. Where the globalization of national economic systems has been prominent, the globalization of national social systems including, retirement and health care is less evident. Therefore, the question of how (and why) comparability between the financial statements of nation-states with clearly different social systems came to be seen as important enough to warrant a common set of standards guiding their preparation. Such a study would continue to use institutional perspectives to link macro-level political and economic events and actors to emerging governance mechanisms with data for such studies drawn from publicly available sources in combination with interviews.

In terms of data collection, a longer (shorter) period of study and a greater (lesser) number of projects could be argued for a more comprehensive (more detailed) study. Limiting the period and project to the terms of the formal convergence program in Chapter I allows for forces driving this particular process to be isolated and their effects extrapolated to broader thinking on accounting and global regulation as discussed

above. Relative to Chapters II and III, this research subscribes to the notion that the substance of each standard provides an opportunity to exploit relevant and significant phenomena and their underlying mechanisms (Timmermans & Epstein, 2010). The selection of the revenue project has previously been justified as an important, relevant and highly interesting project (case), and is one that I plan to further exploit in several ways. First, as the number of comment letters received by the standard setters appears to increase, I believe there is a need to revisit the incentives of comment-letter writers and the strategies of different actors and interest groups taking part. Therefore, a dataset (1,525 comment letters on revenue recognition) collected in conjunction with this dissertation will be used to examine the strategies of actors who attempt to shape the outcomes of the standard-setting process. Using discourse analytic software, I will consider strategies employed by several distinct groups - within the construction, software and telecommunications industries – impacted in potentially contradictory ways by the standard setters’ proposals on revenue recognition. My research in this area would look beyond conventional interest group theories to examine the social relations of these industries, their links to the structure of power within society, and the meaning systems that they identify with and adhere to. Second, the practical nature of accounting standards convergence largely depends on firms’ actual accounting practices and enforcement of those practices which are not the focus of this dissertation but offer a prime avenue for research. I envision another off-shoot of this dissertation to study the implications of the development of a single revenue standard on firm’s accounting practices as well as on (the development of standards guiding) the auditing of revenue.

Finally, Chapter II and III’s focus on board and staff members may be characterized as incomplete in consideration of other powerful regulatory actors in accounting standard-setting processes. While I acknowledge that policy-making processes do not emerge in a vacuum and policy developments at the global as well as national level in the U.S. may have impacted the trajectory of the convergence project, it is disingenuous to assume that the standard setters merely go through the motions of policy-making only to enact mandates emanating from state or market regulators. My analysis suggests that the quest to prioritize studies of powerful state or market organizations in accounting policy-making arrangements should not lead us to ignore

studies of the processes through which policies are constructed by the standard-setters themselves and rules are ultimately institutionalized within the accounting regulatory space.

Therefore, with respect to future research, the analyses conducted in this dissertation will be used as a springboard to learn more about institutional processes underlying the different “regimes” of convergence identified in Chapter I. For instance, there are a number of topics to explore in relation to direct emulation projects in which one standard setter imitated the existing standard of the other standard setter. One such topic involves a consideration of how the FASB-IASB determined which standards were representative of “best practice” and on what basis. This may be an especially interesting question when applied to a project involving a pure disclosure issue, such as the segment reporting project. Since the standard setters do not have a disclosure framework in place against which to make such an assessment the question becomes how did they determine what is “best practice” in disclosure and why was it necessary to bring a pure disclosure issue to the convergence table in the first place. In addressing these types of questions, the detailed proceedings (i.e. indirect observation) of the board meetings could be further exploited as a data source. For instance, it may be revealing to investigate the content of the proceedings as narratives of the detailed discussions taking place in board meetings as compared to the abbreviated version of the minutes produced by the IASB itself and made available to the publicly. Such an investigation may reveal the extent to which the board minutes can be considered maps by which the board may steer a course that influences the opinion of public audiences in a particular direction on the basis of what is included or excluded from the map.

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Tables

Table 1. Repartition of Press Articles Consulted

Accounting Convergence	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	Total
Accounting Profession	11	9	16	13	11	23	26	16	21	22	168
Global Financial Press	9	6	9	12	27	38	12	14	16	3	146
Total by Year	20	15	25	25	38	61	38	30	37	25	314

Revenue Recognition	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	Total
Accounting Profession	1	1	3	3	4	6	5	10	12	10	55
Global Financial Press	4	0	2	3	2	1	8	1	6	5	32
Total by Year	5	1	5	6	6	7	13	11	18	15	87

Table 2. Timeline of Significant Events Leading up to Convergence

Timeline	Event
Standardization	
1973	Establishment of FASB and IASC
1974	FASB Conceptual Framework
1977	Establishment of IFAC (of which AICPA, founded 1936 is a member)
1983	Establishment of IOSCO (of which SEC, founded 1933 is a member)
1989	IASC Conceptual Framework
1989	IASC-IOSCO Agreement: Comparability & Improvement Project, Opening of IASC standard-setting process to public
Harmonization	
1992	Establishment of G4 Working Group
1993	IASC-IOSCO Agreement, IAS to be accepted for foreign listings following harmonization of IAS
1995	EC Accounting Harmonization Strategy, EC Directive COM 95(508) Accepting IAS in lieu of local GAAP
1998	IASC-IOSCO 'Modernization' Agreement FASB Discussion Paper: International Accounting Standard-Setting
2000	IOSCO formally accepts IAS as basis for foreign listings
2001	Establishment of IFRS Foundation and FASB, replacing IASC, IASB standards to be issued as IFRS
2002	EC Single Market Proposal, EC Directive COM 2000(359), Policy supporting use of one set of standards facilitating creation of single capital market in EU
2002	EC Accounting Policy Proposal, EC Regulation N 1606/2002, Mandated application of IFRS for EU publicly listed companies by/for January 1, 2005 reporting year
2002	Norwalk Agreement entered into by FASB and IASB

Table 3: Chronology of Events, Actors and Source Documents

	Date	Actor/Org	Event/Action	Source
1	January 2001	IASB	Establishment of IFRS Foundation and IASB, replacing IASC	Financial Press, Press Release
2	March 2001	IASB	David Tweedie appointed IASB Chairman (former Chair of UK ASB and part of G4)	Press Release
3	July 2001	ASB	UK ASB Issues Discussion Paper on Revenue Recognition	Discussion Paper
4	October 2001	ASB	Close of UK ASB Comment Period on Rev Rec - 49 CLs received	Comment Letters/Summary
5	November 2001	Market	Accounting Scandals: Enron/Arthur Andersen (not revenue specific)	Financial Press
6	January 2002	FASB	FASB Codification and Simplification added to Agenda: Standards based on economic principles & concepts	Agenda Paper
7	January 2002	FASB	FASB Initiates Revenue Recognition for Agenda Consideration	Agenda Paper
8	March - July 2002	Market	Accounting Scandals: Qwest, Worldcom , Halliburton, AOL/Time Warner, Bristol-Meyers Squibb	Financial Press
9	March 2002	FASB	Close of FASB Comment Period on Rev Rec Agenda Proposal - 32 CLs received	Comment Letters/Summary
10	June 2002	FASB	FASB formally adds Revenue Recognition to its Technical Agenda	Agenda Paper
11	July 2002	FASB	Robert Herz appointed FASB Chairman (former Board member of IASC)	Board Turnover
12	July 2002	EC	EC Accounting Policy Proposal EC 1606/2002 Mandates IFRS by Jan 1 2005 in EU	PR/Agreement
13	September 2002	FASB, IASB	FASB-IASB sign Norwalk Agreement, revenue recognition identified for joint effort	PR/Agreement
14	October 2002	SEC	SEC indicates support for MoU/Norwalk Agreement	Press Release
15	February 2003	SEC	Appointment of William Donaldson as SEC Chairman (replacing Harvey Pitt post-Enron)	Press Release
16	May 2003	EITF	EITF Issue 00-21 Revenue Arrangements with Multiple Deliverables	Implementation Guidance
17	July 2003	SEC	SEC Release on Adoption of Principles Based Accounting Standards	Press Release
18	August 2003	FASB, IASB	Boards inventory existing revenue recognition models and currently accepted practice	Board Minutes
19	July 2004	FASB	FASB Response to SEC Release on Principles Based Standards	PR/Agreement
20	November 2004	EC	EC Issues Carve-outs from IAS 39 standard on Fair Value and Hedging: (EC) No 2086/2004	PR/Regulation
21	January 2005	EC	Mandatory application of IFRS for publicly listed EU companies	Financial Press
22	April 2005	SEC	SEC Proposed Roadmap to Elimination of US GAAP Reconciliation	Press Release
23	June 2005	SEC	Appointment of Christopher Cox as SEC Chairman	Press Release
24	October 2005	FASB, IASB	Board strategy to develop two different revenue recognition models: fair value and transaction price	Board Minutes
25	November 2005	EC	EC Resolves Carve-outs from IAS 39 standard on Fair Value (Commission Regulation (EC) No 1864/2005)	PR/Regulation
26	February 2006	FASB, IASB	FASB-IASB sign MoU, formally identifying revenue recognition as a long-term convergence project	PR/Agreement
27	February 2006	SEC	SEC Welcomes Plans of U.S., International Standard Setters for Convergence of Acctg Systems	Press Release
28	July 2007	FASB, IASB	Development of the revenue recognition models are completed	Board Minutes
29	August 2007	SEC	SEC Release on Allowing U.S. Issuers To Prepare Financial Statements in Accordance With IFRS	Press Release
30	November 2007	SEC	SEC votes to eliminate Form 20-F reconciliation for cross-listed firms, accepts IFRS as issued by IASB	Press Release
31	December 2007	CESR	CESR Paper Advising on the Equivalence of Third Country GAAPs in EU (Chinese, Japanese, US) CESR 07-761	Press Release
32	December 2007	EC	European Commission Mechanism on Determining Equivalence with IFRS EC No. 1569/2007	PR/Regulation

