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Themed Section of Accounting, Organizations and Society

Exploring the Work of Financial Reporting

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The institutional and social aspects of financial accounting are still relatively unexplored. Compared with our insights into the economic theory of income calculation and the economic determinants and consequences of modes of corporate financial reporting, our knowledge of how forms of financial accounting emerge from, sustain and modify wider institutional and social structures is modest (Anthony Hopwood)

Over the years innovation in accounting research has taken place in a number of different ways: seeing accounting through new theoretical lenses; describing and interpreting new accounting practices; finding new associations between accounting phenomena and aspects of the wider social and economic environment; and building new theoretical models of decision making involving accounting information. In some of these cases, connections between accounting research and emerging issues in adjacent fields have been made. Indeed, innovation is occurring as other regions of the social sciences begin to see the significance of mechanisms of control and performance accountability. And, as these new forms of accountability have mushroomed, scholars have expanded their view of what counts as accounting. For example, there is currently intense interest in understanding such things as: ranking systems and their effects; and the role of non-financial information in business model reporting. Furthermore, recent work on the linkages between conventional accounting practices and ideals of sustainability and social impact revisit some of the very earliest preoccupations of *Accounting, Organizations and Society*.

Yet if the vectors of possible research innovation are diverse – and only a few have been listed above - innovation is also challenging and, in these days of increasingly normalized notions of quality, also very risky. The dilemma for many journal editors is simply this: how to encourage a reviewing environment receptive to forms of innovation which, almost by definition, operate at the margins of the conventional methodological and/or theoretical norms of their chosen genre. New research areas, almost of necessity, reach beyond their data, and are more loosely linked to theoretical frames or are linked to frames sometimes significantly different than the "norm." But it is exactly these characteristics which help to open up new spaces for thinking and empirical exploration.

To meet the challenge of seeding innovation, editors increasingly turn to the vehicle of the 'special issue' – hoping that calls for papers with a specific focus may effect a shift in the attention and ideas of scholars, and create a platform for risk-taking and new ideas. However, such ventures create a new kind of problem: the unit of innovation is effectively a critical mass of papers in which the whole is greater than the sum of the parts, and where individual papers can be evaluated both in themselves and also for what they bring to what amounts to an 'intellectual' venture capital portfolio. Indeed, the growth and prevalence of such special issues across the management and organization sciences, including accounting, is interesting given the apparent disdain with which edited book collections are now regarded. It is as if the underlying ideas and aspirations of the edited collection remain relevant but now find expression within the journal arena.

As the history of *Accounting, Organizations and Society* reveals, Anthony Hopwood understood this portfolio concept of innovation and its associated risks very well. In 2009, shortly before he passed away, he commissioned and published a special issue on carbon accounting which exemplified the experimental and eclectic nature of first steps to highlight and explore an emerging 'accounting' issue. Yet it is perhaps the mid-1980s which marks a peculiarly rich period in the history of the journal, with the appearance of landmark papers which continue to influence scholars today. In a sense, while the journal was born in 1976, the AOS field did not take off until the mid-1980s as Hopwood's own pioneering ideas were taken up and adapted. However, to a large extent the field at that time developed with a distinctive emphasis on managerial accounting and control. Space does not permit a full exploration of the reasons for this but two can be suggested (See also Robson and Young, 2009; Miller and Power's 2012).

On the one hand, the field of management control in the UK was particularly receptive to a range of social theories, and the connection between accounting and organization/management studies was easy to make – although it required a few key catalysts. On the other hand, financial accounting as an object of academic interest somehow became associated with a very specific mode of empirical study that focused on its role and effects in capital markets. It is always curious how some fields of study acquire such a strong association, almost identification, with the methodological orientation through which they are investigated. For example, university departments of 'Finance' police, and are allowed to police, what may be intellectually associated with that label, despite the fact that "financial economics" is but one way to study the "field" of finance. To a lesser extent, financial accounting has acquired a similar kind of association with the methods of capital markets research. Although exceptions exist (e.g. Burchell et al., 1985; Gendron & Bedard, 2006, Ravenscroft & Williams, 2009; Young, 2006), this work had been carved out by individuals working largely against the scholarly tide of the time.

These two, somewhat abbreviated, explanations for the managerial control emphasis in AOS in the 1980s and 1990s provide part of the rationale for this special issue, and the three papers it contains. But world events played a role too. The financial crisis of late 2008, and the highly public and political debates about the role of fair value measurement, energised enquiry about financial accounting. Hopwood sensed this early on in 2009 when he commissioned a number of short pieces on the financial crisis, including the much cited paper by Laux and Leuz (2009). But other things were happening too. The significance of the rise of financial economics, even prior to the crisis, was not something that could be comprehended by financial economics itself in anything other than progressive and functional terms. While Whitley's (1986) analysis was ahead of its time, the crisis gave a new impetus and voice both to the emerging field of social studies of finance, and also to sociological scholarship about values and value

(The online journal *Valuation Studies* began life in 2013). All these things made it possible for accounting scholars to think about financial accounting in new ways in relation to finance and valuation (cf Vollmer et al., 2009).

