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**Article (Published version)
(Refereed)**

Original citation:

Chahed, Yasmine (2014) *Translations in regulatory space: the arenas of regulatory innovation in accounting standard setting*. [Indiana Journal of Global Legal Studies](#), 21 (1). pp. 195-221. ISSN 1080-0727

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Available in LSE Research Online: September 2017

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Translations in Regulatory Space: The Arenas of Regulatory Innovation in Accounting Standard Setting

YASMINE CHAHED*

ABSTRACT

This paper investigates the conditions of possibility for innovation in regulatory space. The first-time inclusion of narrative reporting on the agenda of the British Accounting Standards Board (ASB) is studied in terms of a complex web of discursive schemes, which co-constituted the regulatory issue and the context in which it emerged. By exploring the discursive level of accounting reform, the approach shows how the emergence of narrative reporting on the agenda of the ASB was mediated in a historically specific constellation of formal institutional structures, professional trajectories, and changing conceptions of the roles and purposes of accounting in business management and macro-economic governance. The formation of this constellation is conceptualized as a multi-directional process of translation. This perspective, which is inspired by sociological studies of accounting, may offer new directions for research on regulatory translations in other domains and may inspire research on law as a social and institutional practice more generally.

I. INTRODUCTION: INNOVATION IN ACCOUNTING STANDARD SETTING

In July 1993, the British Accounting Standards Board (ASB) published a technical document titled *STATEMENT: OPERATING AND FINANCIAL REVIEW* (OFR Statement).¹ This document was the first

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formal proposal by a national standard-setting body for a novel type of voluntary reporting by company directors in the context of financial reporting. The OFR Statement, which was designed as a formulation of best practice and not as a formally binding reporting standard, was meant to guide the provision of narrative statements on the underlying financial and nonfinancial drivers of business performance.² Such reporting was expected to supplement and complement the published financial statements by giving visibility to a broader range of nonfinancial and future-oriented information on the potential of the business to achieve its long-term objectives.³ The ASB suggested that the publication of a voluntary OFR in the annual report of companies (in line with the ASB's best practice guidelines) would assist the users of financial statements "not only in forming judgements on the results for the period in question, but also in making their own projections of future results and cash flows."⁴

The OFR Statement differed from extant frameworks for the regulation of financial reporting in three ways. First, it positioned the presentation of additional narratives as an integral part of the financial reporting package, rather than as a separate form of disclosure.⁵ Second, the OFR Statement no longer focused only on explaining past

1. See ACCT. STANDARDS BD., STATEMENT: OPERATING AND FINANCIAL REVIEW (1993) [hereinafter OFR STATEMENT]. The ASB coined the term "Operating and Financial Review" to describe narrative statements in which company directors explained their perception of the underlying financial and non-financial drivers of the operating performance and financial position of their company. *Id.* These statements are published by the listed companies alongside the annual financial statements and the notes. *See id.*

2. *Id.*

3. Throughout this paper, the term *financial statements* refers to annual published statement of financial position (balance sheet), statement of comprehensive income (income statement), statement of changes in equity, cash flow statement, and the annual notes to the accounts. *See* INT'L ACCT. STANDARDS BD., INTERNATIONAL FINANCIAL REPORTING STANDARDS, at A17 para. 11 (2010). The terms *financial reports* and *financial reporting* are used interchangeably to refer to the entire set of annually published financial information about a reporting entity, including explanatory statements by management. *See* INT'L ACCT. STANDARDS BD., THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING 2010, at 16 (2010).

4. ACCT. STANDARDS BD., DISCUSSION PAPER: OPERATING AND FINANCIAL REVIEW para. 9 (1992) [hereinafter OFR DISCUSSION PAPER].

5. The responsibilities of accounting standard-setting bodies in the United Kingdom and internationally had previously been limited to the standardisation of financial reports. *See* BRIAN A. RUTHERFORD, FINANCIAL REPORTING IN THE UK: A HISTORY OF THE FINANCIAL ACCOUNTING STANDARDS COMMITTEE, 1969-90 (2007). Responsibility for other mandatory disclosures was regulated by means of company law or securities law. The United Kingdom implemented the first statutory requirement to file a Directors' Report with respect to "the state of the company's affairs" in the Companies Act 1928. Companies Act 1928, 1929, 19 Geo. 5, sch. 2 (Eng.).

events and developments but called for the provision of future-oriented information on “known events, trends and uncertainties that are expected to have an impact on the business in the future.”⁶ Third, the most striking aspect of the OFR Statement was ASB’s emphasis on qualitative statements from the point of view of management. Directors were expected to apply their own judgement to explain the underlying financial and nonfinancial drivers of the operating performance and financial position of their company.⁷

The inclusion of narrative reporting on the agenda of the ASB also appears counterintuitive to the commonplace association of financial accounting with numbers. “Throughout the twentieth century, declining trust in expert elites led those in the accounting profession to pursue authority and acceptance for their work through the promotion of a quantitative definition of objectivity; therefore, how could narrative reporting have become an agenda issue for the ASB?”⁸ Standard setting, aimed at regulating the presentation of financial figures in published reports, has thereby helped to amplify the widespread belief that the production of accounting numbers follows a standardized protocol—giving them the appearance of being impersonal and impartial.⁹

This paper traces the conditions that allowed for the emergence of the OFR Statement as an agenda issue for accounting standard setting in the United Kingdom in the early 1990s. This study integrates the analytical construct of regulatory space¹⁰ with a broader perspective on the fundamental interrelatedness between accounting, organizations, and society.¹¹ The idea that agenda setting is conditioned by the emergence of a historically specific accounting constellation replaces

6. See OFR DISCUSSION PAPER, *supra* note 4, at para. 3.

7. See *id.* at para. 1, 12, 16.

8. See Theodore M. Porter, *Quantification and the Accounting Ideal in Science*, 22 SOC. STUD. SCI. 633, 639 (1992).

9. See *id.* at 635 (noting that the crude process of collecting and structuring information into the format of published financial statements can still require considerable degrees of judgment, which distinguishes the accounting ideal of objectivity from that in science).

10. See generally Leigh Hancher & Michael Moran, *Organizing Regulatory Space*, in CAPITALISM, CULTURE, AND ECONOMIC REGULATION 271 (Leigh Hancher & Michael Moran eds., 1989) (elaborating the analytical construct of regulatory space).

11. See generally ACCOUNTING AS SOCIAL AND INSTITUTIONAL PRACTICE (Anthony G. Hopwood & Peter Miller eds., 1994); ACCOUNTING, ORGANIZATIONS, AND INSTITUTIONS (Christopher S. Chapman et al. eds., 2009). Over the last thirty years or so, the conceptual and methodological developments in social studies of accounting have brought together a multitude of concepts and approaches as developed in the sociology of science, the work of Foucault, new institutional approaches in sociology, and a wide array of other disciplines. By crossing disciplinary boundaries, these writings have helped to address fundamental questions about accounting as a social practice.

assumptions about the linearity of change.¹² The analytical construct of the accounting constellation implies that accounting change can happen more haphazardly when “things that were previously different” are brought into relation with each other.¹³ To support this argument, the notion of a multi-directional process of translation is introduced to describe the constellation’s formative process, which consists of a variety of institutional frameworks, arenas of debate, and policy programs that transcend the discourse of regulatory reform in accounting.¹⁴

Sociological studies of accounting clearly caution against positivist views of accounting change as a purely technical response to changing external conditions.¹⁵ The same applies to strong normative beliefs about what accounting is or what it should be. A narrow definition of accounting is deliberately avoided because the accounting category is understood as being made up of always-fluid assemblages of shifting practices and rationales that only happen to be categorized as accounting at particular points or periods in time.¹⁶ “Accounting,” in this paper, describes a historically and spatially specific set of techniques that help to make entities, processes, and persons visible and governable in the name of higher order ideas and aspirations.¹⁷ It is, as such, consistent with the definition of “regulation” as involving all forms of social control over the actions of individuals, organizations, or society as a whole.¹⁸

12. See Stuart Burchell et al., *Accounting in its Social Context: Towards a History of Value Added in the United Kingdom*, 10 ACCT. ORG. & SOC’Y 381, 399-400 (1985).

