Survival Strategies of a Global Organization: The Case of the International Accounting Standards Committee

R. S. Olusegun Wallace

R. S. Olusegun Wallace is Lecturer in Accountancy at the University of Exeter, and IASC's International Accounting Research Fellow.

This paper is based on the premise that the IASC is a legitimate organization because it continues to be acceptable to its constituencies, in spite of the challenges posed to its credibility by the inevitable crises that surround the pursuit of its goals. In fact, legitimacy implies acceptability in the face of uncertainty; and that, in turn, as Johnson and Solomons[1] argue, implies organizational durability. Whether they focus on the IASC's explicit objectives or its standards, current explanations treat the IASC too superficially and posit a relationship between it and its social environment that seems inflexible. Given the IASC's survival, this paper abandons the assumption that the worst will happen and that unintended consequences will invariably be negative. It separates out the IASC from its standards or actual activity so as to explain why and how it continues to survive.

The paper is in three parts. The first part introduces the topic in the context of a contingency theory which provides the stimulus for the study of the survival strategies of the IASC. The second part presents the survival strategies concerned with the management of technical core resources and the procedural process. The third part explains how the IASC manages its external environment.

INTRODUCTION

Researchers studying the IASC have emphasized its standards and treated these standards as choices made by a single actor, and have likened them to those of an individual human being. The authors state propositions about the explicit goals of the IASC which are then presumed to be the only principles for evolving accounting standards. An alternative approach is to focus upon the IASC itself rather than upon its standards, in order to utilize its peculiar characteristics to examine the rationality of its goals, options and consequences. This will enable a researcher to consider either (a) the propensities or institutional traits of the IASC, (b) the values shared by its membership or (c) the special principles of action such as a change in its goals or a narrowing of its alternatives or consequences. This focus could concentrate on the IASC's strategic objectives including its own perpetuation rather than its explicit goals. Yet another approach is the political; the recognition of the existence of several actors within the IASC's central mechanism. The last two approaches could help to explain how the IASC has adapted to, created or shaped its own environment. As Solomons[2] has pointed out:

The author acknowledges the helpful comments on earlier drafts of this paper from Professor R. H. Parker and Dr. Terry E. Cooke of the University of Exeter, Professor C. W. Nobes of the University of Reading, Professor Helen Gernon of the University of Oregon and David Cairns, Secretary-General of the IASC. The author served as Technical Adviser to the Nigerian members on the IASC's Board from 1983 to 1988. The personal views expressed in this paper are neither those of the Nigerian delegation nor of the IASC.

[1] Steven B. Johnson and David Solomons, "Institutional Legitimacy and the FASB," *Journal of Accounting and Public Policy* (Vol. 3, No. 3, Fall 1984), p. 167.

[2] David Solomons, *Making Accounting Policy: The Quest for Credility in Financial Reporting* (New York, Oxford University Press, 1986), pp. 59-60.

> International accounting standards [IASs] are not exclusively the concern of any one organization, for governments have not been willing to leave this matter entirely to private initiative. The IASC is unquestionably the voice of the private sector in this field, but it does not have the field to itself. The OECD, made up of highly developed countries, has prepared a Code of Conduct for Multinational Enterprises, which includes, among other things, prescriptions for financial disclosure by multinationals. At the urging of the developing nations, the United Nations has formed an Intergovernmental Group on International Accounting Standards and Reporting.

This quotation emphasizes the market for the supply of global accounting standards in which the IASC is a dominant (not the sole) supplier. To understand such a dominant role, one needs to consider the factors which affect the structure and effectiveness of the IASC. Such an understanding can be informed by a contingency theory of the existence (and survival) of the IASC.

Contingency Theory

Previous studies of the IASC have conceptualized the contingency approach very restrictively. Choi and Mueller[3] use varying cross-national differences in environmental characteristics of countries to argue that the IASC cannot be a sustainable entity.[4] Aitken and Islam[5] disagree with this contention. They argue that the transactions and events which accountants seek to measure, value and report are similar across countries and that the IASC's task is to harmonize the different measurement, valuation and reporting practices.

Similarity of business transactions and events occurring in different countries and different environmental factors are two of the many variables capable of informing an understanding of the IASC's activities and survival. An enlarged perspective on contingency theory, with the inclusion of contextual, environmental and socio-cultural variables can provide a comprehensive understanding of the determinants of the organizational patterns and effectiveness of IASC. An integrative model [Figure 1] provides a means of conceptualizing these variables by visualizing three successive environments: the IASC's internal environment (the core); its tasks and constituencies (the inner boundary) and the varying international environment (the outer boundary). This model stresses the "patterns of relationships" rather than causal linkages. It is from these patterns that one can perceive the intentions of the IASC and its membership.

The internal environment is shown in the center with the Secretary-General and Chairman to the Board determining, in consultation with the Organization and Planning Committee [OPC], the patterns and survival strategies of the IASC. Also determining the scope of operations of the IASC is the size of its staff and budget. Shown on either side to represent what keeps the IASC in existence are business transactions and events, and accounting policy options. Accounting standards are developed, after due process, to resolve measurement, valuation and reporting problems arising from business transactions and events. The standards are the result of choices from among many accounting and disclosure options. Guiding all these operations is the primary goal of the IASC [harmonization] and the know-how of the Board's members.

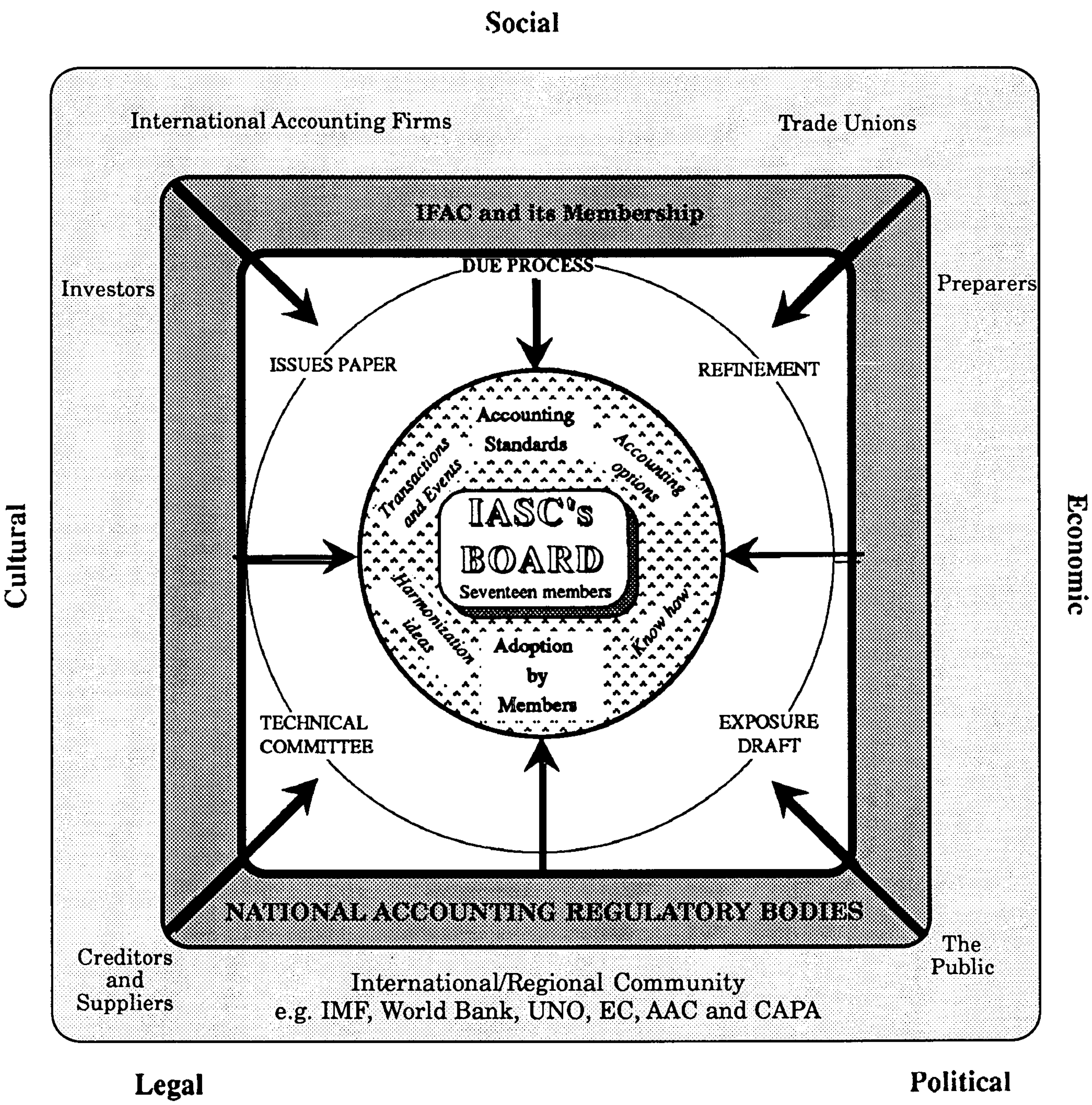
Surrounding all these activities are the various groups of coalition. The members of International Federation of Accountants [IFAC] who are also members of the IASC are shown at the top. The national accounting standards setting bodies which determine the international recognition of the IASC are shown below. The various external constitu-

[3]F. D. S. Choi and G. G. Mueller, *International Accounting* (Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1984).