33	December 2007	FASB, IASB	Boards present the two revenue recognition models in a public conference for initial feedback	Board Minutes
34	June 2008	FASB	FASB Board members reduced from seven members to five	Financial Press
35	August 2008	SEC	SEC Advisory Committee on Improvements to Financial Reporting (CIFR) report/recommendations	Financial Press, Publication
36	September 2008	Market	Lehman Brothers failure, AIG bailout and start of Financial Crisis	Financial Press
37	November 2008	SEC	SEC publishes 'Roadmap to IFRS Conversion'	Press Release
38	November 2008	G20	G20 Summit Leaders call for single set of high-quality accounting standards - Consensus on Financial Crisis	Communiqué
39	December 2008	EC	European Commission Grants Equivalence to Third Country GAAPs (US and Japan) EC No. 1289/2008	PR/Regulation
40	December 2008	FASB, IASB	Joint FASB-IASB press release for Revenue Recognition Discussion Paper, comment period opened	Discussion Paper
41	January 2009	SEC	Change in U.S. presidential administration: appointment of Mary Shapiro as SEC Chairwoman	Press Release
42	February 2009	IASB	Creation of Monitoring Board governing IFRS Foundation, increase IASB board to 16 (by July 1 2012)	PR/Agreement
43	April 2009	G20	G20 Summit Leaders reaffirm call for single set of high-quality accounting standards - Washington Action Plan	Communiqué
44	April 2009	IASC	Appendix to IAS 18 amended: guidance for determining whether and entity is acting as a principle or agent	Implementation Guidance
45	June 2009	FASB, IASB	Close of FASB-IASB Discussion Paper comment period - 226 CLs received	Comment Letters/Summary
46	July 2009	FASB	Implemented Accounting Standards Codification, simplifying accounting standards structure	PR/Publication
47	September 2009	G20	G20 Summit to redouble efforts to achieve single set of standards	Communiqué
48	October 2009	FASB/EITF	ASU 2009-13 Multiple-Deliverable Revenue Arrangements (amends EITF 00-21)	Published Standard
49	October 2009	FASB/EITF	ASU 2009-14 Certain Revenue Arrangements That Include Software Elements	Published Standard
50	November 2009	FASB, IASB	FASB-IASB reaffirm MoU 2009 - 2011	PR/Agreement
51	February 2010	SEC	SEC Support for Convergence Release	SEC Release
52	February 2010	FASB	FASB issues support for SEC Convergence Release	PR/Agreement
53	June 2010	FASB, IASB	FASB-IASB Joint decision to delay convergence projects: focus on 'Big Four'	PR/Agreement
54	June 2010	SEC	SEC issues press release supporting FASB-IASB decision to delay	Press Release
55	June 2010	G20	G20 Summit Reaffirms Support for a Single Set of Accounting Standards	Communiqué
56	June 2010	FASB, IASB	Joint FASB-IASB press release for Revenue Recognition Exposure Draft, comment period opened	Exposure Draft
57	September 2010	FASB	Leslie Siedman replaces Robert Herz as (acting then full) Chairman after early retirement	Board Turnover
58	October 2010	FASB, IASB	Close of FASB-IASB Exposure draft comment period - 986 CLs received	Comment Letters/Summary
59	October 2010	SEC	SEC Workplan for Incorporating IFRS into U.S. System	Press Release
60	November 2010	G20	G20 Summit Leaders reaffirm call for single set of high-quality accounting standards	Communiqué
61	January 2011	FASB	FASB Board members increased from five to seven	Financial Press
62	April 2011	FASB, IASB	Joint FASB-IASB press release announcing delay in convergence target to December 2011	Financial Press, Press Release
63	June 2011	FASB, IASB	Joint FASB-IASB press release announcing intent to re-expose revenue recognition	PR/Agreement
64	July 2011	IASB	Hans Hoogervorst replaces David Tweedie as IASB Chair	Board Turnover
65	May 2011	SEC	SEC publishes 'Workplan for IFRS' (condorsement)	Press Release
66	November 2011	FASB, IASB	Joint FASB-IASB press release for Revenue Recognition Revised Exposure Draft, comment period opened	Exposure Draft
67	March 2012	FASB, IASB	Close of FASB-IASB Revised Exposure Draft comment period - 349 CLs received	Comment Letters/Summary

Table 4. List of/Status of Convergence Projects

	Short-term Projects	2007	2008	2009	2010	2011	2012
1	Borrowing costs	Completed	Completed	Completed	Completed	Completed	Completed
2	Fair value option	Completed	Completed	Completed	Completed	Completed	Completed
3	Government grants	Inactive	Inactive	Inactive	Inactive	Inactive	Inactive
4	Impairment	Active	Inactive	Inactive	Inactive	Inactive	Inactive
5	Income taxes	Active	Active	Inactive	Inactive	Inactive	Inactive
6	Investment properties	Active	Inactive	Inactive	Inactive	Inactive	Inactive
7	Joint ventures (joint arrangements)	Active	Active	Active	Active	Completed	Completed
8	Research and development	Active	Inactive	Inactive	Inactive	Inactive	Inactive
9	Segment reporting	Completed	Completed	Completed	Completed	Completed	Completed
10	Subsequent events	Active	Completed	Completed	Completed	Completed	Completed
	Active	7	2	1	1	0	0
	Inactive	0	4	5	5	5	5
	Completed	3	4	4	4	5	5
		10	10	10	10	10	10

	Long-term Projects	2007	2008	2009	2010	2011	2012
11	Business combinations	Active	Completed	Completed	Completed	Completed	Completed
12	Conceptual Framework	Active	Active	Active	Incomplete	Incomplete	Incomplete
13	Consolidations	Active	Active	Active	Active	Completed	Completed
14	Derecognition - (Fin) Assets and Liabilities	Active	Active	Active	Incomplete	Incomplete	Incomplete
15	Fair value measurement guidance	Active	Active	Active	Active	Completed	Completed
16	Financial instruments	Active	Active	Active	Active	Active	Active
17	Insurance Contracts	NA	Active	Active	Active	Active	Active
18	Intangible assets	Inactive	Inactive	Inactive	Inactive	Inactive	Inactive
19	Leases	Active	Active	Active	Active	Active	Active
20	Liabilities and equity distinctions	Active	Active	Active	Inactive	Inactive	Inactive
21	Performance reporting (FS presentation)	Active	Active	Active	Inactive	Inactive	Inactive
22	Post-retirement benefits/Pensions*	Active	Active	Active	Incomplete	Incomplete	Incomplete
23	Revenue recognition	Active	Active	Active	Active	Active	Active
	Active	11	11	11	6	4	4
	Inactive	1	1	1	3	3	3
	Incomplete	0	0	0	3	3	3
	Completed	0	1	1	1	3	3
		12	13	13	13	13	13

Active: Project for which significant work was undertaken through the convergence effort which either continues as of the date of this writing or was indicated by the boards to be completed in the year noted.

Completed: Project for which significant work was undertaken through the convergence effort which was indicated by the boards to be completed in the year noted.

Inactive: Project for which work was deferred before any significant work was undertaken and/or before changes to either set of standards came about through the convergence effort.

Incomplete: Project for which work was undertaken through the convergence effort but for which only a portion of the intended work was completed before the project was either indicated by the boards to be complete or the remaining work deferred to a later date.