13. See Michel Callon, *Struggles and Negotiations to Define What is Problematic and What is Not: The Socio-logic of Translation*, 4 SOC. SCI. Y.B. 197, 211 (1980).

14. See generally Peter Miller, *Accounting Innovation Beyond the Enterprise: Problematizing Investment Decisions and Programming Economic Growth in the U.K. in the 1960s*, 16 ACCT. ORG. & SOC’Y 733 (1991); Keith Robson, *On the Arenas of Accounting Change: The Process of Translation*, 16 ACCT. ORG. & SOC’Y 547 (1991).

15. See generally David C. Hayes, *The Contingency Theory of Managerial Accounting*, in 52 ACCT. REV. 22 (Don T. DeCoster ed., 1977); ROSS L. WATTS & JEROLD L. ZIMMERMAN, *POSITIVE ACCOUNTING THEORY* (1986) (reviewing the theory and methodology underlying the economics-based empirical literature in accounting).

16. See Peter Miller & Christopher Napier, *Genealogies of Calculation*, 18 ACCT. ORG. & SOC’Y 631, 633 (1993).

17. The perspective is associated with Foucault’s notion of governmentality, which emphasizes the existence of highly abstract discursive schemes that outline the ways of thinking about who governs what and how. See generally Michel Foucault, *Governmentality*, in *THE FOUCAULT EFFECT: STUDIES IN GOVERNMENTALITY* 87-104 (Graham Burchell et al. eds., 1991); Peter Armstrong, *The Influence of Michel Foucault on Accounting Research*, 5 CRITICAL PERSP. ON ACCT. 25 (1994).

18. See generally Robert Baldwin et al., *Introduction*, in *A READER ON REGULATION* 1 (Robert Baldwin et al. eds., 1998).

The emphasis on language and discourse in this paper broadens the perspective on translation—a concept that originated in science and technology studies (STS)—beyond the tracing of specific actor-networks.¹⁹ While it acknowledges that constellations may be established through individuals (such as the members of an epistemic community who may act as carriers of ideas) and material traces (such as documents), it shifts the level of analysis to the articulation of perceived problems with financial reporting and the positioning of narrative reporting as a solution in broader discursive arenas where participants are not necessarily associated with the standard-setting process.²⁰

By tracing the arguments in favor and against the inclusion of the voluntary OFR Statement on the agenda of the ASB, the analysis of the related regulatory debates unveils a complex web of discursive schemes that co-constitute the regulatory issue and the context in which it emerged. Regulatory problems and solutions emerge when the participants in regulatory space come to share new ways of thinking about the roles and purpose of accounting and accounting standard setting.²¹ Most notably, they emerge in arenas that are otherwise not related to the standard-setting process. The analysis shows that concerns with the future orientation of financial reporting parallels a development in management accounting toward the use of accounting reports as a tool for strategic management. Although accounting standard setting at the ASB was no longer under the control of the accounting profession, the decision to deviate from extant regulations in the United States was rationalized with references to the historical trajectories of profession-led accounting regulation in the United Kingdom. The work of the ASB, a private sector body, on the OFR Statement project was also intrinsically linked to the government's concern with macroeconomic governance and the challenges of global competition. The formation of linkages to the standard-setting process is interpreted as the outcome of a multi-directional process of translation.

The remainder of this paper proceeds as follows. Section II reviews relevant research on agenda setting and elaborates on the study of regulatory reform as a multi-directional process of translation. Section

19. See, e.g., BRUNO LATOUR, *SCIENCE IN ACTION: HOW TO FOLLOW SCIENTISTS AND ENGINEERS THROUGH SOCIETY* 108-21 (1987); BRUNO LATOUR & STEVE WOOLGAR, *LABORATORY LIFE: THE CONSTRUCTION OF SCIENTIFIC FACTS* (1986); Michel Callon & John Law, *On Interests and their Transformation: Enrolment and Counter-Enrolment*, 12 *SOC. STUD. SCI.* 615, 619 (1982); Callon, *supra* note 13, at 211.

20. See Burchell et al., *supra* note 12, at 390-91.

21. See Christopher S. Chapman et al., *Linking Accounting, Organizations, and Institutions*, in *ACCOUNTING, ORGANIZATIONS, AND INSTITUTIONS*, *supra* note 11, at 1, 2.

III illustrates how the emergence of the voluntary OFR on the agenda of the ASB was mediated at the intersection of multiple discursive arenas, programs of governing, and expectations about the roles and responsibilities of the standard-setting body in the early 1990s. Section IV presents the conclusions from this study and the implications for a legal research agenda that is concerned with regulatory translations.

II. REGULATORY REFORM AS MULTI-DIRECTIONAL TRANSLATION

Anecdotal, the origins of novel regulatory policies pertaining to narrative reporting have been attributed to charismatic individuals like the first chairman of the ASB, Sir David Tweedie. The OFR Statement is also often portrayed as a case of international policy convergence toward the long-standing disclosure requirements for companies registered with the Securities and Exchange Commission (SEC).²² Studies of regulatory innovations in other policy fields show, however, that individual leaders and global policy networks are often only one—and not necessarily the most prominent—factor among many in the transformation of regulatory policymaking.²³

The analytical construct of regulatory space from new institutional studies in political science has helped researchers in various disciplines to describe the social and institutional dynamics of regulatory reform. These studies show that the experience of regulation is often framed by a series of wider political, legal, and cultural factors, which, in turn, define the scope of issues that become subject to regulatory debate in a community.²⁴

Studies of the regulatory spaces in which accounting standards are developed draw particular attention to the uneasy position of individual accounting standard-setting bodies. These bodies often reside within a

22. The SEC required the presentation of a Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in registration statements since 1968. Richard Dieter & Keith Sandefur, *Spotlight on Management's Discussion and Analysis: What Does the SEC Expect This Year?*, 168 J. ACCT. 64, 64 (1989).

23. See Julia Black & Martin Lodge, *Conclusions*, in REGULATORY INNOVATION: A COMPARATIVE ANALYSIS 181, 184-91 (Julia Black et al. eds., 2005).