[4]Other scholars have doubted the continued survival of the IASC. These include D. De Bruyne, "Global Standards: A Tower of Babel?", *Financial Executive* (February 1980) and C. W. Nobes, "Is the IASC Worthwhile?", *International Accounting Bulletin* (February 1986), p. 14.

[5]M. J. Aitken and M. A. Islam, "Dispelling Arguments Against International Accounting Standards," *The International Journal of Accounting Education and Research* (Vol. 19, No. 2, Spring 1984), pp. 35-46.

FIGURE 1
Environmental Factors Influencing IASC's Patterns and Survival



encies including investors, preparers, creditors/suppliers and other external parties are shown to form a ring around the entire core, in effect influencing or being influenced by every part of it. Finally, all these groups of interested parties are influenced by different (national) and sometimes common (international) social, cultural, legal, political and economic factors.

This contingency model equates social behavior with political and rational behavior. It posits the existence of a core structure within the IASC composed of some member-bodies (nominated to its Board) with regular, routine and easy access to the IASC's core activities. Member-bodies excluded from the core are denied the ready access and some strive to join the core to gain such privileges. The core is dominated by developed countries while the excluded group is populated by developing countries. However, the core is a conglomeration of independent bodies that promote and defend their own interests.

But many member-bodies share a sufficient level of individual needs (e.g., harmonization of accounting practices) and grievances (e.g., increasing power of transnational enterprises [TNEs]) to produce a common purpose. Their support of the IASC can be seen as a product of environmental forces, internal and external to the IASC. Internal forces include leadership qualities, level of available resources, and the small size and level of professional competence of the IASC's establishment. External forces include the level of the IASC's recognition, extent of external sympathizers [third party constituencies] and the professional capability, capacity and influence of each non-core member-body. The interplay of these various factors can be said to determine the development and behavior of the IASC.

SURVIVAL STRATEGIES: MANAGING CORE ACTIVITIES

It may be argued that the survival of IASC is a non-issue because the IASC has been functioning since 1973. Institutional survival is an elusive concept which needs to be bounded for a meaningful discourse. Survival, in the context of this paper, connotes the methods by which the IASC sustains itself, adapts to change and the demands of its internal and external environment. The requirements for IASC's survival are examined along the following lines: (a) the resources at its disposal; (b) the diversification of its tasks; (c) the goals it pursues and how such goals are sustained and renewed; (d) the legitimacy of its tasks and procedures and (e) the management of its external environment. Each of these requirements is discussed below and summarized in Figure 2, as the management of (a) technical core resources, (b) procedural process and (c) external environment.

Gradualism and discretion are the hallmarks of the IASC's survival in a potentially hostile environment. Abrupt pursuit of harmonization would attract resistance and place the IASC in jeopardy. But if it acts gradually and quietly, positive steps can be taken, while letting its constituencies build up their support, to help the process of harmonization along. This evolutionary process can be perceived in the way the IASC seeks the support of its member-bodies. It started off in 1973 by emphasizing and strengthening the independence of individual member-bodies. In the 1980s, it sought to strike a sensitive balance between its collective actions and the desires of individual members. This balancing act is now giving way to the need to strengthen the organs of collective responsibility; to let the IASC emerge as a rational actor, different from its individual members.

Technical Core Resources

The core activities of the IASC can be categorized for analytic convenience into two: the management of technical core resources like the organization of the IASC's office, staffing; and the management of the procedural process. The IASC operates on a meager budget[6] compared to any national regulatory body in the developed world. It has no more than three professionally qualified accountants (including the Secretary-General) on its staff at any time. Ninety percent of the IASC's annual budget is financed, on an equal basis, by its Board members and the rest by IFAC on behalf of its entire membership. No funding comes from its constituencies. As McCarthy and Zald[7] state, "the growth or main-

[6]Its annual revenue and capital expenditure has risen from £100,000 in 1973 to £400,000 in the 1989 budget. Its earnings from sales of standards and other publications are insignificant.

[7]J. D. McCarthy and M. N. Zald, *The Trend of Social Movements in America: Professionalization and Resource Mobilization* (Morristown, NJ: General Learning Corporation, 1973), p. 18, emphasis added.

tenance of organizations whose formal goals are aimed at helping one population but who *depend* on a different population for funding is ultimately more *dependent* on the latter than the former." This suggests that the IASC is more likely to conform to the wishes of the funding population [its Board members] than the wishes of the beneficiary population [TNEs, stock exchanges, national accounting regulatory bodies of the Third World]. Thus it can be argued that the IASC cannot be said to represent the views of the constituencies it is supposed to serve.

An underlying assumption of the small budget and administrative machinery is that the IASC can draw on the knowledge, perspectives, experience and resources of its many member-bodies especially those of its Board members. The raw materials for forging solutions to global accounting problems are neither concentrated in a single country nor a global accounting profession, but rather are widely dispersed among the various countries' accounting professions and other global non-accounting professional bodies. For any given accounting problem there is a variety of classes of expertise. Every affected party is an expert on some aspect of the problem and its solution. But members do not and cannot contribute equally to the resolution of IASC's problems. For example, the extent of participation in IASC's technical committees, and "procedural due process" depends on the extent of standard-setting experience of a member country.[8] There are three different ways of classifying countries on the basis of capability to set standards:[9]

[8] A member country is one in which a member body of the IASC is located.

[9] Examples of countries suggested are taken from the IASC's *Survey of the Use and Application of International Accounting Standards, 1988* (London: IASC).

FIGURE 2

IASC'S Survival Strategies

Technological Demands and Managerial Policies

Market Demands and Emerging Issues

Managing Technical Core Resources

1. Institutional Competence:
   a) Expertise/Professionalism
   b) Independence
2. Research capability
3. Size of staff and budget
4. Mission and Goals

Managing Procedural Process

1. Substantive Authority
   a) Adequate justification for the exercise of authority
   b) Adequate rationale for rule promulgation
2. Procedural Due Process
   a) Members' opportunities to be heard
   b) Members' opportunities to influence action

Managing External Environment

1. Seeking clear mandate
2. Satisfying diverse constituencies
3. Links with other organizations
4. Diluting the concentration of accountants on IASC's Board

Political and Legal Factors

Economic Factors

Sociological Factors

1. those that originate standards with little or no references to other countries. These are countries with developed standard-setting procedures [i.e., the standard setters]; for example, Australia, Canada, the UK, the Netherlands, and the US. The first three countries, however, make reference to the US and to each other.
2. those that take standards prepared in other countries or by other agencies outside their own countries, without ensuring that such standards are suitable for their environment because they lack the capability and capacity, that is, they do not possess the technical expertise, cannot afford the costs, are afraid of being exposed to *ex ante* complaints or do not want to be held responsible for the scandals which may arise from such disclosure rules *ex post*. Examples are Cyprus, Malawi, Pakistan, Trinidad, and Zimbabwe.
3. those that blend standards from outside sources into their internally generated standards; for example, Egypt, France, Fiji, Germany, India, Japan, Kenya, Nigeria and Singapore.

Many countries in category 1 have accounting professional bodies or regulators that are keenly interested in exporting their internally generated accounting standards to other countries. Although every country is free to "set" its own standards, only a few can originate their standards from scratch. This requires knowledge of available options, exposure to situations requiring accounting regulation (such as an active stock exchange) and adequate resources. While it might be argued that there is usually no need to travel through a well-trodden path in search of a similar solution to a similar problem, it is important to realize that such a journey may be worthwhile if the solution is to be relevant to its environment.

