1. **Introduction**

1.1 **Topic and Research Questions**

Accounting standards are a codified set of ideas for rationalising economic activity at the level of the firm. By providing detailed definitions of profits and losses, and assets and liabilities, accounting standards maintain some of the most important quantitative anchors around which contemporary capitalism is both organised and legitimised. Until very recently accounting standards were a national affair, written and regulated by nationally constituted public organisations. However, this changed dramatically when, in 2002, the European Parliament and the Council of the European Union ruled that all EU stock exchange listed companies were to adopt a single set of accounting standards written by the International Accounting Standards Board (IASB). This ruling came into force in January 2005.

For almost three decades from 1973, the International Accounting Standards Board\(^1\) existed as a forum for national accounting standard setters to agree upon, and disseminate, best practice. However, owing to its 2002 endorsement by the European Union, the IASB has now become the *de facto* global regulator of accounting standards. Besides the 27 EU member states, IASB standards are today used in more than 70 other countries worldwide (Tweedie and Seidenstein 2005). The only major economy that has not yet switched to IASB accounting standards is the United States (US). Nevertheless, the US national standard setter, the Financial Accounting Standards Board, (FASB) has long been engaged in a substantive convergence project with the IASB. Indeed, as research for this PhD neared completion, the US Securities and Exchange Commission announced a timetable for switching the US to IASB standards by 2014 (SEC 2008).

The rise of the IASB as the global accounting regulator is not just a shift in governance from the *national* to the *international* level; it is also a shift from *public* to *private* regulation.

\(^1\) Until 2002, when it was renamed, the International Accounting Standards Board (IASB) was called the International Accounting Standards Committee (IASC). For a thorough account of the rise of the IASC/IASB see Camfferman and Zeff 2007.
Based in London, the IASB is a private organisation directed and financed by the International Accounting Standards Committee Foundation, a private company registered in the US state of Delaware, and funded by voluntary contributions most of which come from the ‘Big Four’\(^2\) global accountancy firms.

The replacement of dozens of national public systems of accounting regulation with a single set of International Financial Reporting Standards, issued by a privately funded organisation, makes accounting standards a perfect specimen of global private governance, as conceptualised in political science (Cutler, Haufler and Porter 1999, Higgott, Underhill and Bieler 2000, Ronit and Schneider 2000, Hall and Biersteker 2002a, Graz and Nölke 2007). As a consequence, accounting has recently become a much used case study among political scientists researching contemporary developments in global governance, with a corresponding growth in the quantity of published research on the topic. Since 2005 there have been historical accounts of the rise of the IASB (Botzem and Quack 2006, Martinez-Diaz 2005, Katsikas 2006, Camfferman and Zeff 2007), its interplay with the professions (Botzem 2008), and with US authorities (Eaton 2005). The empowerment of the IASB has been analyzed using a principal-agent approach (Büthe and Mattli 2005), as a case of private technical authority (Porter 2005), and a form of deliberative transnationalism (McGrew and Robotti 2006). Meanwhile, the organization itself has been examined alongside discussions of EU policy (Dewing and Russell 2004), implications for regulators (Donnelly 2005, Donnelly 2007), accountability concerns (Kerwer 2007, Vernon 2007) and prospects for convergence between the regulation of International Financial Reporting Standards and US accounting standards (Dewing and Russell 2007).

This dissertation adds an important dimension to the above body of political science research on accounting because, next to governance, the rise of the IASB also represents a shift in the substantive content of accounting regulation. As such, the first two research questions of the dissertation seek to connect accounting governance to accounting substance:

\(^2\) Ernst and Young, PriceWaterhouseCoopers, Deloitte Touche Tohmatsu, KPMG
1. **What is the political content of the change in accounting standards introduced by the IASB?**

2. **How and through which mode of governance have these changes taken place?**

All productive social activity that is monetized in the formal economy ends up as a number presented in one or more financial accounting statements. If it were the case that economic production were a purely material phenomenon that could be measured objectively, there would be little room for controversies over accounting standards; ambiguities in accounting numbers would either be mistakes or outright fraud (i.e. accidental or purposeful mis-measurement) and hence a matter of auditing rather than accounting. However, the fact that economic production is a social phenomenon means that accounting is an inherently social and institutional practice that *disciplines through calculation* rather than merely *reporting through measurement* (Miller 1994, Thompson 1994). Accounting numbers should not be mistaken for magnitudes of output, nor as an assessment of society’s productive resources. Indeed, as even mainstream economists have on occasion conceded (Samuelson 1966, Ferguson 1969), the monetary valuations of capital assets are never unambiguous since they always incorporate a contested and subjectively calculated vision of the future. Seen this way, accounting numbers are both an ex-post validation of previous resource allocation and distribution, and – more importantly – are also central to the construction of the economic and institutional reality upon which *future* allocation and distribution decisions will be based. As this dissertation explains, the shift in substantive content of accounting standards introduced by the IASB is therefore at least as significant as the shift in governance of the processes by which such standards are set.