24. See, e.g., CLARE HALL ET AL., TELECOMMUNICATIONS REGULATION 83-87 (2000); Julia Black, *New Institutionalism and Naturalism in Socio-Legal Analysis: Institutional Approaches to Regulatory Decision Making*, 19 LAW & POL'Y 51, 53 (1997); Bettina Lange, *Regulatory Spaces and Interactions: An Introduction*, 12 SOC. & LEGAL STUD. 411, 414-16 (2003); Martin Lodge, *Institutional Choice and Policy Transfer: Reforming British and German Railway Regulation*, 16 GOVERNANCE 159, 163 (2003); Colin Scott, *Analysing Regulatory Space: Fragmented Resources and Institutional Design*, PUB. L., Spring 2001, at 329, 331-34; Mark Thatcher & David Coen, *Reshaping European Regulatory Space: An Evolutionary Analysis*, 31 W. EUR. POL. 806, 808 (2008), for the use of the concept of regulatory space in law and political science.

nexus of multiple pressures and demands from governments, the accounting profession, the preparers of annual reports, the general media, academia, or strong individual personalities.²⁵ The multiplicity of participants in regulatory space and the exposure of agenda setting to wider institutional environments is believed to challenge the claims to authority and independence of the administrative agencies that are formally responsible for the development of rules and regulations.²⁶ As a result, anticipatory and consequential decision making in regulatory space may be replaced with action according to a “logic of appropriateness,” which effectively transforms the regulatory process into a quest for legitimacy. Under these circumstances, behavior is aligned with the duties and obligations that political and social institutions prescribe for a particular actor in a particular situation—including the standard-setting body.²⁷ Previous research has highlighted, for instance, the significance of institutionalized quality criteria (such as relevance, reliability, and representational faithfulness) in the rhetoric of the Financial Accounting Standards Board (FASB).²⁸ In these cases, regulatory reform occurred when the participants in regulatory space agreed that existing financial reporting practices deviated from shared concepts of good practice.²⁹ The focus on formally inscribed framework criteria and norms of behavior in the study of the regulatory space of accounting standard setting has, however, led to the conclusion that financial reporting change can only ever be incremental. “Regulatory space is not a space within which dramatic changes in accounting practices occur. Instead, it is a space for tinkering with existing practices and financial statements.”³⁰

This paper counters that argument—proposing that regulatory change can also be more radical and innovative. The publication of the OFR Statement by the ASB suggests that accounting standard setting is not only the site of ongoing debate over existing regulated practices. It shows that accounting standard setting can also be the site of more radical innovation and change. Or, in the words of the Financial Reporting Council (FRC), which oversaw the work of the ASB:

25. See, e.g., BRIAN A. RUTHERFORD, FINANCIAL REPORTING IN THE UK 8-13 (2007); Prem Sikka & Hugh Willmott, *The Power of “Independence”: Defending and Extending the Jurisdiction of Accounting in the United Kingdom*, 20 ACCT. ORG. & SOC’Y 547, 547 (1995); Joni J. Young, *Outlining Regulatory Space: Agenda Issues and the FASB*, 19 ACCT. ORG. & SOC’Y 83, 84 (1994).

26. See Young, *supra* note 25, at 84.

27. See *id.* at 87-89 (building on the concept of “logic of appropriateness” in JAMES G. MARCH & JOHAN P. OLSEN, REDISCOVERING INSTITUTIONS 23 (1989)).

28. See *id.*

29. See *id.* at 84.

30. *Id.* at 85.

“Tinkering and patching is not good enough. There is no quick fix.”³¹ This preliminary observation implies that shared claims about “good” accounting information, which are reproduced by the participants in a particular regulatory debate, are not static but can vary over time, across jurisdictional boundaries, and between projects.³²

The proposed analysis in this paper responds to Peter Miller and Christopher Napier’s call “to attend to the piecemeal fashion in which various calculative technologies have been invented and assembled” and to draw attention to the potentially multiple branches of historical developments and unintended encounters that pass through and shape accounting practices in often haphazard ways.³³ The wider perspective on accounting as a social and institutional practice implies that the mobilization of particular financial reporting techniques is more than merely a means to an end. As Joni Young points out, accounting issues “are not simply there” by the time they emerge on the regulatory agenda but are constructed by the participants in a regulatory debate according to the distinct circumstances in which regulation takes place.³⁴ This is framed as a multi-directional process of translation. To study the phenomenon of innovation in regulatory space, further questions need to be asked about the emergence of new agenda issues in the first place. This includes not only prevailing expectations about the roles and purposes of the standard-setting body, but also the shared understanding of the roles and purposes of accounting as an organizational practice. More specifically, we need to draw attention to the moments in which ideas about the accounting category in standard-setting debates begin to shift. It requires attention to much wider and more subtle historical developments, events, bodies of knowledge, and programs of government, all of which transcend the process of agenda setting in a particular regulatory space. As a result, entirely new problems with financial reporting may emerge and fashion the conditions of possibility for regulatory innovation.

Notions of translation have provided a recurring theme in related investigations of the more complex conditions of possibility for accounting phenomena to occur (Figure 1). While the interpretation of translation in science and technology studies implies a tracing of actor-

31. FIN. REPORTING COUNCIL, THE STATE OF FINANCIAL REPORTING: A REVIEW § 2.14 (1991).

32. Young, *supra* note 25, at 86-87.

33. Miller & Napier, *supra* note 16, at 633. Cf. MICHEL FOUCAULT, DISCIPLINE AND PUNISH 23 (Alan Sheridan trans., Vintage Books 2d ed. 1995) (1977) (discussing the historical evolution of the justifications and rules involved in the power to punish).

34. Young, *supra* note 25, at 103.

networks by following the movements of actors and objects,³⁵ accounting scholars have proposed to “concentrate principally on the discursive processes of accounting change.”³⁶ References to translation have been used in different ways to stress different aspects of accounting as a social and institutional practice. Studies of the social and historical foundations of the accounting category focus on accounting as the object of translation. Here, translation materializes in the emergence of a new technique of recording and reporting transactions. In contrast, studies of accounting and governance stress the capacity of accounting to act as a translation mechanism that helps to operationalize abstract government programs in local practices. Translatability thereby becomes the precondition for accounting to be mobilized in discussions about the means and ends of government. Finally, research into the diffusion of accounting practices uses the concept of translation to describe the processes whereby accounting spreads across organizational and national boundaries and is eventually normalized. Regulatory agenda setting in accounting seems to cut across all three uses of translation; it outlines a social space in which new ideas about accounting practice are simultaneously constructed, linked to the idea of governance, and normalized. In other words, the debates in regulatory space reproduce and, at the same time, constitute the context in which regulatory innovation becomes possible.

35. See generally BRUNO LATOUR, REASSEMBLING THE SOCIAL: AN INTRODUCTION TO ACTOR-NETWORK-THEORY (2005) (discussing the methodological and conceptual implications of the so-called Actor-Network-Theory (ANT)).

36. Robson, *supra* note 14, at 550.

Research question	Use of translation	Implications for accounting	Insight	Related concepts
Social and historical foundations of accounting change	Translation as an outcome	Accounting as the object of translation	Accounting as the assemblage of multiple and always fluid practices and rationales	Problematization Constellation
Accounting and governance	Translatability as a condition	Accounting as a translation mechanism	Accounting as a mobile form of knowledge in the administration of government	Inscription devices Action at a distance
Diffusion of accounting practices	Translation as a process	Translation as normalization of accounting practice	Accounting as a legitimizing device in institutional environments	Carriers of ideas Travel of ideas
}				
Regulation of accounting practice	Multi-directional process of translation	Simultaneous transformation and normalization	The co-constitution of regulatory issues and 'context' in regulatory space	All of the above

Figure 1: The concept of translation in accounting research.

The integration of the related conceptual perspectives in the study of the development and publication of the OFR Statement helps to articulate the entanglement of the process of agenda setting and the wider arenas, programs, and institutions of accounting change. The investigation of innovation in accounting standard setting starts from the proposition that “accounting” as a category is without any particular essence and without clearly demarcated boundaries, but accounting “changes in both content and form over time, only ever achieving a temporary stability.”³⁷ From this point of view, the production of accounting numbers is one of the multiple techniques that may be subsumed under the label of “accounting” at a certain moment in time. The analysis of how narrative reporting was considered as part of the regulatory mandate of the ASB draws on the related concept of the “accounting constellation” to describe the equivocal character of the emergence of accounting issues within widely ramified networks of social relations and historic events.³⁸ At the center of the constellation concept stands the observation that there is no clear distinction between the practices we call “accounting” and the context in which they emerge and operate. Accounting change is, instead, located at the intersections of multiple and diverse bodies of knowledge, institutions, or administrative processes that come to share an interest in a particular accounting issue, even if they remain otherwise distinct and disparate. They are distinguished conceptually as “arenas” of accounting change.³⁹ The arenas that emerge from the analysis of a particular accounting event may in themselves be rather fuzzy and instable over time and across accounting issues. Nonetheless, the exercise of tracing different arenas of discourse helps to show how wider social, institutional, and historical developments are implicated in specific instances of accounting change.

