

**THE ANALYTICS OF RELATIONS OF POWER  
BETWEEN REGULATED COMPANIES IN THE UK  
AND THE ACCOUNTING STANDARDS COMMITTEE**

**BY**

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**DEDICATION**

TO THE OLDEST CIVILIZATION IN THE HISTORY OF HUMAN  
BEINGS - EGYPT - AND ITS FOLLOWING GENERATIONS,  
PARTICULARY MY FATHER, MY MOTHER, MY WIFE DALAL,  
MY DAUGHTER NANCY AND MY SON MOHAMMED.

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ABSTRACT

The primary focus of this study is with the interactions and power relations between UK companies and other persons and organisations (who directly or indirectly are involved with their concerns) and the Accounting Standards Committee (ASC). Such a concern is explored at both the general level (i.e interactions and power relations about the process of setting accounting standards more generally) and on the specific level (i.e the depreciation and leasing standards).

The contents of this study can be seen to be divided into three major parts. The first, presents a case for, and describes the nature of, a methodological approach based on Foucault's philosophy. The second, building on the first, takes a critical look at literature related to the concern of this study, paying particular attention to its epistemological and methodological underpinnings. The third part, building again on the first, traces the micro-powers (techniques of power) exercised between UK companies (directly or indirectly) and the ASC.

In so doing, the study demonstrates and lends support to the following points. Firstly, to fully understand, the interactions and power relations between UK companies and the ASC concerning particular standards requires an uncovering of the wider context of interactions between the other interested parties and the ASC. In addition, these interactions should be placed in the wider context of interactions concerning the process of setting accounting standards more generally. Secondly, any change in the standards and the process of setting them, as visible events, are preceded and surrounded with invisible interactions and power relations between UK companies and other interested parties and the ASC. Thirdly, these interactions have been expressed through both visible and invisible procedures and processes. These different forms of interaction are presented at every stage in the formulation of any standard. Fourthly, and finally, power exercised in the process of setting accounting standard on both a general and specific level has disciplinary, relational, and positive aspects.

## CHAPTER 1

### INTRODUCTION

#### 1.1 THE PURPOSE AND SCOPE OF THE STUDY

This study is concerned with understanding the interactions and power relations between UK companies [often expressed through finance directors and other directors] and the ASC. This concern is not intended to understand the motivation or interests of UK companies' finance directors and other directors in exercising power on the ASC. Rather the concern is directed to analyse the techniques/apparatuses through which power is exercised in the interactions between them. In other words, this study is trying to answer a very different question from that asked by previous studies. This question is: How is power exercised between UK companies' finance directors (and other directors) and the ASC ?

Even though the relations between corporate companies and the standard setting bodies (i.e. FASB, ASC) has been the concern of many studies (as will be discussed in Chapter 4), these studies have sought to answer the question: 'Why do corporate companies try to influence the ASC?'. In other words, they seek to understand the motivation of corporate companies to influence the standard setting bodies. These studies assume that the role of corporate companies is just to react to particular accounting standards and invariably only in terms of visible forms (i.e. written

submissions on discussion papers or exposure drafts). In doing so, these studies assume that the reactions to accounting standards are only in one stage of setting the standard (i.e. after issuing the discussion paper or exposure draft). This articulation of the relationships between the corporate companies and the standard setting bodies is problematic because this relationship is considerably more complex and dynamic. It is complex in the sense that it is an interactive relationship which manifests itself in many different forms (visible and invisible). Also this interaction is not only in one stage of the standard (i.e. after the exposure draft) but also in all the other stages of the formulation of the standard. In addition, this interaction between the companies and the ASC is affected by, and has an effect upon, the wider context of interactions with other interested parties. Furthermore, this interaction is not only about specific standards (at the specific level), but also about the whole changing process of setting standards (at the more general level). In addition the former process is affected by and has an effect upon the latter.