In short, accounting is a political act, even if it is not very obviously politicized. The term “political” is used here in a broader sense than is sometimes the case in political science. As Hay puts it, *political analysis:*

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3 Auditing standards are distinct from accounting standards. Auditing standards are concerned with checking if accountants are doing their job honestly; for example, does a firm really own the assets listed in its financial statements? Accounting standards are more fundamental; they define what an asset is. Auditing standards are concerned with the diligent application of accounting standards.
…draws attention to the power relations implicated in social relations. In this sense, politics is not defined by the locus of its operation but by its nature as a process (Hay 2002: 3)

Power arising in the realm of government is not, in this broad understanding of politics, more political than power arising in other social realms. Thus, as well as in government, power relations in private business and finance are valid – and essential – objects of political enquiry.

The power relations connected to accounting, which are examined in this dissertation, can be located in the two-dimensional taxonomy of power offered by Barnett and Duvall (2005). The first dimension refers to the kind of social relations through which power works (interaction vs. constitution); the second to the specificity of these social relations (direct vs. diffuse):

<table>
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<tr>
<th></th>
<th>Direct</th>
<th>Diffuse</th>
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<tr>
<td>Interaction</td>
<td>Compulsory Power</td>
<td>Institutional Power</td>
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<tr>
<td>Constitution</td>
<td>Structural Power</td>
<td>Diffuse Constitutive Power</td>
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*Figure 1. A Taxonomy of power - adapted from Barnett and Duvall (2005: 48)*

One of the advantages of the above taxonomy is that it enables us to see how different forms of power are connected to one another. In these terms, in addition to linking the governance to the substance of accounting standards, this dissertation demonstrates how the diffuse constitutive power of accounting ideas is shaped by, and at the same time makes possible, both the structural power of finance and the institutional power of particular firms in the
contemporary global political economy. Doing so provides an answer to the dissertation’s third research question:

3. **Why are the current changes in accounting taking place? What explains the content of the IASB’s new accounting standards and in which regard(s) are they constitutive of broader structural shifts in the political economy?**

1.2 **Approach**

The main change that the IASB brings to the content of accounting standards is the extended use of a valuation paradigm called *Fair Value Accounting* in place of the more traditional *Historic Cost Accounting* paradigm. The difference between these paradigms, and their application to specific accounting standards, is examined in detail throughout the dissertation but the key distinction can be summarised thus: Under Historic Cost Accounting, the value of a corporate asset was directly linked to what was originally paid for it; under Fair Value Accounting, this link with the past is broken and instead the accounting value of an asset is determined by reference to its current market price or, in many cases, a simulated model of the market price.

In developing its political analysis of this substantive paradigm shift in accounting standards, the dissertation engages directly with mainstream accounting and business scholarship which tends to see Fair Value Accounting as a means of increasing the transparency of financial reporting (Barker 2003; Damant 2003a, 2003b), and hence the efficiency with which the market economy deploys economic resources through the actions of individual firms (Barlev and Haddad 2003; Upton 2003). However, as is made clear, even among mainstream accounting scholars there have been a number of criticisms of the Fair Value paradigm, particularly in terms of its practical usage (Ernst and Young 2005), but also its apparent transparency (Barth and Landsman 1995; Bernstein 2002), and its logical coherence (Bromwich 2004).
The dissertation proceeds by adopting a theoretical perspective that, while tuned to the importance of ideas in political economy (Woods 1995; Blyth 2002; Hay and Rosamond 2002), also seeks to incorporate those ideas into causal mechanisms in order to make causal statements (Sayer 2000; Bieler and Morton 2008). In this sense, regardless of whether one agrees with the mainstream perspectives cited in the previous paragraph, these perspectives must remain central to our understanding of why today’s changes in accounting standards are taking place because they shape the epistemology both of the accounting policymakers, and likewise of most users of accounting information.

The study’s main empirical material consists of the accounting standards themselves, together with the policy drafts and discussion papers that surround the policy-making process. Specific data sources are detailed in each chapter, the principal originators being the IASB, the Organisation for Economic Cooperation and Development (OECD), the European Commission, and the Brookings Institution. Moreover, treating the work of accounting academics as primary data, the dissertation also examines the academic clusters that inform policy-making in accounting, most notably the writings of the so-called “intellectual capital school” whose members populate several of the policy committees at the aforementioned organisations (Lev and Zarowin 1999; Blair and Wallman 2001; Nakamura 2003; Lev 2001, 2003; Marzo 2007; Young 2007; Zambon 2007).