The general notion of translation is implicit in the concept of the accounting constellation. Accounting and nonaccounting arenas are understood to be brought into relation through processes of problematizing, by which the interests of different actors are restated in terms of the common interest (such as a shared interest in narrative reporting).⁴⁰ Alliances are formed in the process of persuading others of

37. Peter Miller, *Accounting as Social and Institutional Practice: An Introduction*, in ACCOUNTING AS SOCIAL AND INSTITUTIONAL PRACTICE 1, 20 (Anthony G. Hopwood & Peter Miller eds., 1994).

38. Burchell et al., *supra* note 12, at 399-400.

39. *Id.* at 390.

40. See Robson, *supra* note 14, at 551.

this problem and in proposing solutions.⁴¹ In turn, new accounting practices are absorbed and reassembled into the aspirations of the wider arenas from which they emerge so that even seemingly incommensurable domains can develop a shared agreement about accounting problems and solutions.⁴² The study of the underlying discursive schemes can, therefore, contribute to a better understanding of the complex and multiple conditions of emergence of different accounting events that are difficult to explain in terms of a one-directional technical response to contextual demands or directed political interests.

The study of regulatory reform as a multi-directional process of translation also directs attention to the standard-setting process as an area in which accounting and the sphere of government are brought together. The notion of regulation maintains the assumption that the behaviors of persons and organizations—and social and economic life at large—are programmable and “can be acted upon and improved by authorities” in the name of higher ends.⁴³ Government programs outline the particular strategies, claims, and prescriptions for intervening in the development of accounting practices, such as getting accounting “right” in accordance with a program of enhancing accounting quality.⁴⁴ However, the accounting techniques that are discussed in regulatory space also carry more abstract ideas of governing the economy at large. Perspectives on governing at a distance through accounting imply the existence of distant centers of power, such as the central administration of government or a firm’s head office, that seek to act upon remote locales through accounting reports.⁴⁵ This has been described in terms of the concepts of “action at a distance” and “inscription devices,” which imply that accounting practices provide a means of translating between

41. Peter Miller, *The Margins of Accounting*, 7 EUR. ACCT. REV. 605, 607-08 (1998). See generally Michel Callon, *Some Elements of a Sociology of Translation: Domestication of the Scallops and the Fishermen of St Brieuc Bay*, in POWER, ACTION AND BELIEF: A NEW SOCIOLOGY OF KNOWLEDGE? 196 (John Law ed., 1986). Callon’s proposals for a “sociology of translation” originally positioned the definition of obstacles to the achievement of certain goals and objectives as an “obligatory passage point” in the process of bringing different actors and entities that were not previously linked into relation with each other. *Id.* This process has also been described as “enrolment.” *Id.*

42. See Robson, *supra* note 14, at 566.

43. Nikolas Rose & Peter Miller, *Political Power Beyond the State: Problematics of Government*, 43 BRIT. J. SOC. 173, 183 (1992).

44. See Joni J. Young, *Getting the Accounting “Right”: Accounting and the Savings and Loan Crisis*, 20 ACCT. ORG. & SOC’Y 55, 55 (1995).

45. See Peter Miller, *On the Interrelations Between Accounting and the State*, 15 ACCT. ORG. & SOC’Y 315, 329-30 (1990) (discussing the use of technical routines to assist in effective administration and building on the discussion of governmentality in Foucault, *supra* note 17, at 87-104).

highly abstract policy programs and the activities of individuals and organizations.⁴⁶ In this way, accounting practices contribute to defining what counts as an economic entity or activity by making only certain real life events visible in financial terms. At the same time, those seemingly neutral and impartial accounting techniques become the carriers of governing rationales as they are elaborated in terms of a political language of “order,” “economic efficiency,” “economic growth,” or “modernization.”⁴⁷

Attention to the formation of links between the accounting issue and abstract ideals of governing—even if they appear to be outside the regulatory mandate of the standard-setting body—can consequently help to promote further understanding of how accounting innovations come to be agreed upon by a wide range of participants in regulatory space at particular moments in history.

The diffusion of practices and ideas across organizations, national boundaries, and communities has been the focus of a third set of writings on translation as an element in the institutionalization of accounting in terms of assumed rules of conduct and routines.⁴⁸ The concept of translation has been used to draw attention to the process by which institutional practices are shaped and travel from one place to another.⁴⁹ This includes the particular role of experts as the carriers of

46. See LATOUR, *supra* note 35, at 241; LATOUR & WOOLGAR, *supra* note 19, at 51. In the original Latourian sense, inscription devices provide the material traces of the often muddled work of scientists by transforming activities and substances into a written text, figures, or diagrams which are directly usable by other actors who did not immediately observe this work. *Id.* Research reports promote action at a distance by stabilizing the work of scientists in a way that it can travel across time and space and be combined with other work. Throughout this process, they act as crucial nodes in the formation of widely dispersed actor-networks, which come to intersect as research reports travel from one place to another.

47. See, e.g., Anthony G. Hopwood, *Accounting Calculation and the Shifting Sphere of the Economic*, 1 EUR. ACCT. REV. 125, 136-37 (1992); Peter Miller, *Calculating Economic Life*, 1 J. CULTURAL ECON. 51, 57-58 (2008); Miller, *supra* note 14, at 733; Miller, *supra* note 45, at 315; Peter Miller & Nikolas Rose, *Governing Economic Life*, 19 ECON. & SOC'Y 1, 12 (1990); Keith Robson, *Inflation Accounting and Action at a Distance: The Sandilands Episode*, 19 ACCT. ORG. & SOC'Y 45, 49 (1994).

48. See generally Paul J. DiMaggio & Walter W. Powell, *The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields*, 48 AM. SOC. REV. 147 (1983) (developing the principle of institutional isomorphism in order to explain a tendency towards increasing similarity among organizations); John W. Meyer & Brian Rowan, *Institutionalized Organizations: Formal Structure as Myth and Ceremony*, 83 AM. J. SOC. 340 (1977) (describing the application of institutional rules as myth and ceremony through which organizations gain legitimacy).

49. See generally Barbara Czarniawska & Bernward Joerges, *Travels of Ideas*, in TRANSLATING ORGANIZATIONAL CHANGE 13 (Barbara Czarniawska & Guje Sevón eds.,

accounting knowledge between global debates about accounting innovation and the local level of accounting standard setting.⁵⁰ This perspective requires one to be critical about the possibility of shaping institutions at the local level through the interplay of the specific actors, relationships, and interests who support and use them. Global ideas often derive their meaning from being mobilized in local interactions and activities.⁵¹ This implies the view that the standard-setting process is also the source of normalization of accounting practice, which may shape and change prevailing perceptions of financial reporting as a primarily quantitative exercise. The focus on the discursive level of regulation thereby allows for the identification of common themes that may transcend the levels of local interactions, abstract programs, and wider arenas of discourse at particular moments in history, even in the absence of distinguishable carriers of ideas or other formal and informal ties that cut across the debates that form part of a particular constellation of regulatory change.