Essentially, if a country has greater resource endowments and capabilities, relatively superior experience in accounting practice and standard-setting process, a litigious citizenry (as in the U.S.), a knowledgeable and free financial press and many companies with foreign subsidiaries and branches, it is more likely that such a country would have more to offer to (than receive from) any institution concerned with international harmonization of financial disclosure practices. This may explain why some members are more capable than others of serving the IASC and why the IASC seeks to utilize the capabilities of these members. Table 1 provides information on the level of participation of member countries in the IASC's technical committees since its establishment.[10]

There are two methods for assessing the extent of the IASC's utilization of individual member's capabilities. The first is to measure the difference between the scope and contents of IASs and the average scope and contents of member countries' standards to reflect how effectively the IASC has benefitted from its members' capabilities in arriving at its output.[11] The second is to measure whether the IASC's output exceeds that of its best member country.[12] Both methods would focus on the synergistic effects of the interaction of the members of IASC. Synergy would exist if the

[10]There have been 46 technical steering committees between June 1973 and October 1989. These are made up of (a) nine ongoing (active) committees, three of which have issued Exposure Drafts 32, 33 and 34; (b) completed committees resulting in 29 IASs [two of which have been withdrawn—IASs 3 and 6]; (c) one on the completed conceptual framework; (d) one led to the issue of a discussion paper on accounting for banks; (e) three committees reviewed IASs 1, 3 and 6 and (f) three committees on assets, liabilities and objectives of financial statements dissolved when the committee on the conceptual framework was constituted.

[11]This method assumes that all members have developed the standards under investigation before the IASC issued its own which is not always the case. For three examples of IAS topics not covered by any extant accounting standards in the U.S. see C. W. Nobes "A Note on the Compliance by U.S. Corporations with IASC Standards," *British Accounting Review* (Vol. 22, No. 1, March 1990), pp. 41-49.

[12]This is based on the belief that two or more heads are better than one. However, compared to the U.S., which can, intuitively, be described as the "best" member of the IASC in the context of the number and quality of extant accounting standards developed by each member country, the IASC's standards are poorer "cousins."

TABLE 1

Participation in All 46 IASC's Technical Steering Committees 1973–1989+

Countries	Number of Committees: Active	Concluded	Total
Board Members			
Australia (1973)	2	8	10
Canada (1973)	3	10	13
Denmark (1988)	1	2	3
France (1973)	3	9	12
Germany (1973)	1	10	11
Italy (1983)	2	2	4
Japan (1973)	3	8	11
Jordan (1988)	1	–	1
Korea (1988)	–	–	–
Netherlands (1973)	4	9	13
South Africa (1978)	2	4	6
United Kingdom (1973)	5	10	15
USA (1973)	5	10	15
ICCFAA (1986)	1	1	2
Former Board Members			
Mexico (1973-87)	1	8	9
Nigeria (1978-87)	–	3	3
Taiwan (1984-87)	–	1	1
Non-Board Members			
Austria	–	1	1
Belgium	–	1	1
Brazil	1	2	3
Egypt	–	1	1
Greece	1	–	1
Hong Kong*	–	1	1
India	1	1	2
Indonesia	–	1	1
Israel	1	2	3
Lebanon	–	1	1
Malaysia	–	1	1
New Zealand	2	2	4
Norway	–	2	2
Pakistan	–	2	2
Philippines	1	1	2
Singapore*	–	1	1
Spain	–	1	1
Sri Lanka	–	1	1
Sweden	1	2	3
Venezuela*	–	1	1
Yugoslavia	–	1	1
Zimbabwe	–	1	1
Former Non-Board Member			
Argentina**	–	1	1

Non-Board members which have never participated in a Steering Committe

Bahamas	Ghana	Paraquay
Bahrain	Iceland	Portugal
Bangladesh	Iraq	Swaziland
Barbados	Jamaica	Switzerland*
Bolivia	Kenya	Syria
Botswana	Kuwait	Tanzania
Chile	Lesotho	Thailand
Colombia	Liberia	Trinidad & Tobago
Cyprus	Libya	Tunisia
Dominican Rep	Luxembourg	Turkey
Ecuador	Malawi	Uruguay
Fiji	Malta	Zambia
Finland*	Morocco	
	Panama*	

Participation by Board Members in Active Technical Steering Committees

Australia (2)	Fin. Instruments
	Joint Ventures
Canada (3)	Joint Ventures++
	Fin Instruments
	Improvements
Denmark (1)	Cash Flows
France (3)	Comparability of F.S.
	Review of IAS 12++
	Fin Instruments
Germany (1)	Banks' F.S.
Italy (2)	Fin. Instruments
	Intangibles
Japan (3)	Banks' F.S.
	Comparability of F. S.
	Fin Instruments
Jordan (1)	Improvements
Netherlands (4)	Review of IAS 15++
	Comparability of F.S.
	Fin. Instruments
	Improvements
South Africa (2)	Comparability of F.S.
	Cash Flows++
UK (5)	Banks' F.S.++
	Review of IAS 15
	Fin. Instruments
	Intangibles++
	Improvements
USA (5)	Banks' F.S.
	Comparability of F.S.++
	Fin. Instruments++
	Joint Ventures
	Improvements++
ICCFAA (1)	Review of IAS 15

NOTES:

+ The author is grateful to David Cairns, Current Secretary-General of the IASC, for supplying this information, on request. This information is current to the end of October 1989 and excludes membership of the Task Force on the needs of developing countries.

++ Chairman of Technical Steering Committee.

* These non-Board members have, in the past, declined an invitation by the IASC to participate in a particular proposed technical Steering Committee.

** This non-Board member has served on an IASC technical Steering Committee but is no longer a member of IASC and IFAC.

( ) Date since joining the Board of IASC or period on the Board.

IASC's capabilities surpass those of its members. This is likely to arise when members effectively exchange, constructively criticize and build upon each other's ideas.

Degree of Professionalization

The Board of the IASC is a professional polity in the sense of achieving coordination essentially by calling upon the professional skills and experience of members acquired through education, training and exposure in their respective countries.[13] Most of the representatives of its members enter with professional qualifications and experience in accounting and/or auditing. Many have had experience as members of national accounting regulatory boards. Many have served as Presidents or Council members of their country's accountancy profession or as heads of the nominating organization. The high professional profile of each person nominated to the Board of the IASC by each member-body springs from the need of each Board member-body to ensure that its candidate goes to represent and secure for it the best terms (output) from the IASC. The concentration of expertise on the Board probably accounts for the high quality of the IASs and the emphasis of those standards on transactions and events that are not peculiar to a particular industry or region; thus ignoring issues of particular relevance to developing countries.

Diversification Strategy

The IASC seems to prefer topics of a general nature to industry-specific and region-specific topics. This is probably because the IASC is a mirror of what prevails in many member countries, where industry regulation is less preferred to regulation of transactions and events of a general nature. To embark upon industry-specific regulation is to limit the scope of the IASC's market.[14] Such a regulation will create a bilateral monopoly, where there will be one user group of the IASC's standards—the relevant industry. Also if the IASC regulates all aspects of corporate reporting for such an industry, the industry has only one place where it can buy such regulation. But by adopting the general transactions/events regulation strategy the IASC seeks not only to expand its market, but also to produce parcels of standards which can be distributed across many separated markets and countries. In short, general transactions/events regulation is an improved product. It increases the scope of the IASC's activities immensely, increases the number of affected interest groups and reduces the IASC's dependence on any one industry or group of countries. This diversification strategy provides one explanation of the IASC's global influence.

Under industry- or sector-specific regulation, the IASC would serve fewer groups—the specific industry/sector and its customer class.[15] Since the marginal benefits to the customer class are probably very small, that group will most probably not bother to seek regulation.[16] Therefore, the standards would exist to serve only one industry or one sector. Under general transactions/events regulation, the market for IASs is expanded in two ways. First, the IASC provides service to more than one industry/sector. Second, the standards are likely to be perceived as having a larger impact on many users because they deal with topics from which many different issues and interpretations tend to emerge. Rutherford's[17] specification of the wide variety of the different ways the IASC's standard is used confirms the preceding argument:

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[13]For more on the concept of professional bureaucracy, see H. Mintzberg, *The Structuring of Organizations* (Englewood Cliffs: Prentice-Hall, 1979).