The complex and dynamic nature of this process, and the interactions surrounding it, is in need of exploration. To achieve this requires a methodological approach which can capture this complexity and dynamism. As there are different methodological approaches, there is a need to make a choice about the one which is the most appropriate in the context of this study. This is the concern of the following Section.

## 1.2 METHODOLOGICAL CHOICE

There are three recognised clusters of methodological approaches in the philosophy of social sciences as Chua (1986) so aptly makes clear. These are: the positivist, interpretive, and critical approaches, each of which is different in its ontological assumption about social reality (i.e meta-theory), its emphasis, its tools of analysis, and its aim.

The positivist approach assumes that empirical reality is objective and external to the subject (with people being viewed as identical to other physical objects). The interpretive approach assumes that social reality is emergent, subjectively created, and objectified through human identity (people are self-interpretive beings who create social reality). The Critical approach, on the other hand, assumes that the identity of an object or event can only be grasped through an analysis of its history, what it has been, what it is become, and what it is not (its potentiality). It assumes that anything exists only in and through the totality of relations of which it is a part.

As the ontological assumptions of each approach are different, the emphasis of each is equally different. The emphasis in the positivist approach is on visible (objective) measurable factors, while the emphasis in the interpretive approach is on invisible (meaning) and the role of language, and interpretation. But the emphasis in the critical approach is on an historical

dynamic context.

If the emphasis of each approach is different, then the tool of analysis for each are similarly different. The tool of analysis in the positivist approach is the mathematical or statistical modelling of any situation. The tool of analysis in the interpretive approach is 'thick' case studies, ethnographic work and participant observation. But, the tool of analysis in the critical approach is detailed historical explanation and critique.

Building on the above differences, the aim of each approach is different. The aim of the positivist approach is to search for causal relations and universal laws (generalisation), and prediction. The aim of the interpretive approach is to enrich people's understanding of the meanings of their actions. But the aim of the critical approach is to enrich people's understanding of any object through its historical dynamic context.

These methodological approaches have been utilised in a number of accounting and finance studies. A representative sample of these are contained in Figure 1.1.

Although, the positivist approach is the dominant approach in accounting and finance studies, the other two approaches, have been applied in a number of other studies. Examples of studies adopting the interpretive approach in its symbolic interaction form are: Colville (1981), (1982); Tomkins (1982); and Tomkins and Groves (1983). Examples of studies utilising the interpretive

approach in its ethnomethodological form are: Berry et al (1985); and Bourn and Ezzamel (1986a) and (1986b).

The critical approach, as shown in Figure 1.1 can be divided into three sub-approaches. These are: Marxism, German critical theory (Habermasian critical approach), and French critical theory (Foucauldian approach). Each of these approaches have been utilised in accounting studies. Tinker (1982) (1984), and (1985), for instance has adopted a Marxian approach. Laughlin (1984), (1986), and (1987) has adopted a Habermasian approach.

A Foucauldian approach has been utilised by, for instance, Burchell et al (1985), Hopwood (1987), Miller and O'Learly (1987), Loft (1986), Macve and Hoskin (1986), (1988), Robson (1987), and Preston (1989).

It should be emphasised here that the dominance of the positivist approach in conducting accounting and finance studies does not mean that it is the best approach or the only approach for conducting research [as Abedel-Khalik and Ajinkya (1979) seem to claim], rather it means only that it is dominant.

The reasons for such dominance are discussed in detail in Whitley (1988). Despite this dominance the approach has been criticised not only by Whitley and other social scientists but also by numerous accounting researchers. Such criticism is dichotomised by Watts and Zimmerman (1990), with questionable simplicity, into 'two mutually exclusive sets: those concerned with

research methods and those concerned with the philosophy of science.' (P.140)

Since the nature of this study, as indicated above, is complex and dynamic, it is appropriate to choose one of these approaches which can capture and uncover these characteristics. As the positivist approach is concerned with the visible, measurable, static, causal relations, this approach is unable to capture this complex and dynamic problem. However this approach, as will be indicated in Chapter 4, has been widely adopted in investigating the relations between corporate companies and accounting standards bodies (FASB and ASC). This adoption has led, as indicated in the previous Section, to a simple articulation of these relationships. In so doing the approach fails to capture the complexity and dynamic nature of these relationships. Accordingly, the positivist approach - in which hypotheses are formed, tested, and analysed to produce predictive theories- is rejected in the context of this study.