In the next section, I first outline the formal institutional environment of accounting standard setting at the ASB in the early 1990s. Second, I draw attention to the wider arenas of accounting change that contributed to the articulation of narrative reporting as an issue for accounting standard setting. This analysis offers new insights into accounting as a particular social space in which regulatory solutions, abstract programs and techniques, and norms of conduct co-constitute each other and shape the wider context of accounting change. Methodologically, this study focuses on the diverse discursive schemes that are brought into relation as regulatory problems and solutions are constructed. They are understood to emerge from the documents that

1996) (describing organizational change and processes of institutionalization as translation).

50. See, e.g., THE EXPANSION OF MANAGEMENT KNOWLEDGE (Kerstin Sahlin-Andersson & Lars Engwall eds., 2002) [hereinafter EXPANSION] (analyzing the organization of carriers of management knowledge, which actively shape and transform management ideas, and how these carriers act and interact, and shape and reshape circulated knowledge); Bernward Joerges & Barbara Czarniawska, *The Question of Technology, or How Organizations Inscribe the World*, 19 ORG. STUD. 363 (1998) (studying the impact of technology on organizational processes).

51. See, e.g., Czarniawska & Joerges, *supra* note 49; Tammar B. Zilber, *Institutionalization as an Interplay Between Actions, Meanings, and Actors: The Case of a Rape Crisis Center in Israel*, 45 ACAD. MGMT. J. 234 (2002) (analyzing institutionalization as an interplay between the separate and interrelated components of actors, actions, and meanings). See also Andrea Mennicken, *Connecting Worlds: The Translation of International Auditing Standards into Post-Soviet Audit Practice*, 33 ACCT. ORG. & SOC'Y 384, 386 (2008) (showing that centrally devised standards are often further challenged and re-shaped during the implementation stage in the light of "various persuasive strategies, power plays and relations underlying their diffusion").

were produced in connection with the OFR Statement and from research conversations with the three persons who were formally responsible for the OFR project at the ASB.⁵²

III. THE AGENDA SETTING FOR A VOLUNTARY OFR AT THE ASB

This study of agenda setting in terms of a multi-directional process of translation places the development and publication of the OFR Statement, first, in relation to broader shifts in thinking about the means and ends of business management in terms of “strategic management.” Second, this approach highlights the multiple programmatic dimensions of the work of the ASB on the OFR Statement. While the generic purpose of accounting standard setting was to improve the information content of published financial reports, the study of the wider arenas of accounting change reveals a wider set of governing ideals from the perspective of the state (building public trust), the market (efficiency), and the profession (thought leadership). The historical case further highlights how these debates became closely entangled with questions of international harmonization of accounting practice and regulatory competition—even in the absence of formal ties to international developments, transnational communities, or transnational regulatory spaces (Figure 2).

52. The interviews were conducted between 2005 and 2007 and lasted approximately between 30 minutes and one hour. As anonymity was agreed, the interviews are not separately attributed in this paper, but generally identified as “research interview.”

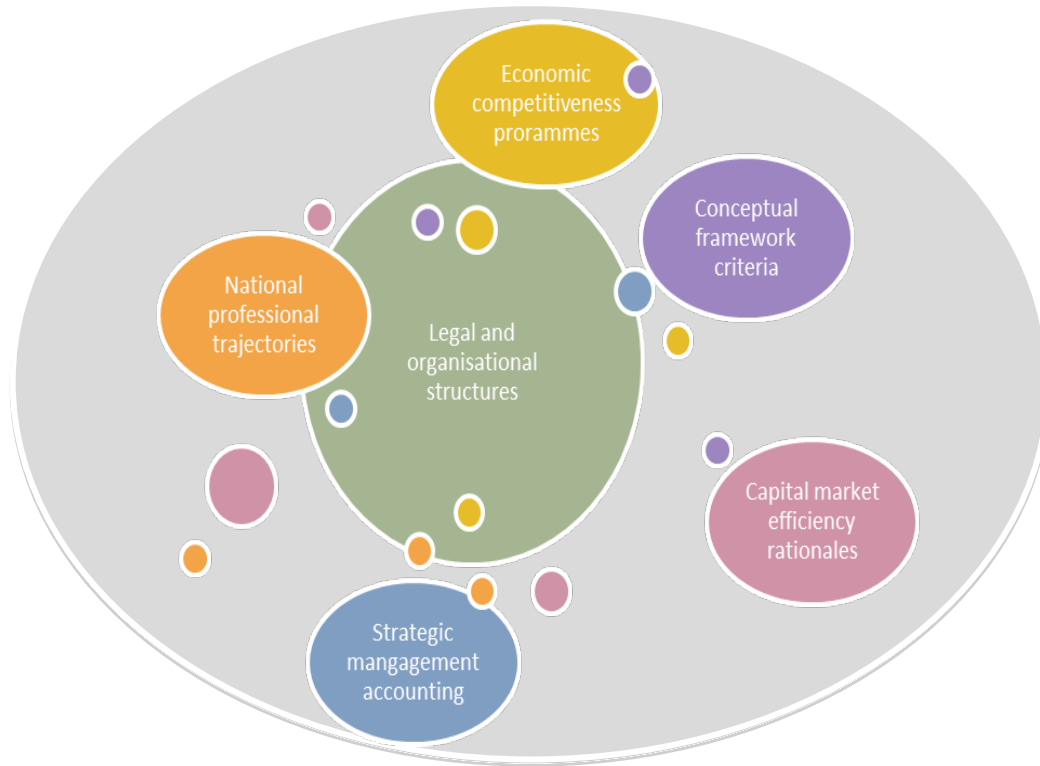


Figure 1: The arenas of agenda setting for a voluntary OFR at the ASB.

A. *The Formal Institutional Setting*

The ASB was a relatively young organization when it launched the OFR Statement project. It was created in the 1990s to replace the profession-led approach of the Accounting Standards Committee (ASC) and turned the development of accounting standards into a joint responsibility for accounting bodies, large accounting firms, the industry, the financial community, and the government.⁵³ A new Section 256 in the Companies Act of 1985 allowed formal recognition of the ASB as the responsible standard-setting body in the United Kingdom.⁵⁴ It established that compliance with accounting standards

53. See generally RUTHERFORD, *supra* note 25 (presenting the history of accounting standard setting in the United Kingdom).

54. See The Accounting Standards (Prescribed Body) Regulations, 1990, S.I. 1990/1667 (U.K.) (prescribing the ASB).

was considered as compliance with the requirement to prepare and publish annual company accounts.⁵⁵ The FRC was also established in 1990 as a state-accredited umbrella body made up of members from the business and accounting community to supervise and oversee the preparation and enforcement of financial reporting standards.⁵⁶ The first members of the ASB included a chairman and a technical director, both working full time, and seven part-time members: three from large accounting firms, two from the industry, one from the financial community, and one from a regulatory agency.⁵⁷

The development of the OFR Statement followed the administrative arrangements for widespread consultation and engagement. The procedure reflected the fact that the accounting standards themselves were not authorized by parliamentary approval and, therefore, not legally binding. The ASB's lack of formal hierarchical authority to enforce reporting standards was seen by its staff as creating a particular need for securing wide-ranging support from the standard setters' main stakeholders in order to be authoritative. Feedback on the OFR Statement project was sought in a series of meetings with the members of the ASB and through regular nonpublic consultations with analysts, big accounting firms, and representatives of the business community who the ASB considered to be the most important allies for ensuring success of the OFR Statement project. The publication of a *Proposal for a Statement on Operating and Financial Review* in 1992 invited public discussion, attracting 104 comment letters in total. Personal consultations with business representatives—especially finance directors—continued to take place after the public consultation. It may be argued that the ASB's quest for legitimacy was also reflected in the deliberate decision to build the development of the initial discussion paper on the existing regulatory frameworks in the United States and Canada. Regarding the context in which the OFR Statement project was created, one interviewee recalls that “the Ontario Securities Commission [(OSC)] had fairly recently issued a requirement for a

55. PAUL L. DAVIES, *GOWER AND DAVIES' PRINCIPLES OF MODERN COMPANY LAW* 543-44 (7th ed. 2003).

56. *Statement of Principles for Financial Reporting Published*, FIN. REPORTING COUNCIL (Dec. 9, 1999), <http://www.frc.org.uk/News-and-Events/FRC-Press/Press/1999/December/STATEMENT-OF-PRINCIPLES-FOR-FINANCIAL-REPORTING-PU.aspx>. The FRC took over formal responsibility for the setting of accounting standards in July 2012 when the ASB was replaced with the Accounting Council. *Accounting Council*, FIN. REPORTING COUNCIL, <http://www.frc.org.uk/About-the-FRC/FRC-structure/Accounting-Council.aspx> (last visited Nov. 11, 2013).