Table 5. Convergence Project Analysis

	Short-term Projects	Approach			Direction	Degree			
1	Borrowing costs	Emulation			IASB to FASB	Substantial			
2	Fair value option	Emulation			FASB to IASB	Full			
3	Government grants	NA			NA	None			
4	Impairment	NA			NA	None			
5	Income taxes	NA			NA	None			
6	Investment properties	Emulation			FASB to IASB	None			
7	Joint ventures (joint arrangements)	Emulation			IASB to FASB	Partial			
8	Research and development	Emulation			FASB to IASB	None			
9	Segment reporting	Emulation			IASB to FASB	Full			
10	Subsequent events	Emulation			FASB to IASB	Partial			
	Long-term Projects	Approach			Direction	Degree			
11	Business combinations	Reduction			IASB to FASB	Substantial			
12	Conceptual Framework	Redesign			Mixed	Partial			
13	Consolidations	Reduction			IASB to FASB	Partial			
14	Derecognition - (Fin) Assets and Liab.	Redesign			Mixed	Partial			
15	Fair value measurement guidance	Emulation			IASB to FASB	Full			
16	Financial instruments	Redesign			Mixed	Partial			
17	Insurance Contracts	Redesign			Mixed	Partial			
18	Intangible assets	NA			NA	None			
19	Leases	Redesign			Mixed	Partial			
20	Liabilities and equity distinctions	Redesign			NA	None			
21	Performance reporting (FS presentation)	Reduction			IASB to FASB	Partial			
22	Post-retirement benefits/Pensions	Reduction			Mixed	Partial			
23	Revenue recognition	Redesign			Mixed	Substantial			
		ST	LT	Total					
NA		3	1	4					
Emulation		7	1	8					
Reduction		0	4	4					
Redesign		0	7	7					
Approach		10	13	23					
					ST	LT	Total		
NA					2	2	4		
IASB to FASB					4	4	8		
FASB to IASB					4	0	4		
Mixed					0	7	7		
Direction					10	13	23		
							ST	LT	Total
Full							2	1	3
Substantial							1	2	3
Partial							2	8	10
None							5	2	7
Degree							10	13	23

Table 6. Convergence Project Data (Extract)

Convergence topic	Goal	Original IAS/IFRS	Original GAAP	Status	Orig FASB	Yr	Orig IASB	Yr	(Re) Iss FASB	Yr	(Re) Iss IASB	Yr
Borrowing costs	Consider whether and how to converge IAS 23 <i>Borrowing Costs</i> and SFAS 34 <i>Capitalization of Interest Cost</i> .	IAS 23 permits two possible treatments, either capitalization of borrowing costs, to the extent that are directly attributable to the acquisition, construction or production of qualifying assets or, alternatively, immediately expensing borrowing costs.	SFAS 34 requires the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Immediate expensing is not an option.	IASB reissued IAS 23 in 2009 eliminating the expensing of borrowing costs as an alternative.	FAS 34	1979	IAS 23	1993	NA	NA	IAS 23	2007
Fair value option	Align the option to apply fair value to financial instruments and other items between existing guidance in IAS 39 and US GAAP (non-existing).	IASB amended IAS 39 in 2006 to restrict the use of the fair value option to designate any financial asset or any financial liability on initial recognition to be measured at fair value with gains and losses recognized through profit and loss (the 'fair value option'). The use of the option is limited to those financial instruments that meet certain conditions.	SFAS 159 applies only to entities that elect the fair value option which permits entities to choose to measure many financial instruments and certain other items at fair value. Indicates which assets are eligible for the measurement option.	FASB added SFAS 159 fair value option in 2007 to financial instruments standards similar to what IASB adjusted in IAS 39 in 2006. However, this issue is under reconsideration in joint project on classification and measurement of financial instruments.	NA	NA	IAS 39	1998	FAS 159	2007	IAS 39	2005
Joint ventures (joint arrangements)	Reexamine the option to use proportionate consolidation as an option in IAS 131 <i>Interest in Joint Ventures</i>	IAS 31 Interest in Joint Ventures allows that form of the arrangement is the primary determinant of the accounting and the entity has a choice of treatment for interests in jointly controlled entities (equity accounting or proportionate consolidation).	AICPA APB No 18 <i>Equity Method of Accounting for Investments in Common Stock</i> requires joint ventures to be accounted for under the equity method. Under this method, an investment in common stock is shown in the balance sheet as a single amount and an investor's share of earnings or losses from its investment is shown as a single amount in the income statement.	IFRS 11 <i>Joint Arrangements</i> clarified definition of a joint venture and difference between direct and indirect interests in the underlying assets and liabilities. Removed the option for interests in jointly controlled entities to be proportionately consolidated; however, this option remains in GAAP for real estate and extractive industries.	APB 18	1971	IAS 31	1990	NA	NA	IAS 28/IFRS 11, 12	2011

Table 7. Summary of FASB-IASB Board Meeting Activities

MeetingType	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	Total	Pages	Hours
FASB	3	10	4	2	2	0	5	4	3	2	35	162	50.5
IASB	3	7	8	3	5	2	5	6	0	1	40	182	47.5
Joint	0	1	2	1	2	1	1	4	7	19	38	348*	63.25
Total by Year	6	18	14	6	9	3	11	14	10	22	113	692	161,25

Summary of Board Meetings on Revenue Recognition Specifically

	2002	2003	2004	2005	2006	2007	2008	Total
FASB	3	10	4	2	2	-	5	26
IASB	3	7	8	3	5	2	5	33
Joint	-	1	2	1	2	1	1	8
Total	6	18	14	6	9	3	11	67

Table 8. List of Interviewees

Sample	Institution	Period	Date	Mode	Minutes
1	Member, IFRS AC	Former	24 10 11	Skype	65
2	Member, IASB	Former	24 10 11	Skype	52
3	Member, IFRS AC	Current	25 10 11	Skype	45
4	Member, IASB	Current	26 10 11	In Person	85
5	Member, IASB	Former	29 10 11	Skype	82
6	Member, IFRIC	Current	31 10 11	Skype	63
7	Member, IFRS AC	Current	02 11 11	Skype	65
8	Practice Fellow, FASB	2004-06	29 08 12	Skype	33
9	Practice Fellow, FASB	2002-04	06 09 12	Skype	42
10	Technical Assistant, FASB	2002-03	21 09 12	Skype	46
11	Academic Fellow, FASB	2006-09	27 09 12	Skype	50
12	Observer, IFRS Monitor	2002-	08 10 12	In Person	53
13	Academic Fellow, SEC	2002-03	11 10 12	Skype	50
14	Technical Manager, IASB	2011-	16 10 12	Skype	47
15	Project Manager, FASB	2007-11	22 10 12	Skype	55
16	Roundtable Member	2011-	22 10 12	Skype	50
17	Industry Fellow, FASB	2003-05	31 10 12	Skype	38
18	Project Manager, IASB	2002-05	22 11 12	Skype	88
Total					1009
Average					56

Table 9. FASB Board Members 2002- 2008

Full_Name	Most Recent Affiliation	Prior Affiliation	Country	'02	'03	'04	'05	'06	'07	'08
Edmund Jenkins (Ch)	Arthur Andersen		USA	A1						
John Wulff	Union Carbide Corporation	KPMG (pre-1987)	USA	P1	P1					
John M. Foster	Compaq Computer Corp		USA	P1	P1					
Gary Schieneman	Merrill Lynch		USA	A3	A3	A3	A3			
Katherin Schipper	Duke University		USA	A2	A2	A2	A2	A2		
Edward W. Trott	KPMG		USA	A1	A1	A1	A1	A1	A1	
G. Michael Crooch	Arthur Andersen		USA	A1						
Robert H. Herz (Ch)	PWC		USA	A1						
Leslie F. Seidman(Ch)	JP Morgan	Ernst & Young (pre-1989)	USA		P2	P2	P2	P2	P2	P2
George J. Batavick	Texaco Inc	Arthur Andersen (pre-1975)	USA		P1	P1	P1	P1	P1	P1
Donald M. Young	PaineWebber/UBS		USA				A3	A3	A3	A3
Thomas J. Linsmeier	Michigan State University		USA					A2	A2	A2
Lawrence W. Smith	FASB	KPMG (pre-2002)	USA						A1	A1
Marc A. Siegel	RiskMetrics		USA							P2

A1=Auditor, A2=Academic, A3=Analyst, P1= Preparer, P2= Financial Preparer, P3=Policy Maker

Table 10. IASB Board Members 2002- 2008

Full_Name	Most Recent Affiliation	Prior Affiliation	Country	'02	'03	'04	'05	'06	'07	'08
Robert H Herz	PWC	PWC	USA	A1						
Harry K Schmid	Nestle		Switzerland	P1	P1	P1				
Geoffrey Whittington	Cambridge University		UK	A2	A2	A2	A2	A2		
Hans-Georg Bruns	DaimlerChrysler AG		Germany	P1	P1	P1	P1	P1	P1	
Anthony T Cope	FASB	Wellington Management	UK	P2	P2	P2	P2	P2	P2	
Patricia O'Malley	ASB Canada	KPMG	Canada	A1	A1	A1	A1	A1	A1	
Sir David Tweedie	ASB UK	KPMG	Scotland	A1						
James J Leisenring	FASB	Bristol, Leisenring, Herkner	USA	A1						
Warren McGregor	Aust Acc Res Foundation	Stevenson McGregor	Australia	A1						
Robert P Garnett	AngloAmerican Corp	ASB (SA), Arthur Andersen	South Africa	P1						
Thomas E Jones	Citigroup	KPMG	UK	P2						
Mary E Barth	Stanford University	Arthur Andersen	USA	A2						
Gilbert Gelard	KPMG	FEE, CNC, Arthur Andersen	France	A1						
Tatsumi Yamada	PWC (ChuoAoyama)	PWC	Japan	A1						
John Smith	Deloitte & Touche		USA	A1						
Jan Engstrom	Volvo Group		Sweden			P1	P1	P1	P1	P1
Philippe Danjou	Autorité des Marchés Fin	Arthur Andersen	France					P3	P3	P3
Stephen Cooper	UBS Investment Bank		UK						A3	A3
Wei-Guo Zhang	China Sec Reg Commission		China						P3	P3

A1=Auditor, A2=Academic, A3=Analyst, P1= Preparer, P2= Financial Preparer, P3=Policy Maker