By employing process tracing techniques (George and Bennett 2005; Marshall and Rossman 1999) alongside expert interviews (Weiss 1995; Gubrium and Holstein 2002; Rubin 2005), the study proceeds to analyse the substantive output of the above organisations. In addition, formal Network Analysis techniques (Wasserman and Faust 1994, Scott 2000) are also used to map the observable linkages between these organisations and their constituent private firms.

The dissertation is informed by a blend of two complementary theoretical approaches. Chapters two, three and four frame their analysis predominantly in terms of the varieties of capitalism approach (Albert 1991; Hall and Soskice 2001) to explain how Fair Value
Accounting is part of the ideational armoury of financialisation (Froud, Haslam, Johal and Williams 2000; Krippner 2005) that characterises the advancing Anglo-Saxon variety of capitalism. Chapters five and six, in contrast, employ the institutionalist concepts originally developed by Thorstein Veblen (1904, 1908a, 1908b, 1921, 1923) and since revived in the writings of Hunt (1979), Hodgson (1994), Nitzan and Bichler (2000), and Gagnon (2007), among others. In these latter chapters, particular use is made of Veblen’s concept of capital (1908a, 1908b), and what Hunt (1979) refers to as Veblen’s ‘Antagonistic Dichotomy of Capitalism’, based on the paired social categories of business and industry, and salesmen and workmen (Ibid: 306-7). Applied to the accounting phenomenon known as “goodwill”, these concepts allow the dissertation to place apparently technical aspects of Fair Value Accounting in their proper political context and, in doing so, to also provide a precise assessment of specific tensions in the contemporary politics of production that are revealed by today’s accounting dilemmas surrounding “goodwill”.

Although political science has, until now, not engaged directly with the Fair Value Accounting paradigm, there are a small number of critical scholars in economics and economic sociology who have. Notable among these is Richard (2005), who has conducted a long-range analysis of Fair Value Accounting and its traditional alternative, Historic Cost Accounting, in France and Germany stretching from 1673 to the present day. Richard explains paradigmatic changes in accounting in terms of the relative position of ‘professional categories’ (Ibid: 844), each with a different set of interests. In particular, he contrasts an entrepreneurial community concerned with firms’ financial performance, with a legal community whose primary concern has tended to focus on whether or not creditors can be repaid in the event of bankruptcy.

Aglietta and Rebérioux (2005), in their analysis of the contemporary shareholder value paradigm, make a similar argument to Richard. They present Fair Value Accounting as a ‘liquidator vision’ of the firm as a static entity, focussing on the firm’s ability to meet its liabilities immediately (Ibid: 128). In contrast, the alternative Historic Cost paradigm is said
to portray assets in terms of ‘their contribution to intra-firm coordination’, treating the firm as a going concern (Ibid: 115-116). While Aglietta & Rebérioux’s contemporary analysis usefully extends Richard’s historical perspective, it is also limited by its use of the same dichotomy between two opposing views of the firm (the static view of creditors and lawyers, and the dynamic view of entrepreneurs). As Richard himself concludes, this dichotomy may help us understand, but cannot explain today’s shift in accounting standards which, led by the IASB, incorporate a new kind of Fair Value Accounting rather different from that which dominated in nineteenth century France and Germany (Richard 2005: 846-847).

1.3 Structure of the Dissertation

In seeking to both explain and understand the link between accounting and the global political economy, this dissertation starts at the broad level of the entire Fair Value Accounting paradigm, and the network of actors that promulgate its use, before narrowing to focus on a specific issue exposed by Fair Value Accounting.

The answers this dissertation offers to the research questions posed above have been developed through the writing of five stand-alone articles between 2004 and 2008, three of which have already been published, and two of which are presently under peer-review with journals. Presented as chapters in this dissertation, these articles reflect the progression of the project from 2004 to 2008 and therefore also reveal how the project’s central focus evolved during those years. Whereas the focus of research for chapters two, three and four was to investigate the broad phenomena of transnational private authority using changes in accounting regulation as a case-study, in chapters five and six it subsequently shifted to examining the structural role of specific accounting regulations, whose change had been brought about by private authority. However, this is not to say that agency drops away to be replaced entirely by structure in the latter two chapters. Indeed, chapters five and six draw explicitly on interviews with individuals, and detailed analysis of policy documents from
international organizations, that have been pivotal in promulgating the accounting regulations in question, some of which are in fact exemplars of private transnational authority. The chapters of the dissertation are organised as follows:

Chapter two, “International Accounting Standard Setting: A Network Approach”, investigates the composition of the policy network which sets accounting standards. It demonstrates how this network comprises public- and private-sector actors who represent the financial sector, the non-financial sector and a range of state bodies, both national and transnational. Formal network analysis techniques are applied to data compiled on the membership of the committees that surround the IASB’s accounting standard setting procedures, and also to the so-called “comment letters” that are submitted to the regulator as part of its public consultation process. This analysis shows how private actors have significantly more influence than public actors and, furthermore, that private financial sector actors are by far the best connected of all. Moreover, the public actors that retain influence predominantly represent the world of finance. Lastly, it is notable that there is absolutely no representation of organised labour or broader civil society organisations.

