Cross-border interaction in multi-level governance
The case of professional associations as standard setters[1]

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In this paper we investigate the role of professional associations in international standard-setting. We examine a particular case, the International Accounting Standards Committee (IASC), a private standard-setting body founded in 1973 by professional accounting associations from nine countries with the aim to formulate and publish international standards, and to harmonize national standards for financial reporting of companies. Over the following three decades, representatives of these (and other joining) professional associations developed a set of International Accounting Standards (IAS)[2] to be applied on a voluntary basis by quoted companies, stock exchanges, and other users of financial reports. Despite the voluntary character of its standards, the IASC has exerted a profound impact on the way in which financial reporting is done in the home countries of its member organizations. This impact reached its climax with the adoption of the International Financial Reporting Standards (IFRS) by the European Union as mandatory for consolidated accounts of listed companies from 2005 onwards. This case of the IASC offers a good opportunity to study the cross-border activities of professional associations that are simultaneously involved in international and national rule-setting.

The IASC is an exceptional case in respect to the continuity and duration of the standard-setting process, but it represents a more general phenomenon in international rule-setting. The formulation of and agreement on formal rule sets applied on a voluntary basis by a number of

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2 The professions lost their influential position in 2001 when the International Accounting Standards Committee (IASC) was transformed into the International Accounting Standards Board (IASB). In the new organization, corporations and financial institutions have obtained a greater influence on standard-setting (see Botzem and Quack 2006). The International Accounting Standards (IAS) were renamed into International Financial Reporting Standards (IFRS).

interested parties is often easier to achieve than unanimity on binding and enforceable rules by all affected parties. Hence, standards can be regarded as a form of regulation enabling a higher degree of global order in today's world. Brunsson and Jacobsson (2000) argue that standards represent an alternative to markets and hierarchies as a mode of social organization. They facilitate coordination and cooperation on a global scale, creating similarities and homogeneity even among quite different people and organizations. At the same time, standards like other rules need to be interpreted and adapted to be applied in particular national or local contexts. Modes of voluntary standard-setting at the transnational level may also run into collision with previously existing national modes of state regulation on financial reporting.

At a rather early stage, professional bodies from different countries started to work and negotiate on how international accounting standards should look by drawing on understandings and resources shaped by their respective national institutional contexts. As sets of international accounting standards materialized and procedures of international standard-setting became institutionalized, they developed a dynamic of their own. The same professional associations which took part in standard-setting at the international level were also involved in the strategizing and negotiation regarding changes in the national modes of financial reporting.

The co-evolution of professional activities on the national and international level, as well as their specific mode of coordination within the IASC as a meta-organization, raise a number of interesting research questions. Who supported the national professional associations involved in the rule-setting of the IASC? How where these individuals or organizational units linked to their national association? Which logics of interest and expertise developed across their national affiliation in the course of the deliberations and decisions in the IASC? How did their participation in the IASC affect the national regulatory mode of rule setting in financial reporting? And last but not least, how did the accounting profession itself change throughout the course of these developments?

Since these questions have not yet been studied from a longitudinal and comparative perspective we chose historical-qualitative and comparative national case studies to explore them. We proceed in three steps. Firstly, we examine how national professional associations – or, more precisely, parts of them – strategized in the international arena of the IASC in order to influence international accounting standards along their lines of interest. Secondly, we describe how international standard-setting developed an institutional dynamic of its own largely characterised by the logic of technical expertise. Thirdly, we consider which impact the IASC had on the national modes of defining financial reporting rules and how professional associations had to adapt to this changing mode.

The analysis is based on a comparison of the participation of the German and French accounting professions in the IASC and the subsequently evolving changes in the regulatory mode of national rule-setting in the German and French field of accounting standard-setting. The focus on the German and French accounting associations allows us to decipher some of the struggles between the continental European and Anglo-Saxon accountants approaches.

The comparison between the two can demonstrate how regulatory styles and the expertise and social status of the accounting profession vis-à-vis the state may affect bottom-up and top-down processes between the national and international level of rule-setting.