Table 11. Presentation of Fair Value and Transaction Price Models

	Current Exit Price (Fair Value)	Original Transaction Price
Definitions	... amount that the entity would be required to pay to transfer its obligations to an independent third party at the financial statement date; represents the market's perception of the performance obligation.	... consideration the customer promises in exchange for the promised goods and services; typically, the amount an entity requires in exchange for taking on the related performance obligations; represents customers perception.
Components of Performance Obligations	Captures expected costs to satisfy each performance obligation (transferred at different times), timing of costs, and margin required for providing the promised goods and services Amounts the entity charges its customer to recover the costs of obtaining the contract and any related margin are recognized separately	Captures expected costs to satisfy each performance obligation (transferred at different times), timing of those costs and margin required for providing the promised goods and services <u>plus</u> Amounts the entity charges its customer to recover the costs of obtaining the contract and any related margin are not separately recognized
Contract Assets	Customer consideration (transaction price)	Customer consideration (transaction price)
Contract Liabilities	Current exit price (fair value)	Allocation of customer consideration at relative selling price (total = transaction price)
Contract Inception	Loss recognition, assets < liabilities Gain recognition, assets > liabilities	Loss not possible, assets = liabilities Gain not possible, assets = liabilities
Remeasurement (of contract liabilities)	On satisfaction (transfer) of obligation, at current exit price At subsequent reporting dates, remaining liabilities at current exit price	On satisfaction (transfer) of obligation, not remeasured When contract deemed "onerous", remaining liabilities remeasured
Status	Rejected (not preferred method)	Accepted (preferred method)

Table 12. Overview of Boltanski & Thévenot's 'Orders of Worth'

	Inspired	Domestic	Fame	Civic	Market	Industrial
Mode of Evaluation	Creativity	Family	Reknown	Collective	Competition	Productivity
State of Worthiness	Innovative Passionate Spontaneous	Tradition Loyalty Trustworthiness	Visibility Recognized Influence	Official Representative Free	Expensive Desirable Profitable	Efficient Operational Competence
Nature of tests	Journey/quest	Custom/ritual	Popularity	Duty/Solidarity	Exchange	Reliability
Relevant Evidence	Emotional	Exemplary	Symbolic	Formal	Valuation	Measurable
Qualified Actors	Artists Visionaries	Superiors Inferiors	Celebrities Fans	Citizens Elected officials	Customers Suppliers	Professional Expert
Qualified Objects	Mind Dream	Etiquette Heritage	Message Media	Rights/welfare Regulations	Wealth Goods/service	Means Method/plan
Time Formation	Revolution	Conventional	On trend, in vogue	Perpetual	Short-term	Long-term

Note: Adapted from Annisette & Richardson, 2011, based on Boltanski & Thévenot, 2006.

Figures

Figure 1. Main Contextual Events Pertaining to Revenue Project: 2002-2008

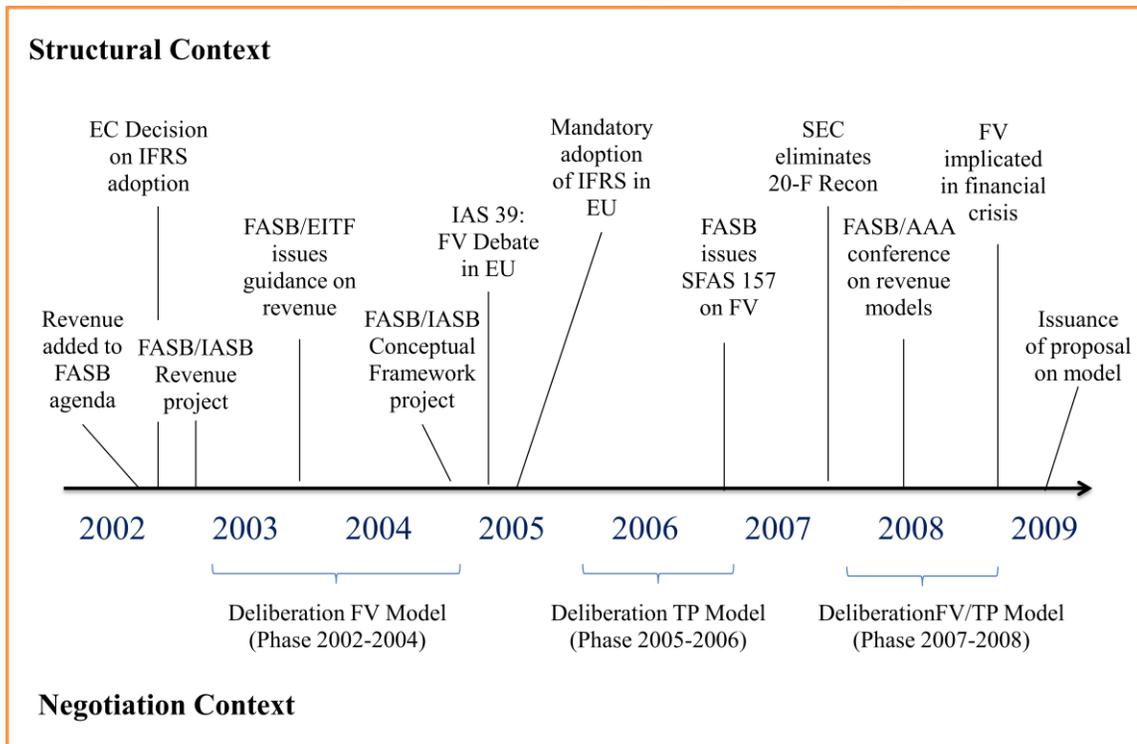


Figure 2. Resources - FASB and IASB Membership: 2002 – 2008

Board Membership		FASB			IASB		
		2002-4	2005-6	2007-8	2002-4	2005-6	2007-8
Auditors	A1	43%	43%	29%	50%	50%	50%
Academics	A2	14%	14%	14%	14%	14%	7%
Analysts	A3	14%	14%	14%	0%	0%	7%
Preparers	P1	14%	14%	14%	21%	21%	14%
Banking/Finance	P2	14%	14%	14%	14%	14%	7%
Policy-makers	P3	0%	0%	0%	0%	0%	14%

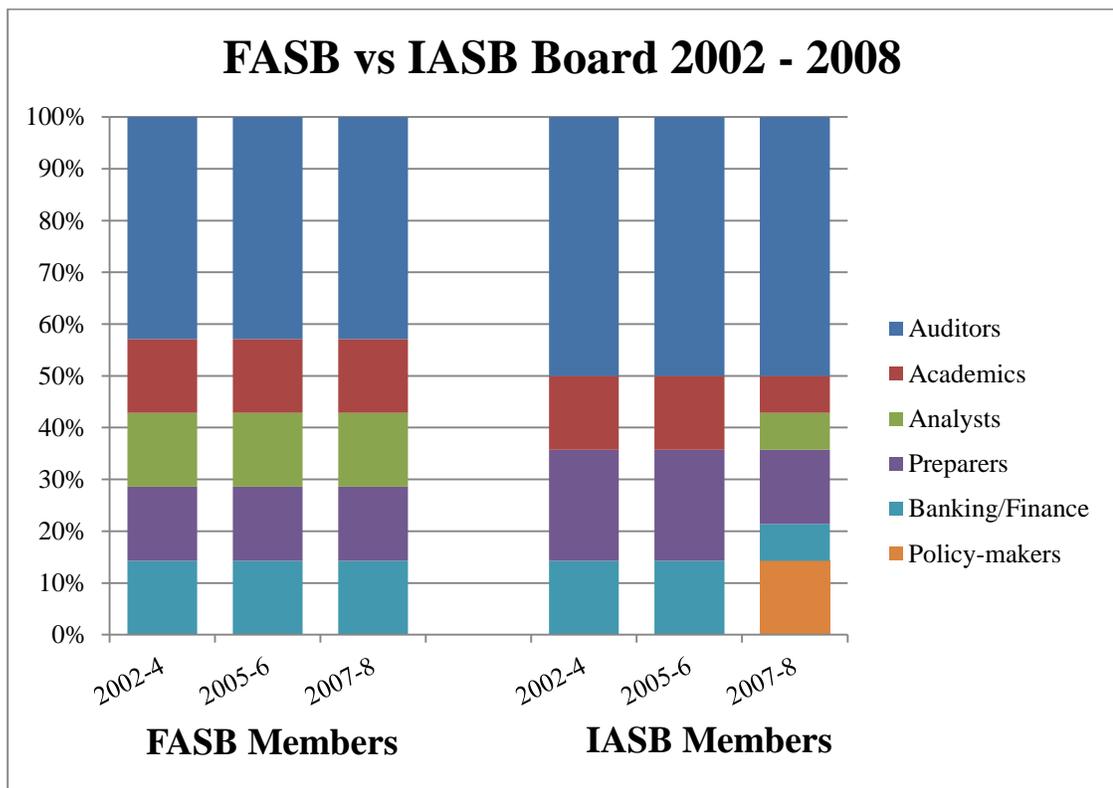


Figure 3. Power Dynamics - FASB and IASB Members: by Category

Strength of Voice		FASB			IASB		
		2002-4	2005-6	2007-8	2002-4	2005-6	2007-8
Auditors	A1	18%	17%	10%	30%	34%	24%
Academics	A2	38%	30%	39%	48%	44%	21%
Analysts	A3	15%	8%	11%			21%
Preparers	P1	12%	12%	12%	19%	19%	20%
Banking/Finance	P2	17%	33%	28%	4%	4%	1%
Policy Makers	P3						13%
Balance of Power		FASB			IASB		
		2002-4	2005-6	2007-8	2002-4	2005-6	2007-8
	FVA	68%	47%	44%	76%	52%	34%
	HCA	32%	53%	56%	24%	48%	65%