[14]It can be argued that the evolutionary (rather than revolutionary) profile of the IASC compels the pursuit of transactions/events of general nature and that industry regulation may follow after key underlying issues have been dealt with as in the U.S. and the U.K.

[15]The customer class includes national accounting regulators for the specific industry/sector, preparers, users and auditors of corporate annual reports in the specific industry/sector not all of which actively seek regulation.

[16]IASC's detour into regulation of financial reporting in the banking industry may be due to the fact that it perceives the marginal benefits to its constituencies to be high.

[17]Brian Rutherford, "A Pat on the Back but Time for a Change," *Accountancy* (July 1987), p. 18.

> [IASC standards] are used as a vehicle for harmonization within the developed Anglo-American oriented world; as a means by which sophisticated enterprises in one country can communicate with sophisticated investors in other countries; as a source of standards for indigenous enterprises in Third World countries; as a means of regulating the activities of multinationals within the Third World; as a uniform body of standards to be used by companies quoted on several national stock exchanges.

There are innumerable difficulties in balancing these tasks. As McDougall[18] has suggested:

> What is, perhaps, not so obvious is that there are, and must be differences between "what is good for General Motors" [a transnational enterprise] on the one hand and what is good for any nation-state (not excluding the USA) as regards the relations within its own territory between that nation-state and General Motors, between that nation-state and its own companies, and between those national companies and the local subsidiary of General Motors. Problems such as those relating to group accounts, associated and subsidiary companies, transfer pricing, translation of foreign currencies, inflation accounting and costing policies in the extractive industries are among the many where highly skilled accountants can produce very different proposed solutions, all backed by strong arguments that are likely to appeal to those whose interests it is their duty to serve.
>
> It follows that the profession must not allow itself to be dominated—nationally and internationally—by thinking dictated by consideration only of what is good for, say, transnational companies. There must be an opportunity for the interest of all types of businesses to be represented both on the national and international level.

The preceding discussion suggests a multiplicity of underlying rationales. The internationality of an accounting problem, transboundary transactions (including related-party transactions and debt swaps), the perceived seriousness of an accounting problem in the light of the inadequacy of most or even all national solutions (e.g., financial instruments and off balance sheet transactions), the greater efficiency of collective solutions and the objective of eliminating distortions of the global market for capital—all may help to explain the identification and development of candidates for harmonization and/or the substantive solutions adopted. The interests of Third World countries require, in some cases, particular attention like IAS 29 on financial reporting for hyper-inflationary economies. It is, of course, not easy to identify a single rationale even for an accounting standard.

A genuinely global system of standard-setting contains serious internal strains. If it is to be a system, there must be a measure of coherence between the purposes being pursued by its different member-bodies. If it is to be global, there must be a measure of independence accorded the different members, so that standard-setting in each member-country may respond appropriately to the particular constellations of interests confronting corporate reporting. The IASC's system has evolved a set of arrangements and procedures which may alleviate these internal strains in its quest for harmonization. Before these are discussed, it is necessary to determine what the IASC means by harmonization.

The Mission and Goals of the IASC

The implicit primary goal of the IASC is harmonization but its official goal (or mission) is "to formulate and publish, in the public interest, accounting standards to be used in the presentation of financial statements." Harmonization can, however, be attained by means other than the development of IASs.

Types of Harmonization

The definition of harmonization provided by Nobes[19] as "a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation," suggests that there are other ways of achiev-

[18] E. H. V. McDougall, "Regional Accountancy Bodies," in *The Internationalization of the Accountancy Profession*, J. W. Brennan (ed.) (Toronto: The Canadian Institute of Chartered Accountants, 1979), p. 18. For a similar argument with an explicit diagrammatic illustration see C. Nobes, "Harmonization of Financial Reporting," in C. W. Nobes and R. H. Parker (eds.), *Comparative International Accounting* (Oxford: Philip Allan, 1985), pp. 341-2.

[19] C. Nobes, "Harmonization...," op. cit., p. 331.

ing harmonization. For example. each national stock exchange can issue certificates to its domestic registrants whose financial statements have met its standardized review protocols. If such certification is recognized by other national stock exchanges, harmonization is enhanced by the elimination or reduction of repetitive review procedures. Another process of harmonization may be to allow countries to set accounting and disclosure standards in the first instance, subject to centralized review under general criteria, as in the European Communities [EC] model. Yet another is the institutional mechanism operated by the defunct Accountants International Study Group [1966-1977]. This Group founded by Canada, the UK and the US undertook research into the differences in the accounting practices of the three countries and made recommendations on how to harmonize the different practices.

In the context of the approach adopted by the IASC, harmonization is not a matter of either-or propositions but a matter of degree. In an objective appreciation of its inability to force its standards on member-countries, the IASC acknowledges, in its Constitution, that its standards are not intended to supersede local standards. It expects, however, that its member-bodies will use their best endeavors in their respective countries to procure the acceptance of its standards. The problem with this expectation is that member-bodies are not, in many cases, the bodies responsible for regulating accounting principles and practices in their countries. The degree of harmonization which the IASC can pursue and attain depends, therefore, upon the ability of each member-body to use its "best endeavors" to ensure that IASs are adopted within its own country. A full knowledge of the different degrees, will help our understanding of the one which represents the IASC's goals.

Total harmonization would occur when all countries[20] adopt and enforce the same accounting and disclosure standards. This would strengthen the concept of collective responsibility. While there are overwhelming disincentives to total harmonization [variation in preferences, differences in geographical, economic, political, social and cultural conditions; resentment of centralized directions and opposition from reporting TNEs], there are other degrees of harmonization which can mediate the competing claims of total harmonization and national autonomy. These are minimum, partial, optional and alternative harmonization.

Minimum harmonization would occur when member countries adopt standards which are at least as stringent[21] as those recommended by the IASC. But it would not allow member countries to adopt less stringent standards. The minimum "floor" limits member countries' use of weaker accounting standards as incentives for attracting companies to locate in their territories, but allows countries to give effect to more stringent standards. This approach can, however, increase the reporting costs of companies seeking to enter these countries from a country with minimum standards; thus increasing the height of barriers to entry.

Partial harmonization would allow a country to impose stricter or laxer standards on domestic enterprises[22] but forbids imposition of stricter standards on foreign companies. This is what the IASC's current comparability exercise is seeking to achieve: a situation

[20]A country represents a national accounting regulatory body. It may be a professional accounting body that is a member of the IASC, a government agency, a body made up of a mixture of accounting profession, government agency and other interested users and preparers of accounts. It may also stand for generally accepted accounting practices in a country with no identifiable regulatory agency.

[21]Stringency, in the context of accounting standards, refers to a demand for more rather than less disclosure and to a decision to prescribe or proscribe specific measurement and/or disclosure (i.e., presentation) methods rather than to permit all available options.

[22]This raises the problem of which entities should come within global harmonization rules—should it be TNEs, local companies with no multinational interests, public or private limited companies, government-owned enterprises, joint ventures between two or more enterprises/governments from different countries? The IASC believes that its standards apply to all. The earlier quotation from Brian Rutherford ("A Pat on the Back..." op. cit.), a former Assistant Secretary of the IASC, attests to this belief.

where corporate reports presented on the basis of its own standards will be acceptable to securities regulating organizations in other countries. This may give foreign companies unfair advantage or disadvantage over domestic companies.

Optional harmonization would allow a country to adopt standards different from the global standards but requires the country to allow domestic or foreign companies operating in that country to elect which of the standards to comply with. This is similar to partial harmonization but there are two important differences. First, a country must specifically "opt out" of the global standards. Second, when Country X adopts less stringent standards, foreign companies located in Country X need only comply with its standards rather than the global standards, undercutting the competitive advantage that domestic companies would otherwise enjoy.

Alternative harmonization is the current option of the IASC which allows two or more alternative accounting and/or disclosure methods from which a member country may elect. The IASC may identify a clear preference for one set of methods as in its current proposal to limit allowable options. In such cases, selection of alternatives will ordinarily be allowed only under narrowly defined criteria and this may be subject to later reviews.

The preceding discussion on the resources and mission of the IASC does not explain the potential weaknesses of the IASC's standard-setting process, its vulnerability to political manipulation, its lack of constitutional and legalistic legitimacy and its potential conflict with the culture of many countries. How can (or does) the IASC protect itself against political interference (or manipulation) and ward off attacks on its regulatory process on constitutional and other grounds? This is a question of institutional legitimacy.