Problem and Background

Many national and international standard setters are federations of associations, and most of them have been formed on a voluntary basis. Ahrne and Brunsson (2006: 87) distinguish such meta-organizations (as they call them) from state federations and business combines which also have organizations as members because "[M]member organizations can leave the meta-organization while this is not the case for subsidiaries in combines or federal states". Meta-organizations stand out because their members are organizations themselves and thus have an interest in maintaining their own autonomy and the right to make their own decisions. As a consequence, central authority in meta-organizations tends to be rather weak. Furthermore, they have a limited ability to concentrate their resources because most of the available resources are already in the hands of their member organizations. Last but not least, meta-organizations tend towards consensual decision-making because it helps them to retain members and allows members to preserve their autonomy as organizations.

Meta-organizations are confronted with a number of classical problems of delegation and representation in organisational decision-making. While these issues have been studied to some extent for organizations with individual members, there is still little knowledge about how they take shape and evolve in complex multi-layered meta-organisations with member organizations from a variety of different countries.

Political scientists have of course studied interest associations of various types. Usually, however, they focus either on the *logic of membership* or the *logic of interest* (Schmitter and Streeck 1981). The *logic of membership-view* investigates why and under what conditions organizations would be willing to join a federation of associations and what the federation needs to do in order to recruit and retain organizational members. The *logic of influence- view* focuses on how federations of associations have to structure the relations to their members in order to be credible and reliable actors in consultations and negotiations with interlocutors such as the state, other meta-organizations or supranational authorities. Both approaches touch upon problems of democratic representation and delegation in associations, but lack an organizational theory element that could link international organizational dynamics to the strategies and politics of these meta-organizations vis-à-vis the outside world.

Scholars in organizational science, in contrast, have laid the foundation for the analysis of democratic organizations, i.e. organizations that are subject to democratic decision-making by their members. One of the key issues of concern has been the tension between bureaucratic control of the association's leadership and the democratic influence of its members. Michels (1970), for example, studied political parties and argued that there is an "iron law of

oligarchy" that leads the organization to shift its goals from the idealistic values of the members towards the power interest of the ruling party elite. In post World War II American sociology, Blau and Scott (1962: 45-49), and Katz and Kahn (1966: 211-214) wrote about organizations based on egalitarian principles. In Europe, Sainsaulieu, Tixier and Marty (1983), Naschold (1969), and Pateman (1970) are among the authors that studied the problems and prospects of forming and maintaining democratic types of organizations. Coleman (1988) and van Waarden (1992) examined the internal organizational dynamics of business interest associations. They found that their emergence and development was a result of both the logic of membership and the logic interest. None of these studies, however, encompasses the complex double delegation and representation structure that exists in meta-organisations.

Inspiration can be drawn from Claessens' (1977) work on group associations. When groups affiliate with each other, group life is reproduced at a second order level. Delegates of the groups that come together at the higher level have to simultaneously perform three roles: they act as members of the first order group, representatives of the dispatching group, and members of the higher order group. This multiplicity of roles is likely to cause conflict. In order to overcome these role conflicts, higher order groups will seek to develop rules of procedure and a language of their own. Therewith, a process of homogenization in the higher order group develops, which consequently alienates members from their first order group. Interactions in the higher order group require tedious goal definitions and adjustments, deliberations about decision making rules, strategizing between coalitions, etc. As a result of these interactions, higher order groups tend to develop solidarities of their own that, while not necessarily eliminating all differences between members, nevertheless start to compete with the first order group affiliation.

Schmidt and Werle (1998) analyze meta-organizations in charge of technical standard-setting. Their study reveals a dual structure of working relations and decision-making. At the level of technical working groups, highly specialised technical argumentation between experts constituted an autonomous discourse while at the decision-making level, business and political interest played a crucial role. The role of the national delegates was often ambiguous since they acted at both levels. The study shows how the rules of the international standard-setting organizations gradually created an institutional environment of its own which led to a softening of the experts' links to their domestic standard-setting organizations.

Tamm Hallström (2004) finds a similar logic in her comparative analysis of the International Standardization Organisation (ISO) and the International Accounting Standards Committee (IASC). She concludes that standardisation bodies can be seen as arenas where many organizations participate and act to satisfy their interests, often in complex interplay. In the case of the IASC she finds support for the strong influence of professional associations. Within the IASC, questions of technical expertise were discussed in different committees than in those in which the political decisions were made. Representatives of national professional associations, thus, found themselves in a position with overlapping and sometimes conflicting roles similar to that described by Schmidt and Werle for engineers in technical standard-

setting. However, since Tamm Hallström's study concentrates entirely on the IASC, it cannot elucidate how national accounting professions and IASC impacted on each other through national delegates as boundary spanners and gatekeepers.