57. Stuart Turley, *Developments in the Structure of Financial Reporting Regulation in the United Kingdom*, 1 EUR. ACCT. REV. 105, 113 (1992).

similar sort of MD&A.”⁵⁸ The existing North American regulatory regimes not only inspired the development of similar guidance by the ASB, but elements from the Management Discussion and Analysis (MD&A) were also included in the initial OFR Statement discussion paper.⁵⁹

This form of institutional mimicking may be seen from a broader globalization context. Historically, pressures for cross-border harmonization in accounting standard setting have been brought about by the increasing economic interaction between the United Kingdom and the United States.⁶⁰ Another important step in securing the public mandate for the ASB’s work on the OFR Statement seems to be marked by the reinterpretation of narrative reporting in the context of emerging technical quality criteria for accounting standard setting. Even though the first official *Statement of Principles for Financial Reporting* (Statement of Principles) in the United Kingdom was not published until 1999, the ASB developed and used a set of informal criteria at an early stage.⁶¹ The OFR project team deliberately aligned the development of a framework for the production of narrative reports with

58. The first major reform to the U.S. MD&A disclosure regime in 1980 had aimed to replace an “often mechanistic commentary on percentage variations” with a “realistic management assessment of corporate objectives and numerical results.” Management’s Discussion and Analysis of Financial Condition and Results of Operations, Securities Act Release No. 6349, Exchange Act Release No. 18,120, 23 SEC Docket 962 (Sept. 28, 1981). See also Amendments to Annual Report Form, Related Forms, Rules, Regulations, and Guides; Integration of Securities Acts Disclosure Systems, Securities Act Release No. 6231, Exchange Act Release No. 17,114, 45 Fed. Reg. 63,630 (Sept. 2, 1980) (encouraging voluntary publication of future-oriented disclosures); Safe Harbor Rule for Projections, Securities Act Release No. 6084, Exchange Act Release No. 21,115, 1979 WL 181199 (June 25, 1979). A subsequent review of emerging reporting practice had further led to the conclusion “that the discussions need not be quantitative to be meaningful.” Management’s Discussion and Analysis of Financial Condition and Results of Operations, Securities Act Release No. 6349, Exchange Act Release No. 18,120, 23 SEC Docket 962 (Sept. 28, 1981). The Canadian OSC has promoted more “meaningful discussion and analysis of past corporate performance and future prospects” in Canadian MD&As since 1989, when it published Policy Statement No 5.10 Annual Information Form and Management’s Discussion and Analysis of Financial Condition and Results of Operations. *Notice of Rule 51-501 AIF and MD&A and Companion Policy 51-501CP and Rescission of OSC Policy Statement No. 5.10 Annual Information Form and Management’s Discussion and Analysis of Financial Condition and Results of Operations*, ONTARIO SEC. COMMISSION (Oct. 27, 2000), http://www.osc.gov.on.ca/en/SecuritiesLaw_rule_20001027_51-501_osc.jsp.

59. See OFR DISCUSSION PAPER, *supra* note 4.

60. See RUTHERFORD, *supra* note 25, at 17.

61. *Statement of Principles*, FIN. REPORTING COUNCIL, <http://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Statement-of-principles.aspx> (last updated June 6, 2006).

the draft Statement of Principles.⁶² The application of financial reporting quality criteria was sought to create greater consistency between narrative reporting in a voluntary OFR and high standards of quality in financial reporting in a capital market setting, the latter of which is the stated objective of the ASB.

In summary, it appears that the ASB's OFR project successfully enrolled the concerns of a wide range of its constituents. A reading of the written submissions to the *OFR Discussion Paper* and the interviews with the members of the OFR working group at the ASB suggest that the constituents of the ASB largely supported the project by the time the first public discussion was launched and rarely questioned the role and responsibility of the ASB in engaging with accounting issues beyond the financial statements.⁶³ A majority of respondents (7 percent) generally welcomed the proposals for a voluntary OFR Statement. Only 9 percent of the respondents expressed severe concerns about the proposed issue of guidelines. Among them, it was mostly potential preparers of OFRs who explicitly rejected the proposals in the *Discussion Paper*. The interpretation that international harmonization can provide a source of legitimacy is supported by a set of positive responses to the 1992 *OFR Discussion Paper* that welcomes a cross-border perspective in the development of a regulatory framework for narrative reporting in the United Kingdom. Six of the response letters explicitly welcomed a move toward the U.S. approach as a step toward greater international harmonization of accounting standards, which they thought would increasingly benefit international businesses. Other respondents to the public consultation, including one of the professional accounting bodies, viewed a move toward the U.S. regime as a way to integrate an already "more workable" and "specifically drafted" approach. The proposed link between narrative management commentary and technical quality criteria for financial reporting standard setting also remained relatively unquestioned in the public debate. For example, only six (8 percent) of the seventy-seven respondents to the *OFR Discussion Paper* who welcomed the introduction of the OFR Statement also mentioned specific financial reporting quality criteria. However, the engagement in dialogue and the alignment of OFR proposals with international regulatory frameworks and institutionalized quality criteria cannot fully explain the implicit recognition that narrative reporting was part of the financial reporting

62. Research interview, *supra* note 52.

63. The following analysis in this paragraph is based on a reading of 102 out of, in total, 104 unpublished responses to the ASB's 1992 Discussion Paper: Operating and Financial Review. See OFR DISCUSSION PAPER, *supra* note 4. Copies of the comment letters were obtained directly from the ASB.

category and, therefore, part of the ASB's regulatory mandate. The initial appeal of existing regimes of other jurisdictions was soon replaced by severe criticism and efforts to develop a distinctively British approach.

B. Wider Arenas of Change

Richard Barker, in a general discussion of the OFR event, already suggested that inclusion of the OFR Statement on the agenda of the ASB appeared less radical in light of "a change of attitude towards public reporting."⁶⁴ This development may in itself be located within a wider constellation relating to the emergence of ideas of strategic planning and financial economics in business management and management accounting since the middle of the twentieth century. It suggests that the widespread agreement that companies should publish qualitative statements on the business operation's financial position tied in with the expectation that this kind of information was already used in internal management information systems.