Chapter three, “Coordination Service Firms and the Erosion of Rhenish Capitalism”, examines the private authority of accounting firms alongside credit rating agencies, focussing in particular on their differential impact on different varieties of capitalism. By considering the concentration of market share, and the mobilisation of technical expertise, prevalent amongst coordination service firms in the context of financial disintermediation, this chapter highlights how the practices of accounting and credit-rating are undermining the fabric of the Rhenish variety of capitalism, whose elements are highly interdependent and hence not easily transferred or exchanged. Despite the apparent rise of private authority, the power of coordination service firms is argued to have been led, in many respects, by publicly enforced agreements such as Basel II which have propelled credit ratings and particular accounting numbers to the forefront of corporate governance regulation.
Chapter four, “The Political Economy of International Accounting Standards”, was the first article in this project to conduct a detailed examination of the substantive content of the new accounting regulations. It examines the shift from Historic Cost to Fair Value as a measurement paradigm for assets, introduced by the IASB. After reviewing the analysis offered by mainstream accounting scholars, both for and against Fair Value Accounting, the chapter introduces a political economy perspective that explains how the new paradigm privileges the financial sector over the productive sector by appealing to calls for “efficiency” and “transparency” in the provision of statutory financial reports. In doing this, chapter four expands the arguments of the preceding two chapters that the rise of the IASB favours the Anglo-Saxon variety of capitalism over the Rhenish variety and, moreover, underpins a financialised variety of the Anglo-Saxon model. Building on the network analysis in chapter two, the substantive shift in accounting regulation is argued to have been facilitated by the dominance of private-sector actors in the accounting standard setting process, and the broader rise of what has been termed “transnational private authority” in global governance.

Drawing on chapter four’s relatively wide survey of accounting changes brought about by the IASB, chapters five and six zoom-in to focus on “goodwill” which, as these chapters explain, is a measure of the failure of accounting practice to live up to the expectations of the economic ideas upon which accounting theory is premised. The failure to account for goodwill has both political causes, and consequences.

Chapter five, “Goodwill Hunting”, explains why accounting for goodwill is necessary to maintain the coherence of the ideas system used to legitimise neoliberal politics – namely, to make social objects (capital assets) appear logically prior to social acts (profits). The chapter then goes on to examine the linkage between the diffuse constitutive (productive) power of accounting ideas and the diffuse interactive (institutional) power of firms in the global political economy. This in turn points to a fundamental contradiction between today’s international reorganisation of production and the political-economic ideology (neoliberalism) which underpins it. Appearing empirically as an accounting number labelled
as goodwill, this contradiction is shown to have been caused by a breakdown in the mechanism which routinely converted immaterial (relational) values into material (attribute) values, and so made possible the construction of a quantitatively consistent economic reality of capitalism in which the firm could be presented as if it were a mechanically arranged sum of component parts, absent of power relations. As chapter five explains, this conversion of immaterial to material values, upon which modern economic ideas depend, only worked properly as part of a historically specific coincidence of physical definition, legal definition, and monetary value that was integral to – and, in many respects, defined – the “industrial” era of capitalism. Goodwill hunting is shown to be a forlorn attempt by accounting standard setters, and the international organisations that support them, to manually replicate what has hitherto been an integral outcome of capitalist business relations.

Chapter six, “Make Room for the Salesmen: The Political Economy of the Intangible Asset”, examines the goodwill contradiction from a slightly different, but complementary, perspective. It demonstrates that, although this contradiction has been partially and temporarily patched-over in order to shield capitalist economic discourse from the tautology in which it is embedded, the International Accounting Standards Board, international economic organisations, and the broader epistemic community of accounting thinkers, are now finding it impossible to develop a long-term solution. Yet, as the chapter makes clear, a solution must in the end be found if the so-called “knowledge economy” is to remain a capitalist economy. Drawing on interviews conducted with policymakers and IASB officials, as well as document analysis, chapter six explains that the present-day failure of accounting numbers to support (neo-) classical economic logic is caused by an embedded confusion in these ideas systems between efficiency and scarcity or, more concretely, between industry and business. This confusion stems from the adherence of mainstream economics – and, by extension, capitalist accounting – to an atomistic view of production. By applying the institutionalist concepts of Thorstein Veblen and John Commons, chapter six argues that the accounting problems surrounding goodwill point to an expanded layer of pecuniary activity that masquerades as production in the knowledge economy.
Chapter seven concludes the dissertation, summarizing its main findings and arguments, highlighting the questions they raise for future research, and locating them within broader political economic and historic perspectives.