In this paper we undertake an explorative analysis of the cross-over activities of German and French accounting bodies in the production of rules for financial reporting. We investigate which parts of the overall organization became involved in the IASC and how the results of their work diffused back to their home countries. We look at how the professional associations changed over time and how their role in the national setting became adapted to international templates.

National Diversity in Regulatory Styles and Professional Expertise

Accounting standards are guidelines to compose annual reports. Historically, the meaning and understanding of accounting rules has been contextualized in national accounting traditions and systems. National accounting systems evolved in close interconnection with the development of corporate governance, financial markets and economy-state relations. Proper and true accounting came to be considered by national governments as a prerequisite, helping to prevent corporate failure and financial crisis. There are a number of differences that separate accounting in liberal economies of the Anglo-Saxon world and the co-ordinated capitalism found in continental Europe and Japan. They can be briefly summarized by the dominance of investor versus creditor interests in accounting principles, the regulation of accounting rules by case law versus code law and the nexus between financial and tax accounting (Glaum 2000).

Historically, Germany and France have been part of the continental European 'family' of accounting systems that has been characterized in Nobes' and Parker's (2004) classification scheme as macro-uniform, government-driven, and tax-dominated. However, the German and French accounting systems differ in some aspects. One of these is regulatory style. Other differences refer to the status and unity of the accounting profession and the level of expertise that it can bring into play in relation to the state.

In Germany, the definition of basic accounting principles has until recently been a matter of legislation. These principles are codified in the Code of Commerce (*Handelsgesetzbuch, HGB*), the origins of which can be traced back to the late 19th century. Although such legislation is created by lawyers and administrators in the Ministries of Justice and Finance, the German process of law-making involves consultation that allows different groups and associations to influence this process. Examples of accountants' influence on this law-making process include the input of individuals (particularly academics) through publications and expert opinions, the lobbying of the *Institut der Wirtschaftsprüfer* (IDW, professional association of auditors) as well as the professional association of tax advisors, and the advice of the *Wirtschaftsprüferkammer* (WPK, Chamber of Auditors) (Evans and Honold 2007).

The German auditing profession also significantly contributes to the interpretation of codified rules with a general character. The interpretation and application of these rules is delegated by statute to the professional association of accountants. The *Institut der Wirtschaftsprüfer* prepares interpretative statements of how to apply codified rules that have a legally binding character. The *Wirtschaftsprüferkammer* is responsible for overseeing professional examinations, ethics and supervision. Membership is compulsory and its rules are binding. Thus, the regulatory system of the auditing profession is a dual system combining features of state and self-regulation. As a result of the high professional standards and rigid educational entry requirements, the German auditing profession enjoyes a high social status which, together with its recognised high level of expertise, places it in a strong bargaining position vis-à-vis the state, banks and large companies (Markus 1997).

In France, the 'planification' approach greatly influenced the way in which accounting rules were determined during the post war period. The aim of the *Commission de Normalisation des Comptabilités (CNC)*, founded in 1946, was to develop a terminology for enterprise-based accounting that would assist national economic planning. In 1947, the first nation-wide accounting plan was launched. Since then, the *Plan Comptable General (PCG)* has been the centrepiece of accounting regulation in France though significantly revised and adapted in subsequent reforms, particularly in the 1980s and 1990s. The CNC sets up specialist standing commissions to develop accounting standards or interpretations for approval by the CNC.

The French accounting profession is one of the parties involved in this process. In principle, the CNC is a tripartite consultative body under the authority of the Ministry of the Economy including representatives of the public administration, the accounting profession, and private economic interest groups. The influence of the French accounting profession, however, is limited by its fragmented structure, moderate expertise and low social status. While the *Ordre des experts-comptables* (OEC) represents registered public accountants, a second professional body, the *Compagnie Nationale des Commissaires aux Comptes (CNCC)*, organizes statutory auditors. Although the two bodies have largely overlapping membership, each is constituted under a different law and regulation which limits their ability to develop common viewpoints on issues of accounting standards. Collasse and Standish (1998) who analysed the participation of different interest groups in the standard-setting of the CNC conclude that the professional bodies have little control and no independent public standing from the CNC in these matters. Part of the explanation is the historically weak professionalisation of accountants in France, low qualifications and social status. For a long time, French accountants were seen as having more of a "function" than being a profession (Ramirez 2007).