Also the interpretive approach is rejected in the context of this study since it ingores the historical dynamic of the phenomenon under investigation.

The rejection of the first two approaches in the context of this study leaves the critical approach which, it is suggested, is a more appropriate base upon which to build since it considers the complexity (visible and invisible factors, and intended and unintended effects) and dynamic of the phenomenon set within its

historical context. But choosing the critical approach leaves us with the necessity of making another choice. This is because under the umbrella of this approach there are three sub-approaches as indicated above.

Both Habermasian and Marxian analysis are rejected in the context of this study. The former is rejected in the sense that it does not address the power concept, which is the major concern of this study. The latter although it addresses the concept of power, emphasises the source and effects of power rather than the media through which power is exercised. Also both of them have distinct and clear views on change in terms of progress. In other words, they assume that the objective of any change is to make things better. This view is rejected in the context of this study since the concern of this study is not to examine the improvements of the standards and the process of setting them from time to time. Rather the concern is to reveal the interactions and power relations underlying these changes.

Rejecting Habermasian and Marxian analysis, it is suggested that the Foucauldian approach has great potential, at this stage, in the context of this study. A second stage in the argument for justifying the use of a Foucauldian approach will be contained in Chapters 2 and 3, and the third stage is the application of this approach in the three empirical Chapters (i.e Chapters 5,6 and 7).

### 1.3 THE EMPIRICAL STUDY

Adopting a Foucauldian genealogical analysis in the context of this study, with its emphasis on the rich details and scattered practices in the phenomenon under investigation, directs us to the way of conducting the empirical study in terms of the choice of the issues to be considered, the method of collecting data, and the way to examine this data.

The study considers the following two issues:

- (1) interactions and power relations underlying the changes in the ASC and the process of setting accounting standards (on the more general Level).
- (2) interactions and power relations concerning two accounting standards: the depreciation and leasing standards [SSAP12 and SSAP21].

These issues are explored in the period from 1969 to 1988.

The rationale behind exploring the interaction and power relations at the more general level is that to fully understand these relations on the specific level requires these more general insights.

Also at the specific level the rationale for considering two standards, rather than one, is that since each standard has a different nature, it is possible to demonstrate the differences of the interactions and power relations in each case. These two

particular standards (i.e. the Depreciation Standard and the Leasing standard) are chosen because both are contentious with extensive interactions and power relations surrounding their formulation. In the first case (i.e. the Depreciation Standard), the ASC issued more than one exposure draft [ ED15 (January 1975), ED26 (September 1980), and ED37 (April 1985) ], and more than one standard [SSAP12 (December 1977), SSAP19 and Amended SSAP12 (November 1981)], in addition to a Discussion Paper (December 1982) and Statement of Intent (September 1984) ]. In the second case (i.e. the Leasing Standard), although there was only one exposure draft and one standard, it is a very complex standard in the sense that the topic of leasing has been considered by the ASC since 1974, but the exposure draft was published (after 7 years) in October 1981. This exposure draft was followed (after 3 years) by SSAP21 in July 1984.

It should be noted that since each standard has a different nature, there is a need for a comprehensive analysis of all the standards to fully understand these complex processes surrounding their formulation. However, this is impossible to be conducted in one study due to limitation of time. We have started working on four accounting standards, the two mentioned above as well as other two standards [i.e. Deferred Taxation (SSAP15) and Stocks and Work in Progress(SSAP9)]. Although data was collected for the four standards, and some analysis was carried out on them, limitation of time and space within the confines of this thesis, restricted the final analysis to only the two chosen standards (the depreciation and leasing standards).