Various people have pointed at the increasing impact of a transnational body of management knowledge on local modes of organizing business organizations and public life.⁶⁵ After World War II, the development of the academic discipline of management has been closely associated with economic principles of rationality, efficiency, and effectiveness. In the arena of management thought, normative notions of strategy increasingly contributed to the development of a series of decision tools, which focused the deployment of internal organizational resources on the achievement of long-term objectives.⁶⁶ As part of the emergence of a decision focus in business administration over the last decades of the twentieth century, organizational accounting practices have come to be treated as almost synonymous with management and have shared many of its developments.⁶⁷ This was also the case when the more specific objectives and techniques of management underwent

64. RICHARD BARKER, INSTITUTIONAL INVESTORS, ACCOUNTING INFORMATION AND THE ASB, at i (2001).

65. See, e.g., *id.* at 7 (recognizing the influence of international harmonization in the setting of accounting standards); MARIE-LAURE DJELIC, EXPORTING THE AMERICAN MODEL: THE POSTWAR TRANSFORMATION OF EUROPEAN BUSINESS (1998) (discussing the cross-national transfer of business practices); EXPANSION, *supra* note 50 (discussing the ways in which carriers of management knowledge influence its development over time and across situations).

66. See Jeremy F. Dent, *Strategy, Organization and Control: Some Possibilities for Accounting Research*, 15 ACCT. ORG. & SOC'Y 3, 4 (1990).

67. See generally Peter Miller, *The Margins of Accounting*, in THE LAWS OF THE MARKETS 174 (Michel Callon ed., 1998).

considerable changes throughout the last decades of the twentieth century.

Ideally, accounting control systems were expected to play a role in the development and implementation of new strategic initiatives in day-to-day managerial decision making. The strategization of management accounting was perceived to be crucial for the company's long-term success.⁶⁸ The debates were characterized by a "relevance lost" rhetoric, which gained momentum in the field of management accounting research and consultancy by the end of the 1980s. H. Thomas Johnson and Robert Kaplan introduced the thesis "that the management accounting systems in Western companies were no longer providing relevant information for decision making and control."⁶⁹ Specifically, decision making on the basis of numbers derived from the financial reporting system was considered inadequate to guide managerial decision making related to the creation of long-term shareholder value.⁷⁰ For example, the treatment of investments in intangible assets as cost of the same period according to financial reporting rules was criticized for possibly deterring managers from making long-term investment decisions at the expense of future profitability.⁷¹ Traditional accounting systems were further criticized for giving visibility to processes of production and exchange that were no longer representative of the "modern" business enterprise⁷² and for concentrating only on the company itself but not on its outside markets and future developments.⁷³

These problems of financial accounting practices opened up new possibilities for the development and implementation of "innovations in performance measurement," including integrated measurement systems that combined financial and nonfinancial information in order to reflect wealth creation across different dimensions.⁷⁴ The language the ASB used when recommending reporting on the competitive environment of the business, its internal resources, and the risks and uncertainties of

68. See generally Kim Langfield-Smith, *Strategic Management Accounting: How Far Have We Come in 25 Years?*, 21 ACCT. AUDITING & ACCOUNTABILITY J. 204 (2008) (providing a review of the relevant literature on strategic management accounting).

69. H. THOMAS JOHNSON & ROBERT S. KAPLAN, *RELEVANCE LOST: THE RISE AND FALL OF MANAGEMENT ACCOUNTING*, at xii (1987).

70. See Robert S. Kaplan, *Measuring Manufacturing Performance: A New Challenge for Managerial Accounting Research*, 58 ACCT. REV. 686, 699 (1983).

71. JOHNSON & KAPLAN, *supra* note 69, at 201.

72. *Id.* at 2-3.

73. See John K. Shank & Vijay Govindarajan, *Strategic Cost Management: The Value Chain Perspective*, 4 J. MGMT. ACCT. RES. 179, 196 (1992).

74. See Christopher D. Ittner & David F. Larcker, *Innovations in Performance Measurement: Trends and Research Implications*, 10 J. MGMT. ACCT. RES. 205, 205 (1998).

the business was closely aligned with the principles of managing for long-term shareholder-value creation.⁷⁵ However, the use of documents that would suggest a more direct travel of ideas, or the direct involvement of actors from the epistemic communities that promoted the innovations in management and management accounting (primarily business school academics and business consultants), did not become evident through the analysis. Instead, it appears that the translation of narrative reporting into a novel agenda issue for the ASB was largely mediated at the level of intersecting programmatic discourses about the means and ends of governing economic life through accounting. In most general terms, narrative reporting was proposed to provide a means of improving reporting practices on the financial position and results of increasingly complex businesses through additional narrative reporting elements, “rather than merely numerical analysis.”⁷⁶ “By such means users of the Annual Report would be given a fuller understanding of the business and the environment in which it operates.”⁷⁷

The programmatic dimension of the ASB’s OFR project also reflected the overall public mandate of the accounting standard setter to help to strengthen the role of the city of London as one of the leading international financial centers.⁷⁸ Sir Ron Dearing, the first chairman of the FRC, recommended considering the standardization of narrative reporting as a way to address “the needs of the ever-developing market economy of the United Kingdom.”⁷⁹ The FRC was equally concerned about disclosure as a potential source of competitive disadvantage for British businesses and for the attractiveness of the United Kingdom as a place of incorporation.⁸⁰ Interestingly, the competitiveness program provided the basis for challenging the possibility of translating the North American regime into the United Kingdom. Further elaborations on how far the North American examples should be followed by the ASB were marked by a strong critique of the institutional design of the MD&A regimes. The effectiveness of the U.S. approach is a particular area of concern. During the agenda-setting process at the ASB, potential preparers of OFRs, including finance directors and their representative organizations, were particularly vocal in criticizing the MD&A regime for its inflexible format and compliance-based model of supplementary

75. See OFR STATEMENT, *supra* note 1, at para. 12.

76. *Id.* at para. 3.

77. OFR DISCUSSION PAPER, *supra* note 4, at para. 1.

78. FIN. REPORTING COUNCIL, THE STATE OF FINANCIAL REPORTING: A REVIEW para 2.2 (1991).

79. *Id.* at 1.

80. *Id.* para. 1.6.

reporting.⁸¹ Seven of the response letters, which otherwise welcomed a general move to greater consistency in international reporting, expressed concern that a similar approach in the United Kingdom would result in mechanical and bland reports that would fail to give more insight into the underlying economic reality of companies.⁸² “Legalistic,” “coercive,” “boilerplate,” and “burdensome” were also some of the adjectives used in the comment letters and by the ASB to criticize the U.S. regime in action. Following a review of the reports produced under the North American regime and the consultation with report preparers, the group decided to deliberately depart from the American regulations.

After additional internal consultation with members of The 100 Group⁸³ of finance directors on their experience with MD&As under the regime of the SEC, the ASB eventually decided to adopt only “sensible” parts of the North American rules.⁸⁴ The OFR regime in the United Kingdom was otherwise supposed to deliberately depart from the “prescriptive” tone of the American regulations.⁸⁵ The idea that regulation in the area of financial reporting should give companies “room to breathe” had already been featured in the professional debates about the future of financial reporting in the United Kingdom that accompanied the creation of the ASB.⁸⁶ The ASB recognized existing efforts by some listed U.K. companies to develop best practices in this field and viewed them as the basis on which further standardization could be based.⁸⁷

In contrast to the regulatory approach adopted by the SEC and OSC, the ASB hopes that the voluntary approach proposed will enable preparers of OFRs to place less emphasis on precise interpretation of details of the recommendations and more emphasis on producing a coherent and readable discussion that concentrates on the more significant matters, but which

81. *See supra* note 63.

82. *Id.*

83. THE 100 GROUP, www.the100group.co.uk (last visited Jan. 19, 2014).

84. Research interview, *supra* note 52.

85. *Id.*

86. Allan Cook, *A View from Industry: Management's Dual Role as Preparer and User*, in *FINANCIAL REPORTING: THE WAY FORWARD 2*, 10 (John Calman Shaw et al. eds., 1990).