The other part of the explanation is the tripartite regulatory mode of French policy making that accords more influence to financial, corporate and labour interest groups than is the case in Germany. Within the CNC, representatives of the Ministry of Finance and Ministry of Economy have often lined up with the interests of large French companies. Furthermore, the *Commission des Opérations de Bourse* (COB), since its establishment in

1967, has been permanently represented in the CNC and thereby been closely involved in the development and implementation of accounting standards, especially as related to companies issuing securities. As a result, in the 1970s and 1980s, companies and financial market actors (i.e. users of financial reports), had more institutional influence on the development of accounting standards than they had in Germany (Botzem 2005).

Diffusion of Anglo-Saxon Accounting Norms and Rule Setting Procedures

The last decades have seen a proliferation of activities and initiatives to make accounting rules, and financial reporting in particular, comparable across national borders. The European Commission was the initiator of the first postwar attempts at harmonizing financial accounts within Europe. From the 1970s onwards, however, the International Accounting Standards Committee (IASC), founded in 1972, has been a driving force of harmonization in this field. The British professional bodies invited their sister organizations from eight other nations to join the initiative. In 1973, the constitution of the IASC was signed in London by representatives of national professional accounting bodies from 9 countries: Australia, Canada, France, West Germany, Great Britain (with Ireland), Japan, Mexico, the Netherlands and the United States of America (Haller et al. 2000). From the outset, the work of the IASC focused on developing financial accounting standards for companies and aimed at developing standards with an international, not just a European scope. Private actors previously working in the shadow of (inter-)governmental decision-making now claimed the centre court of the international standard-setting arena for themselves. What was behind the project was, as Hopwood (1994) suggests, an intention of the British and Irish professions to circumvent the regulatory approach of the European Commission and extend their influence to international standard-setting.

From the 1970s onwards, the IASC was able to flexibly transform and adapt its organizational structures in ways that made it the focal actor within an international network of accounting regulation. Through this network the IASC has been able to successfully diffuse IAS standards, to generate legitimacy in support of its standards, and in some instances to secure private or public enforcement (i.e. through listing requirements of stock exchanges, or official recognition by national governments). The content of IAS changed considerably over the same period. Whereas in the 1970s, IAS contained many options reflecting a variety of (continental European and Anglo-Saxon) accounting principles and rules, revisions of standards undertaken in the course of the Comparability and Improvements Project in the second half of the 1980s, as well as subsequently defined new standards, favor Anglo-Saxon accounting principles and provide much fewer alternative options.

At the turn of the millennium, the IASC had built up a strategic network that linked most relevant national and international regulatory agencies, international stock exchanges, professional bodies and private interest groups. Its International Accounting Standards had

been accepted as national standards in a considerable number of developing countries that previously did not have any such standards. Financial reporting by IAS was recognized by most international stock exchanges outside of the US. Parts of IAS had trickled into national accounting legislation in continental European countries, and a number of these countries had admitted parallel or substitutive reporting in IAS for their large domestic companies.

The diffusion and recognition of IAS was such that the European Commission, faced with the threat of growing numbers of large companies opting for US-GAAP accounting standards for their listing at US stock exchanges, gave up its own project of harmonization in the mid-1990s. Instead of revising its own Directives, the European Commission decided to participate actively in the further development of IAS (European Commission 1995). In 2001, European Accounting Directives were revised in a way that allowed conformity with IAS. From January 2005 onwards, IAS (or International Financial Reporting Standards as they are labeled since 2001) has become mandatory for consolidated accounts of publicly traded companies in the EU (Regulation (EC) No 1606/2002) (Haller 2002: 168). In the end, the private Anglo-Saxon standardization approach bore the palm over the state-centred continental European approach towards accounting standard regulation. As opponents for the next round, only IAS and US-GAAP remain.

Under the influence of international standard-setting, accounting rules in Germany and France have undergone considerable transformation. This happened partly in the course of the implementation of European company directives. The diffusion and adoption of International Accounting Standard by the EU has been even more influential. In both countries, the overall direction of this change can be described as a shift from a continental European towards the Anglo-Saxon accounting approach (Botzem and Quack 2006). Elements of this shift can be found in the content of rules, the nature of rules, as well as the regulatory mode of rule setting. In terms of content, the previously dominant principles of prudence and balancing periodic fluctuations in income through reserves have given way to criteria of investor transparency and “true and fair value”. The nature of rules has been transformed by a gradual shift from legally binding accounting rules to voluntary accounting standards. Finally, the procedures of rule setting have been moved out of the framework of democratically legitimated legislative institutions to a private (or semi-private) standards setting body in which there is a much more direct and powerful representation of the economic actors to which these rules are addressed.