Institutional Legitimacy

Three conditions for assessing legitimacy (acceptability or defensibility) of a regulatory machinery were presented by Johnson and Solomons.[23] The three conditions for the defense of institutional legitimacy they suggested as collectively sufficient to ward off attacks on the standard-setting process are:

1. The organization must possess a level of authority sufficient to carry out its intended regulatory function given the environment in which it must operate. Possession of "sufficient authority" comes about as a result of proper delegation and institutional competency.[24]
2. The decision-making process of the organization must be impartial and objective and each exercise of authority must bear a direct and substantial relationship to the organizational remit. This condition, referred to as "substantive due process" requires that the organization acts as a fiduciary in arbitrating disputes that may arise between the various interested parties, not as agent of any one party or group.[25]
3. The organization must provide an adequate and an impartial opportunity for interested parties to provide input into the standard-setting process. This "procedural due process" requires that interested parties are kept informed of matters considered by the organization and be given an adequate opportunity to have their views and evidence heard.[26]

In short, institutional legitimacy [IL] is a function of sufficient authority [SA], substantive due process [SDP] and procedural due process [PDP]. An organization's survival is potentially threatened if it lacks any of the characteristics of the elements of IL.

Sufficient Authority

SA can be attained when there is a clear mandate and institutional competence. It has been argued that the IASC possesses institutional competence. However, the IASC has no clear mandate, that is, it lacks *de jure* IL. No

[23] Johnson and Solomons, op. cit., pp. 172-79.

[24] Ibid., p. 172.

[25] Ibid., p. 173.

[26] Ibid., p. 174.

country has delegated to it the power to prepare its accounting standards. Neither the United Nations which has a broad though vague remit for global order, the OECD concerned with economic cooperation and development among industrialized nations nor the EC has asked it to regulate accounting at the global level on its behalf. Although the IASC does not act directly as agent for any group, the present situation whereby some countries have a permanent seat[27] on its Board creates an apparent over-representation of the interests of developed countries. While it might be argued that the exposure draft procedure and the consultative committee process offer some opportunities for many member countries and non-accounting groups to participate in its substantive due process, it is not apparent that the views and evidence of the majority [the developing countries] are being heard and considered.

Substantive Due Process

SDP legitimacy exists if the IASC can justify its authority and provide adequate rationale for its standards. It has been suggested that there are multiple rationales for its standards. The lack of adequate justification tends to invite political interference. Solomons[28] has suggested three kinds of defenses against political interference to national accounting regulation: educational, conceptual and structural. One would agree with Solomons that much of the political heat generated by so many accounting arguments could be avoided if the limited significance of many accounting numbers were better understood. Much of the argument arises from the need to enhance the "bottom line" in corporate reports. Educational defense involves the use of persuasive devices to remove the "bottom line" mentality. On conceptual defense, Solomons emphasized that an explicit theoretical foundation, that is, the provision of a conceptual framework [and the IASC has recently issued its own framework] is an indispensable defense against political interference, but as Peasnell[29] argued, this is not the case with the Accounting Standards Committee in the U.K. whose regulatory process is characterized by bargaining. The conceptual framework might be more of a hindrance than a help, since flexibility is the more important in a predominantly bargaining environment; but flexibility seems to be what a conceptual framework is intended to eliminate.

Structural defense is the installation of institutional machineries to ensure that constituencies perceive the legitimacy of the standard-setting process. Solomons does not give a clear statement of how to determine the acceptability of a regulatory process. The two illustrations provided in his paper are only inferential. One is the validity of the process which, in the U.K. context, requires that an accounting standard developed by the Accounting Standards Committee [ASC] needs the approval of each member-body of the Consultative Committee of Accounting Bodies [CCAB] to be operative. The other concerns the independence of the Board members of

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[27]As will become clear in the discussion of the link between the IASC and IFAC, no member now has a permanent seat. In practice, however, some probably will have, because of their expertise and long-standing experience in the standard-setting process. Since membership of the IASC implies neither activity nor much in the way of financial support, the members with little or no expertise and finance to contribute could not have been expected to have a serious voice in the policy formulation of the IASC.

[28]D. Solomons, "The Political Implications of Accounting and Accounting Standard Setting," *Accounting and Business Research* (Vol. 13, No. 50, Spring 1983), p. 115.

[29]K. V. Peasnell, "The Function of a Conceptual Framework for Corporate Financial Reporting," *Accounting and Business Research* (Vol. 12, No. 48, Autumn 1982), pp. 243-56. Recently, more interests have been shown by some members of the Accounting Standards Committee in the U.K. David Solomons addressed to the Accounting Standards Committee a report, *Guidelines for Financial Reporting* (1989), prepared for the Research Board of the Institute of Chartered Accountants in England and Wales. The Institute of Chartered Accountants, Scotland also produced a document on *Making Corporate Reports Valuable* (1988). More importantly, the Accounting Standards Committee in the U.K. announced that it proposes to use the IASC's *Framework for the Preparation and Presentation of Financial Statements* (1989) as a benchmark against which its future proposals will be measured.

the ASC who as part-time members are not likely to be perceived as neutral by the very fact of their affiliation to bodies which may be interested in the output of the ASC. These two points apply to the IASC as well. In the first place, there is the expectation that member-bodies of the IASC would use their best endeavors to ensure that the standards issued by the IASC would become acceptable in member countries. A recent survey by the IASC[30] provides overwhelming evidence that only in a few developing countries have such endeavors resulted in a total incorporation of the provisions of IASs into national accounting rules, though many other countries have used the IASs as a basis for their own national standards. If member- bodies have little or no clout in the standard-setting process of their countries, they are not likely to succeed in ensuring the conformity of their national standards with IASs. In respect of the independence of Board members, many of them have affinity with the big international auditing firms or TNEs—two major groups likely to be affected by the output of the IASC. In this case, there is the potential for the IASC to be captured by those it seeks to regulate.

Procedural Due Process

A legitimate PDP must provide interested parties with sufficient opportunities to be heard and to influence outcome. The presumed endeavor of the IASC, its Board and its entire membership is to arrive at a consensus based on the preferences of the various participants. That is why information about the topic and contents of a future standard is widely circulated among members of the Board, other member-bodies and an international consultative group of interested institutions. In the process a topic takes, on the average, two to three years to become a standard. It is also possible for the Board, at any time during this period, to stop the progress of an evolving standard and to decide to issue a discussion paper on the topic instead.

In resolving differences on any topic, attention is paid to criteria which would ensure the acceptability of a standard. The unwritten but operational procedure is to ensure that the document which finally evolves is satisfactorily received by all target groups—this involves an *ex ante* estimation of the preferences elicited from its membership, various national accounting standard setting bodies and the other target groups such as TNEs and national stock exchanges. To achieve this, there are three possible options which provide alternative ways of understanding the actions or reactions of member-countries to IASs.

The first is the flexibility option. This seeks to capture all present and potential regulators of corporate reporting practices across the world. It aims at the maximization of the number of feasible or acceptable methods (or techniques) for each and every issue covered by a standard. It is because this option recognizes rather than harmonizes differences in accounting practices that the IASC is seeking to reduce the number of options in its current IASs.

The second is the maximum likelihood option. In contrast to the flexibility option, this seeks to identify those methods and techniques with which all countries from which Board members are drawn agree, in the belief that the Board membership is truly representative of the member countries. This belief assumes "vicarious representation" which is the satisfaction or dissatisfaction felt by one member as the direct consequence of the representation of another. Concern about the welfare of others can motivate individuals just as self-interest does. This option suggests as a decision criterion the probability that a choice from among competing methods of recognizing, measuring or disclosing a transaction or event will be optimal when there is uncertainty with regard to preferences associated with the different alternatives by member countries. The task of the IASC will then be to focus on the methods which are acceptable to all its members—a sort of convergent standard or what is described as the lowest common denominator

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[30] IASC's Survey...op. cit.

approach.[31] This means that the IASC seeks a middle path between more detailed and less detailed standards. It draws heavily on the work of other national standard setting bodies (especially the U.S., the U.K., Canada, Australia and the Netherlands). It does not carry out much, if any, original work, and it is therefore, not surprising that its standards represent some sort of compromise. This reduces IASs to the level of "second-rate" standards in countries with greater "topic" coverage but it has also enabled the IAS to become a sort of minimum benchmark which some other countries seek to attain. This probably suggests that most member-bodies see the attainment of minimum harmonization as the goal of the IASC.