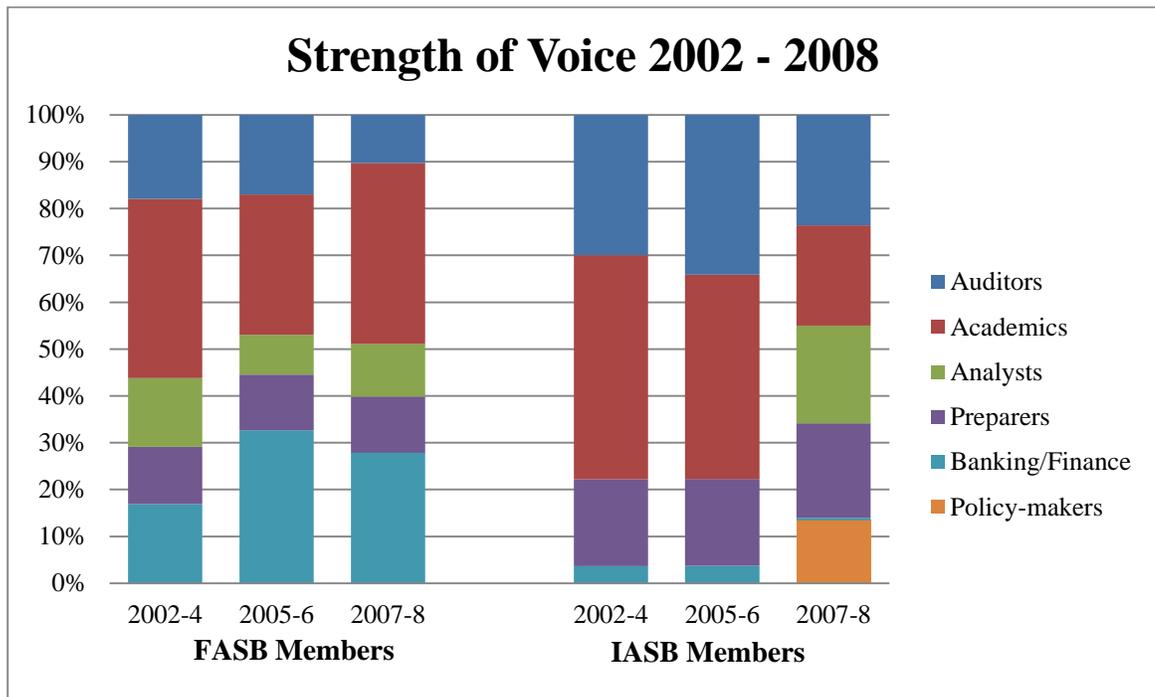
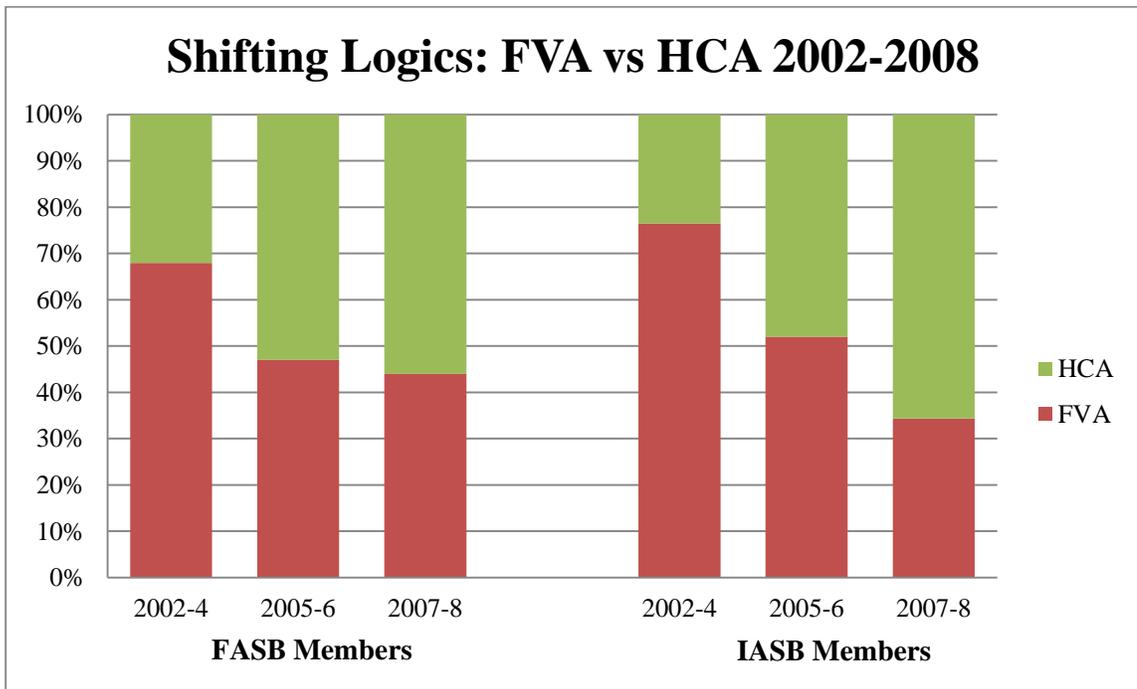
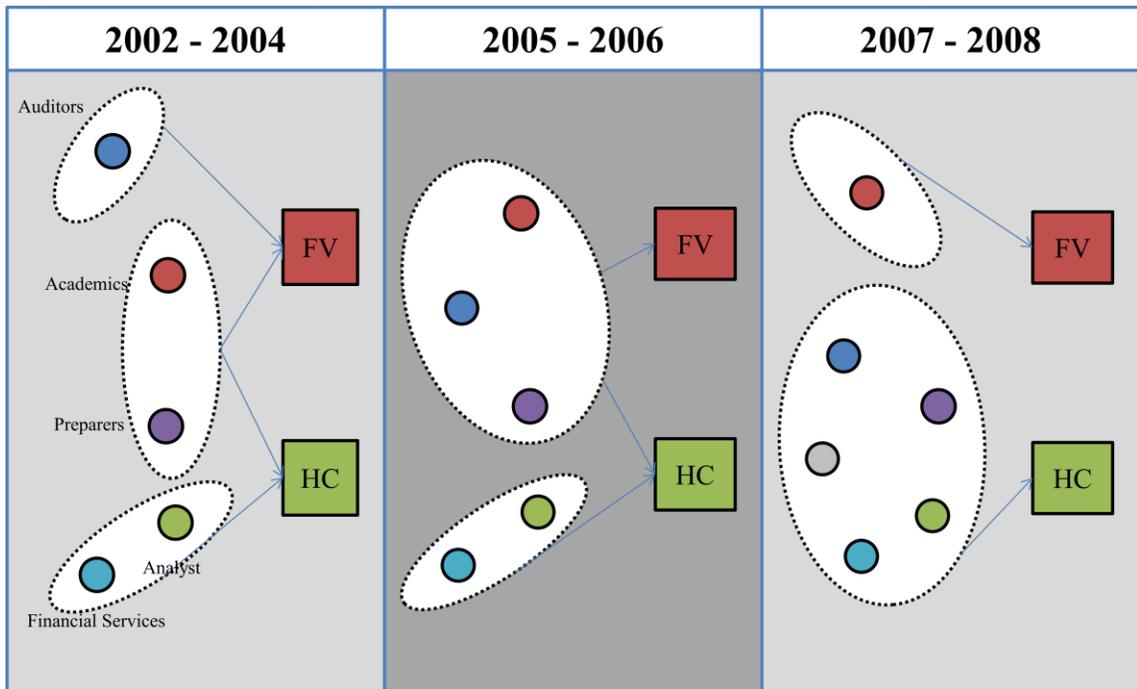


Figure 4. Shifting Logics - FASB and IASB Members: by Category



Appendices

Appendix 1: History of Global Accounting Change

International standard setting institutions (IASB/IAS)

In fact, the IASB was preceded by the International Accounting Standards Committee (IASC)⁵⁸, a private body of professional accounting representatives⁵⁹ responsible for the development of international accounting standards. The IASC was formed in 1973, the same year as the FASB, but even then these were not the original versions of U.S. and international standard-setting institutions. Still, they represent the starting point for discussion as it is the FASB and a reorganized and rebranded version of the IASC (i.e. IASB) who manage the U.S. GAAP and IFRS convergence process. I focus here on the reorganization and rebranding which resulted in the emergence of the IASB as a recognized international standard-setting body. This alignment entailed three elements: developing a conceptual framework, realizing an acceptable governance structure, and establishing an adequate due process model.

Conceptual Framework

The FASB established a conceptual framework in 1974. This framework reflects a foundation for developing accounting standards, including the objectives and characteristics of financial reporting information and definitions of financial statement elements as well as the concepts of recognition, measurement and presentation (FASB, 1974). The FASB's conceptual framework was eventually adopted by the IASC in 1989 (and later by the IASB); however, certain concepts were adjusted and expanded upon in effort to make improvements and fill perceived gaps. For example, where the FASB indicated the framework to be a document guiding standard setters in the development of accounting standards, the IASB elevated it to a tool guiding practitioners in the event that no specific accounting standard or interpretation applies (IASB, 2001). Further, the international approach speaks not only to profit seeking entities listed on a national exchange, to whom the FASB framework is directed, but also to not-for-profit entities in

⁵⁸ Camfferman and Zeff (2007) provide the history of the IASC in, *Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973-2000*: Oxford, Oxford University Press.