Among the factors that have contributed to these changes are evidently the rise of American and London based international capital markets, the internationalization of large German and French companies, the need and/or interest of these companies to become listed on international capital markets and the interest of German and French stock exchanges to attract listings of foreign companies. Not surprisingly, in both countries financial market actors and large companies have been among the most fervent promoters of changes in accounting rules, legitimating this with the need to adapt to globalization pressures and to foster the international competitiveness of national companies. Thus, the transformation of accounting rules in Germany and France could be regarded as a case of national adaptation to exogenously generated pressures of globalization. The story, however, turns out to be more

complex when we direct our attention to the transnational interactions of professionals in the standards setting activities of the IASC, and how this retroacted on developments in the accounting field in Germany and France.

The Gradual 'Conversion' of German and French IASC Members

The German and French accounting professions have been constitutive members of the IASC. Since 1973, their representatives have been actively involved in the process of issuing and revising International Accounting Standards. Why did they join the IASC in the first place and how did it happen that over time more and more of their domestic rules were erased from the IAS framework? These questions point to the role of international rule-setting organizations as institutional contexts in which identities, preferences and interests of actors might become transformed over time (March and Olsen 1998), but also as arenas that can be used by fractions of national academic, professional and political elites to seek leverage for their specific minority interests (Schmidt 2003).

What appears as an Anglo-Saxon threat to continental European accounting in retrospect was not perceived as such by the continental European professions in the early 1970s. In Germany and France, the majority of the profession was looking inwardly to their national accounting systems. Language still constituted a considerable barrier to the cross-border diffusion of knowledge. Since the IASC deliberately chose to develop 'voluntary' standards for large stock-listed companies, it was by no means obvious that these might ever gain an impact on domestic rules and practices of financial reporting that would affect significant numbers of companies.

In the early years, the IASC prepared elaborated inventories of accepted financial reporting practices in various countries. Representatives from different countries were therefore collaborating on a relatively equal footing. National accounting traditions and the interests of different actors were quite distinct and could not easily be absorbed into one coherent framework. The most ostensible indication of this was the wide range of options included in standards published at that time. The options included in some IAS where of such a range that they could be used to report under such different financial reporting systems as the US-American Generally Accepted Accounting Principles (US-GAAP) on the one hand; and the German commercial law code (HGB) on the other (Daley and Mueller 1982: 45).

Within the national accounting bodies, the officials in charge of international liaison committees and international relations were those likely to be interested in and delegated to the meetings of the IASC. For them the IASC offered an exchange of information and a better understanding of practices in other countries. In many cases, professional associations delegated accountants to the IASC who worked in large accounting firms or for other reasons had an international orientation. For French accountants, the participation in the IASC also

represented an entry to a much more noble professional world than that of their home country (Chiapello 2005; Ramirez 2007).

As part of their international collaboration, national delegates gained experience with a previously unfamiliar regulatory mode: the 'due process' of standards setting that the IASC had copied from the US American standard setter, the *Financial Accounting Standards Board* (FASB). This procedural framework for standards setting prescribes that after having identified an accounting issue relevant for regulation, a discussion memorandum is developed by technical committees and the IASC Board. The memorandum is then published and the public invited to comment on the draft within a fixed time period. Subsequently, the Board develops an exposure draft and makes it available to the public for further comments. Finally, the Board votes whether the exposure draft should be adopted or withdrawn to develop a new draft.

As the work of the IASC increased rapidly in the 1980s, it came to rely more strongly on the use of its members' resources. National experts were often dispatched by the national offices of large international accounting firms (such as KPMG or Ernst & Young) or the finance departments of large domestic companies (such as Lafarge and Thomson in France; Henkel, Bayer and, more recently, Daimler Chrysler in Germany) to work for a limited period for the IASC or to chair or participate in specific technical committees. These individuals belonged to national economic or academic elites with a relatively forward looking attitude towards internationalization and liberalization. They are also likely to have disposed of a more positive attitude towards Anglo-Saxon accounting standards than the majority of their national professional colleagues. Their rise to the IASC mirrored the expansion of large international accounting firms in both countries (Evans and Honold 2007; Ramirez 2007).