The sources of data which cover the issues under consideration are shown in Figure 1.2 and summarised as follows. The method of collecting data involved the examination of documents in the period from 1969 to 1988. The sources of this data are the ASC's documents and reports in the Financial and Professional Press. The ASC's documents includes the ASC agenda papers and the minutes of meetings as well as the written comments from companies and all the other interested groups. These include written comments on: the process of setting accounting standards (Watts Report); ED15 (January 1975), ED 26 (September 1980), the Discussion Paper on Depreciation (December 1982), and ED 37 (April 1985) in the case of depreciation; and the exposure draft of Leasing (ED29, october 1981). The financial and professional press includes the Accountancy Age, The Accountant, Accountancy, The Accountant's Magazine and The Times.

It should be noted that we have tried to get access to the minutes of the working parties of the ASC to allow us more access to greater detail concerning these processes, but as these documents are confidential it was not possible to examine this source of data [see Appendix A].

The examination of these documentary data is conducted through the lens of a Foucauldian genealogical analysis with its emphasis upon the rich details of the phenomenon under consideration, and the relational nature of the scattered practices in such phenomenon. Thus the examination of these documents is not only restricted to the interactions and power relations between UK

companies' finance directors and the ASC but also between the other interested parties and the ASC. In this way the study is able to locate the interactions between UK companies' finance directors and the ASC within the wider network of interactions and power relations between the other interested parties and the ASC.

It should be noted that interviews with key actors in these processes as a source of data was not appropriate in the context of this study. This was because, this study, adopting the Foucauldian approach, is seeking to reveal the invisible, relational, unintentional aspects of power exercised in the process of setting accounting. The actors (who are involved in these process) are themselves invariably not aware of this invisible and relational nature of power. Also, Foucauldian genealogical analysis emphasises that power is exercised from scattered points through disciplinary techniques. Accordingly it is arguably not very informative for a Foucauldian analysis to use insights from interviews with certain key actors as a source of data.

### 1.3 THE STRUCTURE OF THE STUDY

The structure of the study is closely aligned to and consistent with the structure of the argument. The sequence of Chapters and the way they are related is depicted diagrammatically in Figure 1.3.

Chapters 2 and 3 are devoted to addressing the methodological

approach of this study. This approach is based on Foucauldian analysis. Chapter 2 is an attempt to understand Foucault's philosophy more generally and its relevance to the concern of this study. Chapter 3, building on Chapter 2, is an attempt to clarify the nature of Foucault's conception of power (i.e the analytics of relations of power) in great depth and trace its applicability to this study.

In Chapter 4, using the lens of the Foucauldian approach outlined in Chapters 2 and 3, the literature related to the focus for this study is critically reviewed. The first part of the Chapter is devoted to the critical review of the literature from disciplines other than accounting and finance. These include political and sociological theories on power, inter-organisation theory, the sociology of the profession, and regulation theories. In the second part of the Chapter, the literature of accounting and finance relating to setting accounting standards is critically reviewed. The aim of this review is to demonstrate the inadequacy of this literature to satisfy the needs of this study's concern. The third, the final, part of the Chapter is concerned with a critical review of accounting studies adopting a Foucauldian approach. The aim of this review is to demonstrate the partial analyses introduced in these studies.

Rejecting the existing literature as a basis to satisfy the concern of this study, the Foucauldian approach -developed and summarised in Chapters 2 and 3- is suggested as the most appropriate base upon which to build for this study. Accordingly,

and bearing in mind the arguably partial analysis introduced in the accounting studies adopting Foucauldian approach (as discussed in the later part of Chapter 4), this approach is applied in understanding the interactions and power relations in the process of setting accounting standards (at the more general level) and on the two chosen standards (at the specific level). This is the major concern of the three empirical Chapters (i.e Chapters 5,6, and 7).