⁵⁹ The constitution of the IASC was signed by representatives of national professional accounting bodies from nine countries: Australia, Canada, France, West Germany, Japan, Mexico, the Netherlands, the U.K. and the U.S..

both the private and public sectors, which are not explicitly mentioned in the FASB framework (IASB, 2001).

Under the force of convergence, the need to revisit differences between the frameworks was agreed by the FASB and the IASB in a project to align their conceptual frameworks (McGregor & Street, 2007). An aligned framework was promoted as necessary to achieving convergence of accounting standards as it would provide a common platform from which future standard-setting decisions could be taken. The two standard setters advanced towards a common conceptual frame in their completion of chapters covering the objective of financial reporting and the qualitative characteristics of financial information. However, outside of these chapters, the rest of the FASB and IASB frameworks, including chapters defining financial statement elements and the concepts of recognition, measurement and presentation, are in many ways unconverged and may remain so as the joint project has been discontinued.

In addition, research alludes to the conceptual framework's use in legitimizing standard setting itself through manipulation of the conceptions idealized within it (Fogarty, 1992). In the development of a common set of standards, this begs the question of which (whose) conceptions are manipulated and how that manipulation influences the process and outcome of convergence. If the FASB and the IASB's work on a joint conceptual framework is any indication, difficulties in agreeing upon a common platform from which decisions regarding the development of a common set of global standards could be taken would seemingly imply difficulties in constructing a common set of standards.

Governance Framework

The second aspect of aligning the FASB and IASB institutional frames involved the putting in place a structure "appropriate" for a private, non-governmental standard-setting body. Some criticism of the original IASC structure came from the Group of Four (G4+1)⁶⁰ working group (Street, 2006) in the mid 1990s. The FASB also played a

⁶⁰ The G4 formed in 1992 to ensure agreement in the development of accounting standard by its sponsoring bodies. The Australian Accounting Standards Board (with New Zealand), Canadian Accounting Standards Board, U.K. Accounting Standards Board and the U.S. FASB represented the G4

role in issuing a critique of the IASC's structure in which it distinguished the essential characteristics of an international standard setter. In 1998, the FASB declared it would not consider international accounting standards for entities cross-listed in the U.S. until an international standard setter with certain decision-making, oversight and funding characteristics were in place. The International Organization of Securities Commissions (IOSCO)⁶¹, and one of its primary members the U.S. Securities and Exchange Commission (SEC), reinforced this declaration during IASC-IOSCO negotiations in 2000. Ultimately, in the overhaul of the IASC into the IASB, a conscious effort was made to mirror the IASB around FASB structures around decision-making, oversight, and funding.

In terms of decision-making, the IASB is made up of "full-time, technical experts independent of economic incentives or commercial motivations which may interfere with their role in accounting standard setting" (IASB, 2010). Although this is largely reminiscent of the U.S. setting, there are notable differences in terms of: (1) the number of board members appointed, (2) a requirement for geographical diversity which is irrelevant in the U.S., and (3) more stringent voting requirements, i.e. a supermajority, relative to certain aspects of standard-setting due process. Whether the geographic diversity question has been adequately addressed is unclear as the IASC's initiation by accountants from the U.K., Canada and the U.S. labeled it an Anglo-Saxon influenced organization, and the chairmen of these same countries' national standard-setting bodies, i.e. the G4, were among the first members of the reorganized IASB; with the chairman of the U.K. Accounting Standards Board named IASB chairman (Street, 2006).

The second element, surrounding oversight, addressed questions of the IASC's accountability and independence. Here, the IFRS Foundation, an organization of 22 geographically representative and stakeholder diverse Trustees, was established and granted oversight responsibility not only for the IASB but for its interpretations counterpart as well as an advisory council providing strategic advice (IASB, 2010). In

while the IASC was integrated as the "+1". According to Street (2006), within a short period the G4 was functioning as a (pseudo) standard setter and gaining external legitimacy in part by focusing on problems with the structure and processes of the IASC.

⁶¹ The International Organization of Securities Commissions (IOSCO) was created in 1983 as a global cooperative responsible for supervising the world's securities exchanges.

this capacity, the IFRS Foundation is responsible for appointing members of the IASB, the interpretations committee and the advisory council as well as for dealing with the question of financing. More recently, a monitoring function was established in the creation of a Monitoring Board whose members⁶² represent the world's capital market authorities (IOSCO, 2007). This resulted in a structure similar to that of the U.S. where the SEC monitors the activities of the Financial Accounting Foundation (FAF) Trustees responsible for the appointment, oversight and funding of the FASB and its advisory council. However, unlike the Monitoring Board, the SEC does not make appointments to the FAF whose 20 Trustees are peer-elected. Additionally, in the U.S. sub-space, the FASB itself maintains responsibility for its interpretations committee in terms of both appointment of committee members and functional reporting.

Finally, coming to the third aspect touching on the question of funding, the IASC's financing was derived primarily from fees levied on the IASC board members. This financing structure was subject to criticism as board members were not perceived as independent when they were also the major financiers of the IASC, which was considered to deter interested parties from even participating in standard setting (Tamm-Hallstrom, 2004). Through the reorganized IASB, sources of financing were broadened through voluntary contributions from multinational companies, accounting firms and stock exchanges. Still, this did not relieve the perception that the international standard-setting process gave more weight to the views of parties contributing a larger share of financing. As such, when the Monitoring Board came into existence it encouraged the IFRS Foundation to change its funding structure to improve the perceived independence of the IASB. The IASB is therefore transitioning to national funding regimes representing a system of contributions made through national regulatory, standard-setting authorities, or stock exchanges designed to spread the funding burden to major economies on a proportionate basis. The proportionate system bears some resemblance to the financing structure in place in the U.S. where the FAF's primary source of financing consists of contributions from publicly listed companies registered with the SEC on the basis of firm's average market capitalization.

⁶²Members of the Monitoring Board, created in 2009, include IOSCO, SEC, JFSC, and EC as well as observer status for the Basel Committee.

Procedural Framework

The discussion on the transformation of the IASC's governance framework - decision making, oversight, and funding – suggested emulation of the governance framework in place in the U.S. setting while highlighting certain adaptations made to accommodate the particularities of the international setting. A similar approach is seen in the final element of restructuring which aligned the institutional frameworks of the FASB and the IASB; reworking the international standard-setting due process. Due process is promoted as bringing legitimacy to policy makers who have no formal public authority yet have been delegated responsibility to develop accounting standards for the public (Richardson & Eberlein, 2004). As accounting standard setters exercise power for national regulators and/or exchanges, are subject to conflicting demands of affected stakeholders, and make decisions having consequences for those stakeholders and the public at large (Richardson & Eberlein, 2011); due process is considered necessary to control the standard-setters' actions.

In an early reformulation coming out of the IASC-IOSCO agreement in 1989, the IASC standard-setting process was opened to public comment whereas IAS standards had previously been developed privately by steering committees comprised of IASC members. When the IASC was overhauled, the IASB emerged with a standard-setting process more focused on ensuring the development of IFRS based on preparer and user stakeholders having adequate opportunity to express their views (openness) and public access to information on how standard-setting decisions were taken (transparency). These changes resulted in a due process model mimicking that of the FASB; yet, certain criticisms regarding public participation in due process persisted. In this regard, the IASB responded in three ways. First, outreach groups provide input from the preparer and user communities. Second, working groups on major projects give the IASB access to practical expertise relative to any particular accounting issue. Finally, the IASB seeks participation from a variety of stakeholders through round-table meetings designed to obtain additional information about stakeholder views on proposals. These responses, seen by some as mechanism used by the standard setters themselves in order to minimize conflicting stakeholder and institutional principles (Botzem & Quack, 2009), only served to move the due process model of the IASB even closer to that of the FASB;

This section outlined the alignment of the FASB and IASB conceptual, governance and procedural models as prerequisites to (or consequences of) international standard setting being prepped for the global convergence of accounting standards. I presented a historical view of the standard setting environment, the principal stakeholders and institutions present and their roles in shaping standard setting while considering tensions arising from the conceptions and norms idealized within the standard setting environment. Throughout this presentation, however, the internationalization of accounting standards themselves and the events which lead to their potential acceptance as equal to U.S.-based standards has yet to be discussed.

Transnational accounting standards (evolution of IAS/IFRS)

As a private body, the IASC produced voluntary accounting standards intended to ensure a minimum level of quality and comparability across developed countries and to offer a substitute to developing countries who did not have standards (Camfferman & Zeff, 2007). In the IASC's early years, described by Thorell and Whittington (1994) as its 'descriptive period', the results of standard setting allowed a wide choice of method, essentially reflecting summaries of accepted practice in various countries. While providing an exchange of information and enabling national standard setters a better understanding of practice elsewhere, international accounting standards reflected the IASC's lack of authority to determine accounting practice (Tamm-Hallstrom, 2004). This changed as the IASC was compelled by the IOSCO to develop a unified set of accounting standards for cross-border listings.