Examples of the recurrent and often long lasting participation of individual experts in the 1990s are Gilbert Gélard, a 1963 HEC graduate who subsequently worked for Arthur Andersen, two large French industrial groups and KPMG, served in the French standard-setting body CNC, the European accounting body FEE, and has been a member of the French delegation in the IASC for 17 years; and Heinz Kleekämper, a 1965 graduate of the University of Munich who held positions at McKinsey and Ernst & Young, was in charge of international cooperation at the German accounting body *Institut der Wirtschaftsprüfer* (IDW), was active in the European Accounting bodies UEC and FEE, and a member of the German delegation in the IASC for six years.

In this way, the work of the IASC gave birth to a small community of accounting experts from different national backgrounds that developed an understanding and sensitivity for nationally diverse accounting rules. As wanderers between accounting worlds, these experts gradually developed an identity as experts of international accounting standards. This learning process was supported by the expertise-based governance mode of the IASC, the piece-meal character of standard-setting and the long-term participation of individuals in the work of the IASC. Not to be forgotten is the fact that the large international accounting firms also had a strong interest in delegating senior partners to the IASC in order to influence the standard-setting process.

The results of the delegation of national experts that originated from a minor but influential segment of the national profession and effects of the socialization and acculturation process within the transnational professional community became visible when in 1987 the IASC entered a joint Comparability and Improvements Project with the International Organization of Securities Commissions (IOSCO). The aim was to overcome US opposition to IAS by starting a revision of ten out of thirty-one IAS standards and reducing the number of their options. Above all, the precautionary measure aiming at protecting creditors was perceived as incompatible with financial market expectations. Another controversial item was the treatment of reserves, which are closely tied to issues of taxation. In many cases continental European options became subordinated to the preferred Anglo-Saxon benchmark options or eliminated altogether (Nobes and Parker 1985; Kleekämper 1995). Decisions on these issues in the IASC have been mostly taken by unanimous voting. The shift to accounting standards with a stronger investor orientation was triggered by both the selection and socialization of a transnational professional community with a specific set of goals and values, as well as outside pressures such as the financialization and internationalization of the economy.

New Rules and Regulatory Modes Trickling into German and French Accounting

The impact of International Accounting Standards on national accounting rules in Germany and France became obvious only very gradually and developed for a considerable time as a matter of technical rather than political decisions. It was only in the late 1990s that the change of financial reporting rules received public attention as a political issue. It is interesting to note that, at least in Germany, some of the promoters of these national reforms preferred to present them as responses to external market forces rather than revealing how they as individuals and organizations had actively participated in previous decades in defining and shaping IAS as a market-based rule system. The constitution of the IASC, however, requires that its members disseminate information about IAS and promote international harmonization in their home jurisdictions. Representatives of the accounting professions, (first of all those involved in the IASC rule setting) together with economic actors interested in the liberalization of financial and capital markets started to sponsor amendments, additions and exceptions to existing national accounting rules. These changes set into motion a ‘differential growth’ (Streeck and Thelen 2005: 24) of the jurisdictions of international and national accounting rules. As more domestic companies listed abroad, and national stock exchanges were keen to attract foreign listings, continental European legislators came under increasing pressure to simplify accounting requirements for multinational companies.

A key characteristic of the following deliberations was that they often involved a gradual shift of the boundaries of jurisdiction within which IAS would or would not be accepted at the expense of national accounting rules. IAS did not invade German or French accounting

systems in one fell swoop, but rather sneaked into them slowly step by step. These gradual changes of national accounting rules unfolded in different ways in Germany and France.

Changes in German accounting rules represent a good illustration of moving jurisdictional boundaries. First, there were changes in company reporting and stock market practices in the ’pre-legal’ sphere. A couple of German MNE followed the example of Daimler-Benz and issued double reporting according to German and US-GAAP or IAS for their group accounts. Glaum (1998) found that German managers became more supportive of IAS and US-GAAP over the period 1994 to 1997. When the German *Neue Markt* was established in 1997, it introduced a contractual requirement for listed companies to provide financial reports according to IAS. Thus, some changes had already occurred on the grounds that the relevance of existing rules by voluntary or required dual accounting were being questioned.