Chapter 5 is devoted to addressing the interactions and power relations on the changing process of setting accounting standards. The aim is to argue and demonstrate that the creation of the ASC in 1970, and the changes which followed through to 1988 in the process of setting accounting standards, as visible events during this period, were preceded and surrounded with interactions and power relations between UK companies and the ASC. This interaction is located in the wider context of interactions between the other interested parties and the ASC. In the light of this argument, the disciplinary, relational, positive aspects of power relations exercised in the process of setting accounting standards is revealed.

Drawing on the analysis of Chapter 5, Chapter 6 is concerned with the interactions and power relations concerning the Depreciation Standard (SSAP12). The aim of the Chapter is to demonstrate that the issuing of the first exposure draft on depreciation (ED 15) in January 1975 and the changes that followed to 1987, as visible events during this period, were preceded and

surrounded with invisible interactions and power relations between UK companies and the ASC. These interactions are located in the wider context of interactions between the other interested parties and the ASC. In the light of this analysis the disciplinary, relational, positive aspects of power exercised in the formulation of this standard are illustrated in this Chapter.

In Chapter 7, and again drawing on the insights from Chapter 5, the interactions and power relations surrounding the Leasing Standard (SSAP21) are addressed. The aim of the chapter is to argue and demonstrate that the issuing of the leasing exposure draft in October 1981, and the following standard (SSAP21) in July 1984, as visible events during this period, were preceded, and surrounded, with invisible interactions and power relations between UK companies and the the ASC. These interactions are located in the wider context of interactions between other interested parties and the ASC. Again in light of this analysis the disciplinary, relational, positive aspects of power exercised in the formulation of the leasing standard are revealed in this Chapter.

Finally, in Chapter 8 the conclusions, limitations, implications, and suggestions for future studies are presented. The study concludes that the role of UK companies is not just a reactive role in terms of written submissions, rather there is an interactive process at work. Involved in this interactive process is not only the visible forms of interactions (such as the written submissions), but also and maybe more importantly, the invisible

forms of interactions (such as published articles in the press, talks to the press, letters to the press, ... etc). These forms of interactions were not only utilised in one stage of the formulation of the standard (i.e. after issuing an exposure draft), as the previous studies suggested, but in all stages of setting the standard. Also these interactions and power relations are not only, as the previous studies assume, about particular standards (at the specific level) but also about the process of setting accounting standards on the more general level. In addition, these interactions and power relations between UK companies and the ASC, in contrast to the previous studies, can only be fully understood in the context of the wider interactions between other interested parties and in the context of interactions and power relations concerning the process of setting accounting standard more generally. Furthermore, power exercised at both the general and specific levels of interactions has disciplinary, relational, and positive aspects.

## CHAPTER 2

### FOUCAULT'S PHILOSOPHY AND ITS RELEVANCE

#### FOR THE CONCERN OF THIS STUDY

#### 2.0 INTRODUCTION

This Chapter is an attempt to understand Foucault's philosophy more generally and its relevance to the concern of this study. While the following Chapter, building on this Chapter, is an attempt to clarify the nature of Foucault's conception of power more specifically and its applicability to the phenomenon under investigation.

The contents of this Chapter can be divided, into two parts: the first (Section 2.1 to 2.6) supplies an understanding of the basic intentions, or underlying themes, of Foucault's philosophy, the second (Section 2.7) is concerned with the relevance of Foucault's philosophy to the concern of this study.

The philosophical journey of the first part of this Chapter will start with introducing Michel Foucault and the nature, importance of his work. This is the major concern of Section 2.1. Section 2.2 is concerned with understanding the goal of Foucault's work, the particular methodology -genealogy- he adopts, and how this methodology enables Foucault to introduce to the very root of thought new concepts of the relationship between power and

knowledge, history, critique, and theory and practice. Sections 2.3 to 2.6 are devoted to presenting these concepts.