The third option, which derives from the previous one (though different from it), is the versatility option by which the IASC would prefer to see itself as an organization independent of and distinguishable from its member-bodies. The aim of the IASC would be to ensure that its standards would attain an acceptable level of adoption across the world. The strategy for generating this acceptability would be:

1. to ensure that any group most likely to determine its continued survival as an organization is not "offended" [the 'vital countries hypothesis' of Mason[32]]; or
2. to seek to develop standards which will be acceptable to the majority rather than all the membership.

This strategy is based on the assumption that the IASC is a risk-averse satisficer[33] that aims to minimize the likelihood of not attaining its chosen objectives, one of which is the adoption of its standards by all possible target groups. In this endeavor, the IASC makes it a point of duty to go round all member countries to persuade national accounting regulatory bodies to adopt or recognize its standards. The versatility option is more useful than the others in explaining (i) the strategies of the IASC for survival in an international arena where there are heterogeneous preferences about the IASC's agenda of regulatory items, information needs and the targets which should be regulated and (ii) the adoption of IASs by developing countries instead of the development of accounting and disclosure standards suited to their needs.

Without SA, the drive toward harmonization, to which the IASC has contributed so much, may ultimately be futile. Without SDP legitimacy based on the superiority of solutions to measurement and disclosure problems, the effects of continuing harmonization of corporate disclosure may be the increasing repression of the IASC. These deficiencies of the IASC are presently being overcome by a deliberate management of its external environment, to convert potentially hostile external parties to friendly and supportive allies.

MANAGING THE EXTERNAL ENVIRONMENT

The UN Link

The United Nations' interest in the standardization of the contents of corporate reports started in the early 1970s, when it created the United Nations Commission for Transnational Corporations [UNCTNC] which discovered in its attempt to assess the impact of TNEs on international business and developing countries that there was a lack of usable financial and non-financial information

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[31] This term was used to describe the IASC's approach by R. D. Fitzgerald in "International Harmonization of Accounting and Reporting," *The International Journal of Accounting Education and Research* (Vol. 17, No. 1, Fall 1981), pp. 22-32. Fitzgerald's meaning of the term must be distinguished from its meaning here. In the context used here, it refers to a set of standards or practices applicable in all countries—a sort of convergent standard. In the context of Fitzgerald's meaning, an IAS is a set of composite standards from different countries. What prevailed when Fitzgerald wrote was an IAS that allowed each country to more or less have its own way.

[32] A. K. Mason, *The Development of International Financial Reporting Standards,* ICRA Occasional Paper No. 17 (International Centre for Research in Accounting, University of Lancaster, U.K., 1978), p. 40.

[33] See Herbert Simon, "A Behavioural Model of Rational Choice," *Quarterly Journal of Economics,*(Vol. 69, No. 1, 1955), pp. 99-114.

on TNEs. The different styles of corporate reporting made it difficult to compare TNEs. This led to the creation of a 14-man Group of Experts on International Standards of Accounting and Reporting [GEISAR] in 1974. The experts were chosen from different regional groupings on the basis of professional and academic experience with accounting practices in their regions. The group reported in 1977 and recommended, among other things, the compilation of a list of minimal disclosure items which should be found in TNE's corporate annual report and accounts. The desire to elaborate on the broad and vague recommendations of GEISAR led to the creation in 1979 of an "Ad Hoc Intergovernmental Working Group of Experts on International Standardization of Accounting and Reporting" [Group of Experts]. This 34-member group of experts is made up of government representatives many of whom do not possess the technological competence of the members of GEISAR. Their discussion became more politicized and polarized and fundamental issues in accounting were viewed more from the perspective of economic and regional consequences than from professional validity. This made it impossible for the group of experts to pursue the task of compiling a list of minimum disclosure items with a singular focus. But their deliberations revealed deficiencies in current "general purpose" corporate reporting and led to the conclusion that each country should not discriminate between foreign and domestic companies in its corporate disclosure regulation [one step toward partial or optional harmonization]. The effort of the group of experts towards the development of global accounting standards waned because (i) the UN has no technical competence in the development of accounting standards, (ii) members of the group of experts from the developed world saw this as a duplication (if not dissipation) of the effort of the IASC, (iii) the IASC was granted an observer status at the group's meeting, thus recognizing it as the global standard-setting body and (iv) the group's discussions and deliberations tend to be overwhelmed by political rather than technical considerations. The group decided in 1984 that it should not become involved in standard-setting but should serve instead as a forum for discussion of member needs. The group now sees its role as that of compiling, comparing and reporting regulatory practices in different countries. This shift in emphasis is probably a reflection of the growing influence of the IASC, the difficulty of obtaining a mandate from the Security Council to take on the role, and the concerted efforts of developed countries to discourage the group from pursuing that course.[34] The IASC in concert with others has succeeded in out-maneuvering the UN's attempt to set corporate reporting standards for the TNEs.

Link with Regional Bodies

The major strategy of the IASC's relationship with regional groups is to keep its secretariat and Board membership informed of regional activities, to attend major regional conferences with potential impact on accounting harmonization and present papers on the IASC and its activities at such conferences. In addition, the Board members of IASC in Europe have continued to play a significant role in weakening the potential threat[35] to the survival of IASC because of the effect of the apparent incongruence between the objectives of the EC intent on harmonizing accounting regulation by the use of alternative harmonization and those of the IASC on those countries which are members of the two institutions.

Link with IFAC

Although IFAC was founded in 1977, four years after the IASC, an agreement of the nature of an absorption [described as "mu-

[34]This is probably because the developed countries, particularly the U.S., were concerned that their influence would not be as extensive at the UN compared with the IASC.

[35]For a full discussion of such a threat see, D. McComb "International Accounting Standards and the EEC Harmonization Program: A Conflict of Disparate Objectives," *The International Journal of Accounting Education and Research* (Vol. 17, No. 2, Spring 1982), pp. 35-48.

tual commitments"] was entered into between IFAC and the IASC. This "mutual commitment" came into effect in January 1983. It allows the rationalization of the membership of the two bodies. This meant that professional bodies no longer need to be members of both bodies but only need to be fee-paying members of IFAC to enjoy the benefits of the IASC's membership. The agreement allowed the IASC to retain full autonomy in setting corporate reporting standards and IFAC to endorse automatically all such standards. For the loss of direct subscription from its membership the IASC was to be (and is) given 10 percent of its annual budget by IFAC which also agreed to defray the costs incurred by non-Board member-bodies for participating in steering committees. In return for these contributions, IFAC appoints 13 member-bodies to the 17-member Board of the IASC from July 1986 and has an observer status at the Board meeting of the IASC. The remaining four members of the IASC's Board are co-opted from non-accounting user and interest groups that are not members of IFAC.[36]

The mutual commitment between IFAC and the IASC probably ensures the capture of the IASC by the accounting profession which founded it but prevents it from adopting the current practice of broadening the membership of accounting standard-setting bodies across the world. National accounting regulatory bodies are no longer the exclusive monopoly of the accounting profession.[37] Many now have non-accountants on their boards and are controlled by bodies which seek to protect the interests of the predominant users of corporate annual reports. In the interest of international harmonization of corporate reporting and the legitimacy of the IASC, it is appropriate that both IFAC and the IASC reconsider the propriety of their mutual commitments. Membership of the IASC should belong to standard-setting organizations [not accounting professional bodies] from each country. This is because the "best endeavor pledge" of professional accounting bodies that are not responsible for standard setting in their countries is ineffectual. The IASC should be made up of such organizations as the Council for Annual Reporting in the Netherlands, the Financial Accounting Standards Board in the U.S. and the Australian Accounting Standards Review Board. There is also a need for IFAC to (a) relinquish its hold on the IASC and (b) sponsor the formation of a Global Financial Reporting Foundation to superintend over the affairs of the IASC (that is, to take over the functions now performed by IFAC) and to seek to resource it adequately. The Foundation may comprise IOSCO, IFAC, ICCFAA, the International Financial Executive Institutes, the UNCTNC and the World Bank among others.