The mandate to broaden the use of international accounting standards in developed capital markets moved the IASC into its 'normative period' (Thorell & Whittington, 1994), where standard setting resulted in a single, preferred accounting method. However, the IASC's private effort to develop international accounting standards does not represent the first or only effort towards developing a common set of accounting standards. In fact, the process of bringing the accounting standards of different countries within the E.U. closer together, generally referred to as harmonization, was initiated by the European Economic Community's (EC) Council of Ministers before the IASC was even established.

The harmonization of European accounting standards was judged a precondition to the fundamental objective of establishing a common E.U. market allowing for mobility of capital and labor as well as cross-border exchange between E.U. countries and was the foremost concern of two EC accounting regulations: the Fourth and the Seventh Directive⁶³ (Botzem & Quack, 2006). The primary critique of these two EC accounting regulations, similar to the issue with the standards developed by the IASC, was that they merely codified existing accounting practices rather than bringing standards into harmony. Therefore, any reference to harmonization in the early activities of either the EC or the IASC was perhaps misguided and could more appropriately have been labeled standardization. Nomenclature aside, the EC and the IASC standard-setting efforts continued in parallel; yet EC efforts were hindered by political obstacles, while the IASC maneuvered to improve its image, as well as that of the standards it was developing, with national securities regulators and standard setters.

IASC efforts to win over national securities regulators culminated in the previously mentioned IASC-IOSCO collaboration in the late 1980s. In this collaboration, IOSCO and the IASC agreed to a comparability and improvement project with the objective of reducing or eliminating accounting alternatives considered unacceptable in the international arena (Camfferman & Zeff, 2007). Compared to earlier codification practices, this objective better meets the definition of harmonization, at least the one provided by Nobes (1985), as a “process of increasing the compatibility of accounting practices by setting bounds to their degree of variation”. However, recognizing the importance of raising the acceptance of international accounting standards among the IOSCO member exchanges, in particular with the SEC, it was the Continental European and other countries diverging from the Anglo-Saxon model that came increasingly under pressure to give up their accounting methods (Botzem & Quack, 2006). By the mid 1990s, a number of revisions had been made to international

⁶³ Refers to the Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of entities and the Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54(3)(g) of the Treaty on consolidated accounts. While the Fourth Directive dealt with the format, disclosure and measurement of financial information reported by single entities, the Seventh Directive extended the Fourth Directive requirements to consolidated entities.

standards under the comparability project; however, a second round of revisions was requested by IOSCO with a list of core standards identified for revision by 1998.

Parallel to the IASC-IOSCO interaction, the IASC also attempted to integrate with the G4 working group in convincing national standard setters of the stature of IAS. This proved complicated in that the activities of the G4 working group had come to represent standard-setting competition to the IASC. The G4 had demonstrated how national accounting standard setters could work collectively to develop the accounting topics which ultimately made their way into the standard-setters' agendas, including the agenda of the IASC (Street, 2006). As a result, some perceived a threat to the IASC's existence in the G4, with their Anglo-American orientation towards the information needs of capital-markets guiding the course of standard setting towards the standard-setting ideals embodied within the G4 countries (Botzem & Quack, 2009). However, this threat was minimized when the EC changed its strategy on accounting harmonization by initiating a shift in the development of accounting standards away from the EC and to the IASC (EC Directive, COM 95(508)).

With the IASC having completed the agreed list of core standards in 1998, the the IOSCO reviewed and finally recommended in 2000 that its member exchanges allow entities to use international accounting standards in cross-border listings. That same year, the EC issued a proposal (the Lisbon Accord) to revise EC directives and allow the application of international standards instead of local GAAP for E.U. listed entities. The formal decision to make international accounting standards, by then labeled IFRS, the only acceptable accounting standards for E.U. listings and thereby ruling out U.S. GAAP as an alternative, came in 2002 (EC Regulation 1606/2002) with an effective date for application of IFRS by/for the January 1, 2005 reporting year.

The Norwalk Agreement was also entered into during 2002 and set out a number of FASB-IASB initiatives; among them a decision to align the future agenda of the FASB and the IASB, a move to eliminate minor differences between GAAP and IFRS, and a commitment to work together on joint projects to bring major differences between GAAP and IFRS to a close (FASB & IASB, 2002). This agreement has been viewed by some as part of a global reaction to the Asian financial crisis of the late 1990s and the

Enron, Worldcom and Parmalat accounting scandals of the early 2000s which emphasized that quality financial information is essential to the well-functioning of worldwide capital markets and allocation of economic resources (Tweedie & Seidenstein, 2005). However, contrary to what Tweedie and Seidenstein (2005) imply, the increasing integration of markets and allocation of resources without regard to national borders, while raising questions regarding the relevance of national accounting practices, does not explain the choice of one set of accounting standards over another or their convergence.

That said, nowhere in the Norwalk Agreement does the term convergence actually appear. Rather, the elimination of minor differences between GAAP and IFRS to be resolved prior to IFRS adoption in the E.U., covered differences which the standard setters anticipated could be resolved by selecting between existing GAAP and IFRS, a sort of “best in class” solution. On the other hand, major differences were merely mentioned to be addressed ‘as soon as practicable’ through joint FASB-IASB projects (FASB & IASB, 2002). By 2006 the standard setters reiterated their commitment in publishing ‘A Roadmap for Convergence between IFRSs and US GAAP 2006-2008’ which finally specified the projects as convergence projects under a Memorandum of Understanding (MoU) (FASB & IASB, 2006). At this time, the relevance of convergence to the elimination of the requirement for foreign companies using IFRS listed on the U.S. securities exchange to reconcile their IFRS-based statements to U.S. GAAP was highlighted as imperative. As such, the 2006 MoU indicated several different routes to convergence as follows: (1) replacement of weaker standards with stronger standards greater serving investor needs and (2) development of common standards that improve financial information reported to investors (FASB & IASB, 2006).

One indication of the perceived progress toward the convergence objective came in 2007 when the SEC did alleviate the requirement for foreign firms listing on U.S. exchanges to provide a reconciliation of IFRS to GAAP. Just a year later, the SEC released a ‘Roadmap to IFRS Conversion’ containing milestones which, if achieved, indicated the potential adoption of IFRS by U.S. listed companies at the earliest in 2014

based on a decision to be taken formally in 2011 (SEC, 2008). During this same period, the Group of Twenty (G20)⁶⁴, responding to the 2007 financial crisis through a regulatory reform action plan, called for “key global accounting standards bodies to work intensively toward the objective of creating a common set of high-quality global standards” (G20 Summit, 2008); a request they reiterated with urgency at each of their annual summits through 2011. Not surprisingly, when the FASB and the IASB reaffirmed their commitment to the MoU in 2009, they agreed to intensify their efforts to complete the major convergence projects described in the 2006 MoU with the aim to have each major project completed by mid-2011 (FASB & IASB, 2009). However, the world has endured an on-going financial crisis that has significantly altered the political economy of world capital markets. Moreover, a new presidential administration in 2008 and a new SEC leadership then, and again in 2012, have made the U.S.’s priorities on accounting standards as well as the extent of U.S. commitment to IFRS uncertain.

The sequence of events outlined in this section served to show how standard-setting activities moved from those associated with standardizing international accounting rules and principles to harmonizing international accounting standards and finally to their consideration as acceptable for global convergence with U.S. GAAP. These activities are highlighted relative to certain events occurring in the global economic and political environment in order to contextualize the path to the objective of a common set of global standards. Yet our understandings of the conceptions related to this objective remain largely unclear. Further, the path described here provides little insight as to how the FASB-IASB standard-setting process model brings us towards this objective. Thus, as the convergence program comes to a close, GAAP and IFRS accounting standards will apparently have converged closer than ever without any theoretical or practical clarity as to this phenomenon or the manner in which it functions. The next section justifies the consideration of the phenomenon and functioning of convergence as an important research opportunity.

⁶⁴ The leaders of the G20 represent 19 of the world’s largest national economies plus the E.U..

Appendix 2: Interview Instrument: Convergence-Global Standards

Interviewee: _____

Mode: _____

Date: _____

Duration: _____

This questionnaire is composed of several parts: one part which helps us to better understand what your role in the convergence of has been in the joint standard setting process and a second part which allows us to gather your opinions on standard-setting processes and procedures and conceptual/technical issues related to the convergence project. The questions/responses are anonymous and no interviewees will be specifically named in the results of the study.

1. Background questions

- 1.1 Personal/professional history, current/former positions, etc. (could be done at end)
 - 1.1.1 Role/responsibility in international accounting standard setting
 - 1.1.2 Role relative to other actors in the international standard setting process

2. General Questions

- 2.1 What does it mean to converge accounting standards?
- 2.2 What actions /actors are involved in the convergence of accounting standards?
- 2.3 Why is global convergence of accounting standards important?

3. Specific Themes/Issues

What does it mean to converge accounting standards?

- 3.1 Definition of convergence
 - 3.1.1 General (relative to economic development, for example)
 - 3.1.2 Relative to accounting standards
- 3.2 Evolution of convergence
 - 3.2.1 Origin – who, when, how, what context?
 - 3.2.2 Static or dynamic – changed over time?
- 3.3 Related definitions
 - 3.3.1 Standardization, harmonization, other
 - 3.3.2 Synonyms, antonyms, differences

What actions/actors are involved in the convergence of accounting standards?