Section 2.3 is an attempt to clarify the nature of the relationship between power and knowledge, and the implication of this relationship. In Section 2.4 Foucault's conception of history is presented. Section 2.5 is devoted to understanding the nature of critique in Foucault's work and its significance for critical theory. In Section 2.6 Foucault's conception of the relationship between theory and practice is clarified. Section 2.7 is concerned with the relevance of Foucault's philosophy to the concern of this study.

## 2.1 MICHEL FOUCAULT

Michel Foucault (1926-1984) was a French social scientist, historian of ideas, and philosopher. He was Professor of History of Systems of Thought at the College de France.

Foucault is widely regarded as one of the most original and most important thinkers in the contemporary world [1]. He introduced concrete and often unsettling problems about crime, sex, madness, and disease into academic philosophical discussion; and he obliged people to reflect on those issues in new ways. His work was thus critical, practical, even political in intent.[2]

The strength of Foucault's work lies in the particular analysis he asserted within the human and social science. This

analysis represents the most important contemporary effort to develop a method for the study of human beings and to diagnose the current situation of our society.[3]

To illustrate the position which Foucault currently occupies among French intellectuals, it is enough to point out that he has been recently compared to Marx (by Gilles Deleuze), to Hegel (by Pierre Macherey), and to Freud (by Jacques Donzelot).[4] Donzelot suggested that just as we might credit Freud with having opened up the continent of sexuality for analysis, so Foucault maybe is regarded as having made the exploration of power possible.[5]

Foucault's philosophy does not aim for sure truths, but for the freedom of withholding judgement on philosophical dogmas, and so of acquiring relief from the restrictions they introduce into our lives and our thought. This freedom, according to Foucault, opens new possibilities for thought and action.[6] Accordingly, Foucault transgresses the conventional intellectual categories, concepts and frameworks of normal philosophy, history, and politics; and he develops his own. He constantly attempts to push his thinking beyond what he and others know.[7] His writings constantly push us from the familiar to the strange. Thus, we are obliged to transgress, to go beyond what we know, to let ourselves fall into the strangeness of his language and thought.[8]

In his transgressive method, Foucault questions the assumptions of constituted disciplines; our disciplinary boundaries, he held, are only contingent and historical.[9]

Foucault does acknowledge that no single intellectual specialization is sufficient to the task of explaining the social world. His conviction is that the disciplines are both insufficient and part of the problem of modern society. Thus, he works across the disciplinary boundaries, combining history, philosophy, and politics.[10]

Because his work was devised to avoid the coherence of a single method or doctrine, because it falls under no single constituted discipline, and because it has a specific sort of practical or political consequence, it has led to many divergent, and often mutually inconsistent interpretation.[11] Foucault has been called many things he refused to call himself: a structuralist or post-structuralist, an irrationalist, a relativist, an anarchist, a nihilist.[12] He says :

'.... None of these descriptions is important by itself; taken together, on the other hand, they mean something. And I must admit that I rather like what they mean'.[13]

Although Foucault's transgressive method makes his work difficult, it makes a significant contribution to knowledge and understanding of a number of key issues and controversies which are generally located within the field of the social and human sciences. Lemert and Gillan [14] suggest that the critical question to ask of Foucault is not: why are you unable to be clear. But he should be asked: were the risks of your transgressive method worth the while ?

## 2.2 FOUCAULT'S WORK AND METHODOLOGY

Foucault's various studies address the question of the relations between experiences (like madness, illness, transgression of laws, sexuality, self-identity), knowledge (like psychiatry, medicine, criminology, sexology, psychology), and power (such as the power which is wielded in psychiatric and penal institutions and in all other institutions which deal with individual control).[15] Each of the studies have ultimately been concerned, in one way or another, with the formation of the modern subject as a historical and cultural reality.

In the Subject and Power, looking back over his works, Foucault argues that his objectives has been to write a history of different modes by which human beings are made subjects - that is, attributed certain capacities and made fit to occupy certain positions. As he says:

'.... the goal of my work during the last twenty years has not been to analyze the phenomena of power, nor to elaborarte the foundations of such an analysis. My object, instead, has been to create a history of the different modes by which in our culture, human beings are made subjects ...