Link with Board Member Countries

The most important and pervasive aspect of the IASC's influence is its practice of rotating the venue of its Board meeting from one Board member country to another. Another is the special alliance which the IASC cultivates with its Board members. This relationship is embedded in the understanding which has evolved over time that the IASC's staff are to deal with such professional bodies through their representatives on its Board and vice versa. This special relationship has two disadvantages. First, there is the danger of the IASC being captured by its professional member-bodies for their domestic purposes. Second, such relationships limit the IASC's access to other agencies that might be more suitable for negotiating certain aspects of its agenda. A good example is the time it took the IASC to evolve a working relationship with the FASB in the U.S. and the little or no relationship between the IASC and other regulatory bodies in countries where the member-bodies do not control accounting regulation.

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[36] Only one of these seats has been filled by the International Coordinating Committee of Financial Analysts' Associations [ICCFAA]. It has recently been suggested that one of the seats be offered to the International Organization of Securities Commissions.

[37] In countries like France, Germany, Japan, etc., accounting regulatory bodies never were in the hands of the accounting profession.

Link with Non-Board Member-Countries

The link with non-Board member-countries includes (a) the use of IASs by member-countries; rather than duplicate the IASC's effort, some members rely on the IASC's standards for input into their standard setting process or adopt them with or without amendments as their own standards; (b) the request for nominations to the technical committees on issues in which the IASC believes a member-country can contribute. The most critical issue concerning the adoption of IASs is their relevance to developing countries.[38] For example, a comparative study of the perceptions of users and accountants in Nigeria on the one hand and those of the Board members of the IASC on the other revealed that the IASC does not perceive the same set of measurement and disclosure items as important as do users and accountants in Nigeria.[39] Another critical link is the desire to develop standard setting procedures in member-countries with no experience in this area. The Chairman and Secretary-General of the IASC make regular visits to member-countries to discuss their problems and to advise them on how to use IASs or on how to embark on the development of corporate disclosure standards.

Link with User Groups

Initially the IASC was less interested in the views of dominant users of its standards, relying principally on the pledge of its members to use their best endeavors to ensure that IASs are adopted in their respective countries. This may be the most appropriate strategy to start with but it did not seem to work, and the legitimacy of the IASC, as a body composed of professional accountants, to set corporate financial reporting standards at the global level was regularly questioned. At a low level, prior to 1982, and more so thereafter, the IASC opened up a "continuing dialogue" with regulatory bodies and international organizations [such as the potential users of corporate reports prepared on the basis of its standards] as an essential part of its program. It is the increasing intensity of this "continuing dialogue" with the international user community that is a distinguishing feature of the IASC's management of its environment. Although only a few members of the user community recognize what the IASC is, the IASC makes sure that that part of the user community most active in influencing corporate reporting activities of TNEs and government-owned enterprises operating in and from different countries know what it is doing and what it can do for them. These awareness activities are pursued in two ways.

The first is the introduction, in October 1981, of user consultation into the standard-setting process. A consultative group comprising international bodies representing valuers, bankers, financial executives, lawyers, chambers of commerce, trade unions, securities commissions, the World Bank, the International Finance Corporation, and the FASB in the U.S. was formed. The European Commission has recently been invited to join this group. The goal is for the group to include representatives of preparers and users of financial statements and standard-setting bodies. The group meets regularly with the IASC Board to discuss matters of principles and policy arising from the IASC's work and the practical and conceptual issues that affect the acceptability of IASs. The OECD and UNCTNC attend as observers.

The second approach is to co-opt some representatives of international preparers and users to its Board. One such co-option was the admission of the International Coordi-

[38] For arguments on the irrelevance of the IASC's standards to developing countries see, R. J. Briston, "The Evolution of Accounting in Developing Countries," *The International Journal of Accounting Education and Research* (Vol. 14, No. 1, Fall 1978), pp. 105-20 and J. M. Samuels and J. C. Oliga, "Accounting Standards in Developing Countries," *The International Journal of Accounting Education and Research* (Vol. 18, No. 1, Fall 1982), pp. 69-88.

[39] R. S. O. Wallace, "Intranational and International Consensus on the Importance of Disclosure Items in Financial Reports: A Nigerian Case Study," *British Accounting Review* (Vol. 20, No. 2, December 1988), pp. 223-65.

nating Committee of Financial Analysts Association to the Board in June 1985. Another is the moral suasion of national member-bodies to ensure that their nominations to the Board include both preparers and auditors.

Link with Stock Exchanges and Securities Organizations

Apart from the best endeavors of its members, the IASC has sought to make the adoption of its standards visible by advocating the desirability of TNEs to disclose conformity with or identify deviations from IASs. The most important ally in the propagation of IASs is Canada. In that country, the President and Chief Executive of the Toronto Stock Exchange invites, on an annual basis, enterprises listed on the Exchange to disclose the fact of conformity with IASs. Similarly, the Chairman of the Canadian Accounting Standards Committee urges all major accounting firms to encourage their audit clients to comply with IASs and disclose the fact of such compliance in their financial statements. These efforts have resulted in increased disclosure in the annual reports of Canadian listed enterprises. The IASC reported that in 1980, 49 out of a sample of 140 of the large Canadian enterprises listed on the Toronto Stock Exchange made a compliance disclosure. By 1987, 102 out of a sample of 129 such enterprises disclosed compliance with IASs.[40] This overwhelming support is limited to Canada but the IASC will probably not relent in its efforts to increase the support of other national Stock Exchanges.

In February 1985, the US SEC published a consultative document calling for comments on two approaches for the harmonization of disclosure practices in prospectuses and facilitation of transnational securities offerings by enterprises in Canada, the UK and the US.[41] The document suggested two harmonization approaches: (a) *reciprocal*—by which the offering document used by an issuer in its own country would be accepted for offerings in each of the other countries and (b) *common prospectus*—to which all three countries would agree on disclosure standards for an offering document which would be used in more than one country. Although there were 70 responses[42] (50 of which favored the reciprocal approach and 21 [including the IASC's] the common prospectus approach), the US SEC has not decided on how to proceed. This is probably due to the desire to extend the arrangement to other countries, especially Japan. This desire has led to the transformation of the Interamerican Conference of Securities Agencies and Similar Organizations from a regional group to a global body now named the International Organization of Securities Commissions and Similar Organizations [IOSCO]. This new organization has 49 regular members from 45 countries and one affiliate member [the International Finance Corporation]. IOSCO's objectives include (a) to establish standards and an effective surveillance of international securities transactions and (b) to provide mutual assistance to ensure the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses. IOSCO has set up six working parties to review and propose solutions to regulatory problems related to international securities transactions. One working party would work with the IASC with a view to identifying accounting standards which securities regulators might be ready to accept in the case of multinational offerings. It is more likely that a global grouping of national organizations with jurisdiction over corporate disclosure regulation in their respective countries would want to take over the control of a global body formulating corporate reporting standards.

In 1987, IOSCO accepted an invitation to join the IASC consultative group. IOSCO's membership has meant that it could influence the work of the IASC especially if it believes that IASs could form the basis of the

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[40]IASC's Survey...op. cit., pp. 70-71.

[41]See Securities Act Release No. 6568 (February 28, 1985) or *Federal Register*, Vol. 50, No. 45, March 7, 1985.

[42]See Clarence Sampson, "Facilitation of Multinational Securities Offerings," in *Research in Accounting Regulation*, edited by Gary J. Previts, Volume 2 (Connecticut, JAI Press Inc., 1988), p. 216.

common standards of accounting in prospectuses which it desires to evolve. While IOSCO does not agree that the present portfolio of IASs is adequate for this purpose, it has agreed to take part in IASC's projects concerned with the (a) reduction of options in IASs and (b) improvement of extant IASs to a level which would be acceptable to IOSCO.

At its recent meeting in November 1988, IOSCO issued the following statement which confirms its desire to support the harmonization efforts of the IASC:

> The Technical Committee of IOSCO supports the initiatives by the IASC to revise and expand international accounting standards. A primary impediment to international offerings of securities is that different countries have different accounting standards. Mutually acceptable international accounting standards are a critical goal because they will reduce the unnecessary regulatory burdens resulting from current disparities between the various national accounting standards, while protecting investors through adequate disclosure in financial statements.[43]

Future Directions

Recently [November 1988], the Board of IASC considered and approved that the IASC should focus its attention, during the five years to 1993, on the demands for:

a. truly international standards of accounting and disclosure that can be used by international capital markets and the international business community;

b. the comparability of national and international standards; and

c. accounting standards that developing (and other) countries can use as the basis for national standards and assistance with the implementation of such standards.