- 3.4 Convergence process
 - 3.4.1 Explain the process of convergence (how?)
 - 3.4.2 Who drives the convergence process?
- 3.5 Types of convergence
 - 3.5.1 Different approaches to convergence
 - 3.5.2 How do countries decide + factors influencing decision
 - 3.5.3 Link to social, economic, political environment

Why is global convergence of accounting standards important?

- 3.6 Rationale
 - 3.6.1 Benefits of accounting convergence
 - 3.6.2 Costs of accounting convergence
 - 3.6.3 “One best way” to account globally
 - 3.6.4 Link to social, economic and political environment
- 3.7 Outcomes
 - 3.7.1 What kind of convergence do we achieve
 - 3.7.2 Effect of multi-strategy approach on global standards
 - 3.7.3 Effect of standards/framework globally on nation-states

Other Themes/Issues

- 3.8 Open Questions
 - 3.8.1 What have I missed/did I forget
 - 3.8.2 What did you expect me to ask that I didn't
 - 3.8.3 What would you like to add/come back to

Appendix 3: Interview Instrument: Revenue Recognition Project

Interviewee: _____

Mode: _____

Date: _____

Duration: _____

This questionnaire is composed of several parts: one part which helps us to better understand what your role in the convergence of revenue recognition has been in the joint standard setting process and a second part which allows us to gather your opinions on standard-setting processes and procedures and conceptual/technical issues related to the revenue recognition convergence project. The questions/responses are anonymous and no interviewees will be specifically named in the results of the study.

1. Background questions (Role/Expertise)

- 1.1 Organization you currently work and for how long
 - 1.1.1 Current position and summary of your responsibilities
 - 1.1.2 Educational background (last diploma received), training/prior experience and certifications

- 1.2 Current role in accounting standard setting. Role in the Convergence of GAAP-IFRS in particular
 - 1.2.1 Organization's role in standard setting overall
 - 1.2.2 Organization's role in GAAP-IFRS convergence
 - 1.2.3 Primary interest (versus that of current organization) in the convergence of revenue recognition

- 1.3 How long engaged in the FASB/IASB standard setting process (dates)
 - 1.3.1 How did you come to be engaged in the standard setting process
 - 1.3.2 Characterize your role/involvement in this process

- 1.4 How long engaged in the revenue recognition project, specifically (dates)
 - 1.4.1 How did you come to be engaged in the revenue project
 - 1.4.2 Characterize your role/involvement on this specific project
 - 1.4.3 How is staff selected to work on the (revenue) project

2. Procedural questions (Process)

- 2.1 Identify phases of the revenue project you have been involved in
 - 2.1.1 Project Planning

- 2.1.2 Inventory of existing practices
- 2.1.3 Development of concepts and principles
- 2.1.4 Development of measurement models
- 2.1.5 Discussion paper
- 2.1.6 Exposure Draft
- 2.1.7 Re-exposure draft
- 2.1.8 Other

- 2.2 Define in which capacity you were involved in each phase
 - 2.2.1 Individuals responsible for each phase

- 2.3 Describe project hierarchy
 - 2.3.1 Who did you report to directly (indirectly)
 - 2.3.2 Who reported to you directly (indirectly)
 - 2.3.3 How were responsibilities divided between project staff

- 2.4 Describe relationship within/between team and the Board members
 - 2.4.1 Frequency of interaction
 - 2.4.2 Nature of interaction
 - 2.4.3 Mode of interaction

- 2.5 Describe a “typical” (joint) standard setting meeting of the revenue recognition team
 - 2.5.1 Preparation/administration
 - 2.5.2 Conduct/content
 - 2.5.3 Documentation/Follow-up

- 2.6 Describe role of different modes of public participation in the revenue project - comment letters, outreach activities, unobservable activities
 - 2.6.1 (How) did public participation change during project
 - 2.6.2 Relative to other projects, how has participation differed

- 2.7 What do you consider strengths and weaknesses of the joint standard setting process to converge revenue recognition
 - 2.7.2 Could the process be made more efficient

3. Contextual Questions (Convergence)

- 3.1 Primary goal/objective of converging revenue recognition standards
 - 3.1.1 Goal/objective changed over the life of the project
 - 3.1.2 Factors that impacted any changes in goals/objectives

- 3.2 Costs and benefits of convergence of revenue recognition standards and for which actors.
- 3.3 Main issues surrounding the concept/principle of measuring revenue (fair value).
 - 3.3.1 Involved in developing the proposed measurement models
 - 3.3.2 Staff members responsible for developing each model
 - 3.3.3 Division between which board members and staff supported/opposed each model
 - 3.3.4 Support/opposition changed over time
 - 3.3.5 Deciding factors in the selection of the transaction price approach
- 3.4 How differing points of view/opinions within and between the IASB and FASB staff (board) were resolved
 - 3.4.1 Criteria for making decisions
- 3.5 Standard setting environment and contextual factors
 - 3.5.1 Environment changed over time?
 - 3.5.2 Factors most influence the standard setting environment

Abstract

This dissertation explores the efforts of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to produce a common set of accounting standards accepted for worldwide market regulation. In doing so, it examines how a process of accounting (institutional) change - referred to as a convergence process - has evolved within the transnational accounting standard-setting space. This research investigates the role that institutions and politics play in the FASB-IASB convergence process, more broadly, as well as their role in the processes by which standard setters go about collective policy-making on one highly contested standard. With the accounting policy-making literature serving as a foundation tying together the works within this dissertation, I mobilize institutional and political perspectives to systematically explore the convergence of accounting standards through three empirical papers. Each of these studies focuses on standard-setting activities occurring between 2002 and 2011 and utilizes case study methods drawing on multiple data sources including archival documents, indirect observation and interviews with key informants. The first paper focuses on understanding the phenomenon of accounting convergence and its relationship to broader political and institutional trends through a variety of diffusionist mechanisms from neo-institutional theory. This dissertation then turns to the standard-setters themselves as focal actors and links these actors to the meaning systems they employ in the shaping of accounting convergence. The second paper focuses on competing meaning systems that standard setters adhere to and the factors that affect collective policy decisions. More specifically, it is interested in the negotiated order (Strauss et al. 1963) which takes shape on the basis of these factors. Finally, the third paper studies the process by which accounting standard setters persuade their public audience (and themselves) of the merits of their policy decisions by mobilizing orders of worth (Boltanski & Thévenot, ([1991], 2006) in their discourse. The primary contribution of this dissertation is to shed light, at multiple levels of analysis, on how transnational convergence activities, in particular those aimed at producing a common set of accounting standards, evolve in consideration of actors, institutions, and context.

Keywords: GAAP-IFRS convergence, accounting standard setting, transnational communities, meaning systems, deliberation, justification, institutional processes

Résumé

Cette thèse étudie les efforts mis en œuvre par le Financial Accounting Standards Board (FASB) et l'International Accounting Standards Board (IASB) afin de produire de manière conjointe un ensemble de normes comptables pour réguler les marchés dans le monde entier. Pour ce faire, elle examine comment un processus de changement comptable (institutionnel) – décrit comme un processus de convergence - a évolué au sein de l'espace transnational de normalisation comptable. Cette recherche étudie le rôle que les institutions et les politiques jouent dans le processus de convergence des FASB-IASB, ainsi que leur rôle dans les processus par lesquels les normalisateurs prennent une décision collective sur un standard très controversé. A partir de la littérature sur la normalisation comptable considérée comme le socle de base de cette thèse, je me sers d'un cadre théorique à la fois institutionnel et politique pour explorer systématiquement la convergence des normes comptables. J'effectue trois études empiriques. Chacune de ces études couvre les activités de normalisation ayant eu lieu entre 2002 et 2011 et utilise des études de cas s'appuyant sur plusieurs sources de données comprenant des documents d'archives, des observations indirectes et des entretiens avec des participants clés. Le premier article met l'accent sur la compréhension du phénomène de convergence des normes comptables en relation avec des tendances politiques et institutionnelles plus larges au moyen de divers mécanismes de diffusion de la théorie néo-institutionnelle. Ensuite, cette thèse souligne le rôle central des normalisateurs qui mobilisent des systèmes de sens pour faire converger les normes comptables. Le deuxième article se concentre sur les systèmes de sens concurrents auxquels se réfèrent les normalisateurs comptables, ainsi que les facteurs qui influencent leurs décisions collectives. Plus spécifiquement, il s'intéresse à l'ordre négocié (Strauss et al., 1963) qui prend forme sur la base de ces systèmes. Enfin, le troisième article étudie le processus par lequel les normalisateurs comptables convainquent les parties prenantes (et eux-mêmes) de la légitimité de leurs décisions par le biais des « économies de la grandeur » (Boltanski et Thévenot, 1991) et des mécanismes rhétoriques. Cette thèse contribue à développer par une étude multi-niveaux, nos connaissances sur les activités de convergence transnationale, en particulier celles qui visent à produire un ensemble commun de normes comptables, et comment ces normes évoluent en tenant compte du contexte, des acteurs et des institutions.

Mots-clés : convergence de GAAP-IFRS, normalisation de la comptabilité, communautés transnationales, systèmes de sens, délibération, justification, processus institutionnels