Sensing this wave, we initiated a call for papers in 2011 to explore ‘Financial Reporting as a Social and Organizational Practice’ (FRASOP). The call attracted nearly 60 submissions of which there was space for 14 in a workshop at the London School of Economics in December 2011. This themed section contains three papers from that original workshop – of which more below. The interest in, and success of, ‘FRASOP 1’ as we now call it, generated the confidence that there was sufficient commitment and capability to sustain this emerging sub-field, and so the workshop has become institutionalized and expanded to include auditing. FRASOPs 2 and 3 took place in 2013 and 2016 respectively.

A good call for papers is a kind of mini version of the innovation which it hopes to stimulate and encourage. Indeed, some of Hopwood’s calls for papers were in many ways more innovative than the papers they attracted. And this is as it should be. A call for papers should be risky, exciting and attractive enough to catalyse interest. It should be the statement of an agenda which cannot possibly be realised in one workshop or one themed section like this; it is more a statement of hope and aspiration, intended to excite and attract scholarship even in these intellectually conservative times. We cannot be sure that our original call in 2011 lived up to this ideal, but we are happy enough with the outcome. And while we publish only three papers in what follows, several other papers presented at the FRASOP workshops are also in the pipeline at AOS and elsewhere.

In the first paper, Jaana Kettunen deals with the process by which IFRSs are translated between different languages. Her analysis focuses on the work of specific actors who engage in translation in the Finnish context, and it draws on translation theory and on notions of institutional work to capture the processual nature of translation activity. While much has been written about the interpretation of regulation in general and accounting regulations specifically, very little has been done on the work and impact of translation, perhaps because many scholars assume the universality of the English language and therefore the unproblematic nature of translation. Yet at the centre of Kettunen's study is a careful account of how key actors deal with the problem of linguistic equivalence, a problem which is often compounded by the essential ambiguity of accounting terms themselves. Drawing on ideas of inter-textuality Kettunen shows how this seemingly marginal and largely invisible activity constructs translations which sustain the position of IASB as a global, and supposedly uni-lingual institution.

In the second paper Barker and Schulte develop a case-based critique of fair value accounting which draws on the philosopher John Searle's notion of an institutional fact, namely something which can be known and represented objectively within, and relative to, an institution. Using the example of several case companies complying with IFRS 1 Barker and Schulte argue that the preparation of financial statements involves either the reporting of institutional facts already in existence, or else the creation of data that cannot themselves constitute new institutional facts. In essence, they suggest that in cases where fair values are determined by reference to a hypothetical market participant, preparers are left to wrestle with a problem of compliance in the absence of institutional facts. Preparers solve this problem by various expedient and pragmatic means that further a shift from reliability to claims of representational faithfulness, a shift that contributes to fundamental incoherence at the level of practice.

In the third paper by Hiukku, Mouritsen and Silvola there is also a focus on the pragmatism needed to operationalize fair value – this time in the context of the impairment testing of goodwill. Their analysis takes us to the heart of how financial statements are produced and collectively constructed. In the case of goodwill and its possible impairment, organizational actors must look for evidence – traces - of its future value. Based on case and interview material in Finland, the authors argue that the facts of goodwill impairment, or otherwise, are produced by a distributed network of heterogeneous valuation practices and, furthermore, it is the shape of this network of human and non human actors which creates the perceived reliability of the goodwill numbers. As with Barker and Schulte's analysis, the key actors in the network have little concrete guidance, other than the accounting standard itself, and must work hard to make the numbers real.

These three papers stand alone in their own right, but they also represent an emerging agenda for research into financial accounting and auditing, not least in their common emphasis on the *work* involved in the production of financial reporting at the organizational level, a theme we had highlighted in our original call for papers. Yet despite their contribution, we still know relatively little about the wider organizational environment which conditions the production of financial statements within and beyond the finance function. The papers by Kettunen and Hiukku et al. in effect point to a new object of potential analysis, namely the *infrastructures* that support financial reporting, not least the data required to be assembled in order to test fair values (Power, 2015). Not only do such infrastructures span the managerial/financial accounting divide but, as a prospective unit of analysis, they also embody accounting 'work' being done by non-accountants within and outside the organization. At stake in these analyses is therefore the nature of the *connectivity* of the finance function to the productive parts of an organization and also to external agencies.

These three papers also speak to another theme that we highlighted in the original call of 2011 and which is enjoying prominence outside the accounting field, namely valuation, networks and financial reporting. Each paper touches on different networks of expertise which constitute the financial reporting process, and two of them show how accounting valuation is the result of effortful accomplishments in these largely invisible networks. But there are still many questions for the FRASOP agenda to pursue, largely because it aims to investigate exactly the space that capital market based studies of accounting ignore or assume away, namely the process by which accounts are collectively constructed (their production) and the mechanisms by which such accounts travel to, and are utilized by, different audiences, such as analysts (their consumption). This is not the text book world of accounting for decision making about capital allocation by clearly identified, rational users. It involves sub- and trans- organizational worlds of messy, collective endeavors and different sites characterized by their own institutionalized rhythms of production: from the places where standards are written to the places where standards are interpreted, translated and applied to produce accounts, to the places where these accounts are analysed. There is undoubtedly much more scholarly work to do in this space using many different methods and approaches, not least those which take a less normative approach to sustainability accounting, integrated reporting and related developments. We think that there remains a need for work which focuses more on the processes and routines by which these new accounting forms do and don't take shape, rather than, as Hopwood put it many times, assuming and presuming their potential. We hope that the three papers which follow will give an idea of what is possible.

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