In 1998, the legal basis of accounting and financial reporting of listed companies were redefined by the Corporate Sector Supervision and Transparency Act (*Gesetz zur Kontrolle und Transparenz im Unternehmensbereich*, KonTraG) and the Raising of Capital Act (KapAEG, *Kapitalaufnahmeerleichterungsgesetz*, KapAEG) to take account of the European directives. The overall aim of these laws was to liberalize German capital markets and to increase the transparency of listed companies (Höpner 2003). These laws included changes in a number of paragraphs relating to accounting in the German Commercial Code (HGB) that can be summarized along three different dimensions.

Furthermore, the mode of rule setting was also changed. The Ministry of Justice was given the option to conclude a contractual agreement with the newly founded German Accounting Standards Committee (*Deutsches Rechnungslegungs Standards Committee, DRSC*) in order to establish a private accounting standard-setting body. Rule setting by the DRSC replaced largely the former procedure of legal codification in the HGB. Since 2001, the DRSC is also the German liaison partner of the IASC. The DRSC includes, like the IASC, representatives of preparers, issuers and users of financial reports but no representatives of the government or public bodies. It is entirely financed by private member organizations.

In France, the situation was slightly different since the accounting plan of the CNC did not differentiate its applicability according to the type of business. Neither did it include any notion of consolidated accounts. Consolidated accounts of corporate groups therefore were an unregulated niche. This allowed large companies to fulfill the requirements of French law when they complied to the plan in their individual accounts, but it also gave them considerable freedom to issue consolidated accounts of the entire company group. In fact, French company groups used different sets of standards for their consolidated accounting in the early 1980s and were among the first in applying voluntary non-local (i.e. international or US-American) accounting standards (Stolowy and Ding 2002). Consolidated accounts were introduced into French accounting with the 7th European Directive in 1983 but still left enough leeway to use international standards. In contrast, individual accounts of French companies continued to be regulated by the accounting rules of the CNC.

Relevant changes to the French system of accounting regulation were introduced in the late 1990s. These reforms responded to criticism questioning whether the structure and

operation of the national accounting council (*Conseil National de la Comptabilité*, CNC) were still suitable to remain engaged with developments in international accounting harmonization. The CNC, though very influential as a consultative organ to the Ministry of Economics did not dispose over regulatory or enforcement powers in accounting. In addition, other organs with an interest in accounting matters, such as the professional organizations and the securities market supervisory body, were voicing interests and influencing legislation and decision making concerning accounting rules. This created uncertainty about the legal status of CNC rules and procedural incompatibilities with the operation of the IASC. In 1996, legislative changes were made to the CNC structure and operation. An Urgent Issues Committee, and "more radically, the Accounting Regulation Committee (CRC) was established by Law 98-261 to give regulatory effect to selected CNC standards, thereby removing previous uncertainty regarding their authority" (Standish 2001: 10). The CRC as an inner circle of accounting regulation is comprised of 15 members, eight from the public and seven from the private sector. The two-tier system of accounting regulation works as follows: "The CNC issues opinions (avis), most of which are submitted to the CRC and become regulations." (Parker 2004: 229). Furthermore, the number of members in the CNC was reduced from 115 to 58 while keeping its tripartite nature.

In comparing the observed changes in Germany and France, two points seem worthwhile for further consideration: Firstly, the diffusion of IAS (or other non-local standards such as US-GAAP) started in both cases from dual use, small "regulatory niches" and "unregulated islands", the boundaries of which were gradually refined (in Germany first by national law; in Germany and France through the EU decision to make IAS mandatory of consolidated accounting of stock-market listed companies from 2005 onwards). Whereas before then, all companies where submitted to a (more or less) unified rule set of financial reporting, there are now several rule sets applying to different groups of companies and defining the rules in various 'localized' jurisdictions. Secondly, the reforms of the regulatory process, though both directed towards a better articulation of national rule setting with international arenas such as the IASB, nevertheless emerged in quite distinct ways and with different outcomes. Botzem (2005) compares developments in Germany and France with those of the British pluralist model. He finds that while the German corporatist approach was entirely transformed along the lines of the pluralist model, French actors achieved a realignment of their statist model with international arenas of standard-setting. In the 1998 reforms in Germany, the once legally-based setting of accounting rules became completely disconnected from state participation and moved to a private non-profit organization. The financing of this is now entirely provided by individual and corporate members of this organization, and thereby restricted to an even more narrow range of interest groups than in the UK where the government continues to financially contribute to the rule-setting body. Displacement by invasion thus led to an "over-adaptation to international standardization" (ibid: 20). In contrast, the French case displays many elements of the shift from a state-led to a state-enhanced model described by Schmidt (2002). An existing public agency, the CNC, was reconfigured and a new decision-making committee (the CRC) integrated into it. At the same

time, however, the position of financial market actors within this public rule-setting body was strengthened and the content and procedures of financial reporting have been given a stronger financial market orientation.