If the IASC continues with the "co-option" policy of inviting non-accounting international bodies to join its Board as well as emphasizing its consultation strategies, it will soon become a multilateral professional organization with a potential for responding to emerging international business transactions and events based on its expertise and neutrality. Such a potential would arise from the fact that it would be in a position to draw from a global pool of diversified competences in the interest of international harmonization of accounting practices. This will probably increase its influence as a dominant actor in international regulation of business. As the world of "big" business becomes more and more integrated through the coordination of the world's major stock exchanges and the continuation of cross-national merger arrangements of businesses and auditing firms, the need for corporate reporting standards at the global level will become more pronounced and the legitimacy of a private-sector body affiliated to an international accounting organization [IFAC] will be intensely questioned. At present, enterprises seeking finance for growth from other countries and those seeking to be quoted on foreign stock exchanges have to bear the costs of preparing different sets of corporate reports to satisfy the regulatory bodies in the different countries in which they operate. Such increasing costs make it more compelling that these enterprises welcome any international efforts to narrow and rationalize the many corporate reporting differences into a set of identifiable rules. But that set of rules must not be too permissive. If the IASs cannot be prescriptive [i.e., identify a particular option as the only preferred option], they can at least be proscriptive [i.e., disallow one or more options by reducing the domain and range of options allowable in its standards]. The IASC has decided to adopt the latter.

The IASC has recently issued Exposure Draft No. 32 on "Comparability of Financial Statements." The aim of this draft is "to eliminate most of the choices of accounting treatment currently permitted under IASs," so that like transactions and events can be accounted for in the same way, wherever in the world they are being reported.

[43] See *IASC News,* The Newsletter of the IASC, Vol. 18, No. 1, January, 1989, pp. 2-3.

The IASC indicated that it will be guided by the undernoted preferability criteria in its attempt to proscribe accounting practices:

a. current worldwide practice and trends in national accounting standards, law and generally accepted accounting principles [especially if they all point to one or two specific options];

b. conformity with its Framework for the Preparation and Presentation of Financial Statements which is its own conceptual basis of accounting;

c. the views of regulators and their representative organizations, such as IOSCO; and

d. consistency within an IAS and with other IASs.

There are many reasons for this obvious change of direction in the IASC's operational strategy. The first is the increasing presence of many non-accounting organizations in the IASC's core deliberations—many of these organizations desire accounting standards documents to have internal consistency and integrity. Of particular relevance is the indication of many securities regulators [including the SEC in the U.S.] that they are willing to consider the possibility of allowing foreign TNEs quoted on their stock exchanges to file corporate annual reports and accounts prepared on the basis of IASs if the IASC will reduce many of the options in its current stock of IASs. The second reason is the increasing convergence of the different corporate reporting rules of the member countries of the EC. Their demands for the inclusion of country-specific accounting options in IASs is probably not as intense as it was before the 4th Directive of the EC was implemented by member countries. The third is the need to enhance the comparability of accounting statements prepared by enterprises located in different parts of the world.

There are, however, potential problems for the IASC. The Dearing Committee (set up to review the accounting standard-setting process in the UK) suggests that the attempt of the IASC to reduce the number of options in its standards may pose some difficulties for the U.K. Accounting Standards Committee, especially if the IASC comes down against some options favored in the U.K.[44] This is probably true of many countries with developed accounting standard-setting procedure. Another problem is the possibility that some Third World countries currently conforming with the IASs may discontinue the practice because the options they prefer are no longer permitted and the permitted options are evolved on the assumptions that there is an efficient stock market and that the accounting competence of all countries is comparable to that in the developed world. For example, it is proposed to eliminate the completed contract method as an option for the recognition of revenue and net income on construction contracts. Many construction contracts in developing countries are undertaken by joint ventures between Third World investors and/or governments and TNEs/governments of developed countries. If profits are only allowed to accrue without recognition of the uncompleted portion of a contract, an abandoned contract would create a burden on local investors especially if foreign partners have remitted their share of recognized profits and have left the resolution of post-completion problems to local partners. In some cases, the post-completion costs may overwhelm the profits which had accrued to local partners.

The point was made earlier that Third World countries require more assistance if they are expected to move along with the international community. In pursuit of this goal, the IASC can play the role of a catalyst by introducing programs which will help to train people of the Third World in setting their own standards. The IASC can also develop a system of providing experts on secondment to accounting standard-setting bodies of the Third World. This would require more funds than is available to the IASC at present. But

[44] Accounting Standards Committee (UK), *The Making of Accounting Standards*, Report of the Review Committee under the Chairmanship of Sir Ron Dearing CB (London: The Institute of Chartered Accountants in England and Wales, 1988), p. 5.

given the will, and its international prestige, the IASC can collaborate with international development organizations to raise such funds. The IASC can also undertake research studies of the state of accounting in specific countries and sectors and on specific accounting problems. This will provide immense assistance to the international community and will also identify many issues worthy of inclusion in the agenda of the IASC.

There are still important accounting topics and corporate disclosure issues which require further harmonization and collective solutions at the global level. One such issue is accounting for financial instruments. Many new financial instruments (including the swapping of Third World debts) which are being created across national borders by financial institutions do not come under any extant national corporate disclosure regulation and are hardly reported in corporate reports of the affected parties. An attempt is presently being made to evolve a global solution. The IASC and the Canadian Institute of Chartered Accountants have formed a joint working party to study the problems and to develop an exposure draft in this area for adoption by the two bodies. There are other disclosure problems—like the treatment of taxation in corporate reports, cash flow statements, interim financial reporting and the computation and reporting of earnings per share—where divergent national measures justify the intervention of the IASC in the interest of international harmonization of corporate financial reporting. There is also the need to enhance the level of participation of the Third World. The present situation whereby these countries adopt the standards developed by the IASC and some standard setting bodies from the developed world regardless of the relevance of these standards to their environments will not do.

CONCLUSION

The IASC is probably here to stay. Its inadequacies and survival strategies have been examined. Despite its lack of *de jure* institutional legitimacy, the IASC has managed to generate a global constituency of broad public support. Its survival is being sustained by (a) the increasing internationalization of business and finance which make global harmonization of accounting and disclosure practices desirable, (b) the composite nature of its standards and its preoccupation with topics of a general nature, (c) its evolutionary strategy and (d) the absence of a rival organization with keen and prolonged interest in the development and marketing of global accounting standards.

If the IASC did not exist, there would be a need for an organization to harmonize differing national accounting and disclosure standards. The appearance of IOSCO in 1985 with a desire to harmonize differing national rules for securities offerings increases the need for an international organization to harmonize differing national and international corporate disclosure rules and poses a threat to IASC's survival. But IOSCO seems to have left this task to the IASC. So the critical question is not whether one needs an IASC but whether we have the appropriate IASC. One suggestion concerns the potential benefit to the Board of the IASC of a restructuring of its membership and the injection of non-accounting international bodies interested in corporate reporting as regulators, users, preparers and advisers. Another suggestion is the improvement in the manpower and funding of the IASC. International harmonization of corporate disclosure practices seeks to serve more than the accounting profession. Such pursuits should be endowed with much more financial and technical staff than is presently available. Yet another suggestion concerns the probable improvement in the acceptance and relevance of IASs if the IASC seeks to evolve a tiered standardization process which can differentiate between big and small TNEs found in developed countries, and smaller TNEs emerging from developing and newly industrialized countries on the one hand, and big and small domestic enterprises on the other. It seems inappropriate to apply a single IAS uniformly to all reporting enterprises of different sizes, especially when it is obvious that the benefits of that application far outweigh the costs for only a few of them. An IAS that is worthwhile in terms of benefit/cost analysis for a TNE may be less worthwhile for a domestic enterprise in a developing country.

As enterprises, investors and lenders continue to ignore national boundaries and cultures they would continue to support those efforts which seek to encourage the increasing internationalization of business and finance. It is on such a support that the survival and future prospects of the IASC depend. The comparability project is probably a turning point in the history of the IASC. It is more likely that the IASC will spend less time on the development of new standards but more on the review of existing standards and the removal of options which are mutually unacceptable in the international arena. The IASC may increase its interest in the promotion and liaison work in order to increase further the use of IASs. Following from its ongoing project on the search for the needs of financial reporting in developing and newly industrialized countries, the IASC could begin to provide help to developing countries in the creation of a standard-setting process and the interpretation of IASs.