87. OFR DISCUSSION PAPER, *supra* note 4, at para. 1.

remains fairly balanced between the favourable and unfavourable.⁸⁸

The turning point at which positive references to the MD&A regimes in North America gave way to severe criticism was further marked by a perceived discrepancy between the role of the accounting profession in accounting reform in the United States and the United Kingdom. From the perspective of the ASB, the development of a distinctive framework for guiding the preparation of voluntary management commentary was an important step in the development of its role and identity within calls for the international harmonization of accounting practice. Although accounting bodies no longer exclusively controlled the standard-setting process at the ASB, the limited scope for flexibility in the preparation of the filings to the SEC under the rules-based regime was seen to conflict with the “entrepreneurial” mentality in the development of accounting practice in the United Kingdom.⁸⁹ A notion of professionalism in the standard-setting process at the ASB continued to be linked to a historic mission of U.K. accounting standard setters to provide innovative thinking in a regulatory system emphasizing a cooperative relationship between the standard setter and business. The decision in favor of a voluntary statement, therefore, was seen as an opportunity to gradually raise awareness and acceptance for the new type of statement. This would equally benefit capital markets and preparers while also raising the profile of the accounting profession after the decline of public trust in the system of self-regulation by the accounting profession, which had led to the creation of the ASB in 1990.

IV. DISCUSSION AND CONCLUSION: THE MULTIPLE SITES OF REGULATORY REFORM

This paper concludes that researchers and policymakers can develop more balanced insights into the possibilities and limits of regulatory innovation by directing the investigation of regulatory change beyond

88. *Id.* at para. 23.

89. See Keith Robson et al., *The Ideology of Professional Regulation and the Markets for Accounting Labour: Three Episodes in the Recent History of the U.K. Accountancy Profession*, 19 ACCT. ORGS. & SOC'Y 527, 530 (1994). Until about the middle of the twentieth century, the system of professional self-regulation had provided the main mode of control in the market for accountancy services in the United Kingdom. See Tom Lee, *The Professionalization of Accountancy: A History of Protecting the Public Interest in a Self-Interested Way*, 8 ACCT. AUDITING & ACCOUNTABILITY J. 48, 57 (1995). This system was characterised by a generally informal, cooperative, and discrete regulatory culture that emphasized expert judgment over the application of standardized rules. See *id.* at 55.

the formal administrative boundaries of the standard-setting arena and toward regulatory reform as a multi-directional process of translation. While the exercise of tracing an elusive web of discursive schemes may appear complex and unsystematic, it contributes to a better understanding of the multiple sites of regulatory reform more generally. This perspective complements investigations of the interplay of specific agents, interests, and power relations in regulatory space, which tend to treat regulatory change as a contingency of contextual change and institutional relationships. It shows that regulatory issues and the context in which they emerge are intrinsically linked and co-constitute each other; regulatory space and its wider context are not clearly distinguishable. Actors and issues in regulatory space are not confined to the sphere of accounting standard setting but may also be affiliated with wider arenas of discourse that have, per se, nothing to do with standardization projects in financial reporting.

The perspective on regulatory change as a process of multi-directional translations also complements studies of agenda setting as the outcome of choice or capture that tend to treat regulatory reform as a combination of “push” and “pull”—push from powerful actors exercising pressure on standard setters to advance their own interests; pull from standard setters seeking to maintain their legitimacy in politically or economically difficult environments. Those agenda-setting studies have, however, little to say about the initial emergence of new regulatory problems and solutions. The study of the OFR event shows that innovation in accounting regulation does not mean virgin birth. New regulatory approaches, no matter how radical they may appear to their observers at a particular moment in time, are combinations of institutional structures, historical trajectories, governing rationales, policy programs, and abstract ideas about the objects of government. The tracing of a wider constellation of accounting change offers a way of explaining how it became possible, through multiple processes of translation, to view narrative reporting as part of the financial reporting category and to understand how this new way of thinking about accounting could be reconciled with the wider programmatic language of governing at the level of the ASB. It also implies that national policies pertaining to the ways in which organizations are made visible and governable through accounting can be closely entangled with the sphere of the “global”—even in the absence of formal administrative ties to international developments, transnational communities, and regulatory spaces. The historic case study is also relevant for research that seeks to address the upsurge in regulatory reform projects that are aimed at the closer integration of financial statement disclosures with qualitative management commentary since

the beginning of the twenty-first century. Today, nonfinancial and future-oriented statements by management on the objectives of the business and the potential for achieving them are widely recognized as an integral part of the annual financial reporting package in the United Kingdom and internationally.⁹⁰

Moreover, this paper shows that regulatory translations are multi-directional. They need to be understood in terms of simultaneous inputs, outputs, and processes that constitute the field of activity of regulatory reform as well as the domains that are sought to be governed. The processes of translation in regulatory space bring together complex constellations that shape and are shaped by the practices and rationales in other (very much different and distinct) domains. Consequently, the observation that regulatory space and the context of regulation co-constitute each other contributes to a broader understanding of regulatory agenda setting as a social and historical phenomenon. The perspective on regulatory translations in this paper highlights that the articulation of problems with financial reporting can be located within and outside the arena of accounting standard setting and, therefore, under the control of neither the standard-setting body, nor its immediate constituencies—as suggested in theories of regulation as choice or capture.⁹¹

Finally, the study of regulatory change as a multi-directional process of translation highlights the importance of discourse in creating convergences around problems and solutions that can be shared by heterogeneous group agents. Language makes government and regulatory change possible. When new categories for describing the means, objects, and objectives of government emerge, they also create new possibilities for acting and intervening in the conduct of others or oneself. At the highest level, this includes the broad families of discourses about the objectives of government that are intrinsic in the language of liberalism, welfare, or neoliberalism. “[T]o govern is to act

90. Formal requirements to publish narrative management commentary alongside the financial statements have been introduced, for instance, in company law amendments in all European Member States and in Australia, and are also included in securities regulations in the United States, Canada, and South Africa, complemented by numerous best practice guidelines. See, e.g., INT’L ACCOUNTING STANDARDS BD., IFRS PRACTICE STATEMENT: MANAGEMENT COMMENTARY (2010), available at <http://www.ifrs.org/Current-Projects/IASB-Projects/Management-Commentary/IFRS-Practice-Statement/Documents/Managementcommentarypracticestatement8December.pdf>.

91. See generally Roger G. Noll, *Economic Perspectives on the Politics of Regulation*, in 2 HANDBOOK OF INDUSTRIAL ORGANIZATION 1253 (Richard Schmalensee & Robert D. Willig eds., 1989) (investigating the political causes of regulatory policy); ANTHONY OGUS, REGULATION: LEGAL FORM AND ECONOMIC THEORY (1994) (discussing regulatory forms and their ability to meet collective goals).

under a certain description.”⁹² Language also renders the objects of regulatory intervention thinkable. It gives meaning to the abstract concept of “the regulatee” (organizations or individuals) by outlining their purposes, practices, and problems. Translation, therefore, underlies regulatory agenda setting by bringing new relations between discursive schemes into being.

Future research may investigate the social and historical aspects of regulatory reform in other domains. It may also transfer questions about the social and historical origins of practices and change from the study of accounting to the study of law. What makes up the category of “law” in legal reform? How far can law be seen as a translation mechanism as it is mobilized to act upon the behavior of individuals and organizations? And how far does it co-constitute the environments from which it emerges and in which it operates?

92. NIKOLAS ROSE, *POWERS OF FREEDOM: REFRAMING POLITICAL THOUGHT* 28 (1999).