In both cases, professions are now just one group among others that participate in the rule-setting process. The venture of a small elite group within the national professions to establish international standards retroacted not only on national accounting rules but also led to a decline of influence in the national professional association as a whole in the regulatory process of rule setting. The French profession seems to have forfeited even more influence than the German one.

Conclusions

This paper has used work in progress on changes in the German and French accounting system in order to highlight how international interactions of professional associations trigger national institutional change. The focus has been on the cross-over of professional experts between international and national rule-setting arenas, and the complex trickle-up and trickle-down processes of institutional emergence and change resulting from their strategizing, imitation and learning processes. During the period of observation, the role of accounting professionals must of course be seen in the context of other financial and political transnational epistemic communities fostering marketization and financialization.

The results show that over time the interactions between representatives of different national professions within a meta-organization develop a dynamic of their own. In consequence, international standard-setting to some degree became detached from the interest of national professional associations. Instead it was governed by a *logic of technical expertise*. As a consequence, international accounting standards developed as an additional – and optional – negotiated order that overlapped with rules of national institutional orders. In the long-run, however, these voluntary standards significantly affected the national layer of rule setting.

Changes in national accounting rules in Germany and France were not simply responses of national actors to exogenous pressures of globalization. Instead, it has been shown that they were engineered by small elites of transnationally-oriented members of the national profession and pushed forward by the multi-level strategizing of these actors. Further research is still necessary to reveal how criss-crossing accounting professionals interacted with other economic elites and political groups fostering a liberalization of financial and capital markets along Anglo-Saxon models. The evidence presented in this paper suggests that the logic of technical expertise that is so pronounced in meta-organizations tends to lead to a decoupling of national experts from their national organizations. At the same time, it seems to give rise to a common set of cognitive frames and normative values. The degree to which this wipes out national differences in experts' identities, preferences and interests, however, remains unclear.

The distinctive ways in which the reform of national accounting rules unfolded in Germany and France seems to suggest a certain portion of "national path dependency" throughout the process of transnational interaction. Further research is necessary to fully understand the dilemma in which such experts operate, the degree to which they activate different sets of preferences and interests, as well as argumentative frames when operating in varying rule-setting arenas.

To gain a full picture of the delegation and representation problems in the IASC as a meta-organization, the analysis needs to be extended in two directions. Firstly, the cooperation of professional experts with the EU context needs to be revisited in connection with the rise of the IASC. Were distinct groups of experts involved in these arenas or was it one unified "traveling" expert group? Did they articulate their goals and interests in distinctive ways depending on the rule-setting arena in which they were acting? Was there spill-over between different rule-setting bodies? Secondly, it appears surprising that the investigation brought to light so few Franco-German interactions. This stands in contrast to the history of the two countries of learning (or refusing to learn) from the "friend" or "enemy" (Kaelble 2004; McNamara 1998; Ziegler 1997). How did the relationship between the French and German accounting professions develop from the early attempts of harmonization in the EEC to the revision of IAS standards in the 1980s and 1990s? Did they observe development in each other countries? Did they perceive themselves as part of a continental accounting tradition that could potentially learn from each other and build coalitions in international arenas, or did they feel too far apart to do so? Does the rise of an Anglo-Saxon model of financialization imply that continental European countries become less interested and motivated to learn from each other?

Finally, the research presented here suggests that *the logic of technical expertise* in transnational meta-organizations can become a powerful trigger of institutional change. This is most likely to happen in areas of high complexity in rule setting and in issue fields that are not highly loaded with political conflict (Carruthers and Halliday 1998). The number of issue fields to which this characterization applies seems to be continuously increasing. Therefore, the logic of technical expertise in meta-organizations and the various ways in which it replaces, transforms or supplements decision-making by governments seems to be a research agenda worth pursuing in the future.

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