'[16]

For Foucault the processes of subjectification are the obverse of discursive and nondiscursive practices which objectify humans.[17] Among the diverse modes of objectification which

transform human beings into subjects, he identifies three which have been the concern of his works. The first is the emergence of the discourses on man (philology biology and economics) around the turn of the 19th century which attributed to humans the identities of the speaking subject, the labouring subject and a living subject. The second, concerns the emergence of 'dividing practices' through which the subject has been constituted as an object of research and of techniques of power. The subject is objectified by a process of division either within himself or from others. Examples are the mad and the sane, the sick and the healthy, the criminals and the 'good boys'. The third and final mode of objectification, is concerned with those ways in which human beings turn themselves into subjects, in particular as subjects of sexuality'. [18]

In an interview of 1983 Foucault summed up his work in the following way :

'Three domains of genealogy are possible. First, a historical ontology of ourselves in relation to truth through which we constitute ourselves as subjects of knowledge; second, a historical ontology of ourselves in relation to a field of power through which we constitute ourselves as subjects acting on others; third, a historical ontology in relation to ethics through which we constitute our selves as moral agents.' [19]

The truth axis of Foucault's work was studied in the Birth of the Clinic and the Order of Things, the power axis was studied in Discipline and Punish, and the ethical axis in The History of Sexuality.

Taken together, the three modes of objectification of the subject designate the problematic of Foucault's inquiries.

By way of summary we may note that three main domains of analysis can be found in Foucault's work as a whole: analysis of systems of knowledge (relations of control over things), of modalities of power (relations of action upon others), and of the self's relationship to itself. This does not mean that each of these three areas is completely foreign to the others. It is well known that control over things is mediated by relations with others; and relations with others in turn always entail relations with oneself, and vice versa. These three domains of analysis will all address the interrelated questions systematized as follows: How are we constituted as subjects of our own knowledge? How are we constituted as subjects who exercise or submit to power relations? How are we constituted as moral subjects of our own actions?

The strength of Foucault's work, it can be argued, lies in his genealogical analysis with its focus on the mutual relations between knowledge and power.[20]

Genealogy is 'a form of history which can account for the

constitution of knowledges, discourses, domains of objects, etc., without having to make reference to a subject which is either transcendental in relation to the field of events or runs on its empty sameness throughout the course of history.[21] For the genealogist, there are no fixed essences, no underlying laws, no constants. Even the human body (as experienced), which seems to be the lowest common denominator throughout history, is transformed over time by technologies of power.[22] Accordingly, the task of the genealogist is to expose a body totally imprinted by history.[23]

Foucault as a genealogist concentrates his work on the relations of power, knowledge, and the body. His genealogical analysis reveals the body as an object of knowledge and as a target for the exercise of power. The body is shown to be located in a political field, invested with power relations which render it docile and productive, and thus politically and economically useful. Such a subjection of the body and its forces is achieved through a political technology which constitutes a 'knowledge' of the body that is not exactly the science of its functioning, and a mastery of its forces that is more than the ability to conquer them.[24] This means that the central area of focus of genealogy is the mutual relations between systems of truth and modalities of power, the way in which there is a 'political regime' of the production of truth.[25] Thus, it is implied in the conception of genealogical analysis that Foucault neither claims nor seeks scientific status for his analyses.[26] He never posed the question of the truth or falsity of the specific claims made in any

particular discipline. Although he traced with great patience the discursive systems of sciences of life, language, and labour, his aim was not to unveil the truths they had discovered or the falsities they had propounded. Rather, once again, it was the effective operation of these disciplines, how and around what concepts they formed, how they were used, where they developed.[27]

At the centre of this contrast between genealogy and scientific discourse there is a conception of power and knowledge relations. This conception, as we will see later in this section, has allowed Foucault to reject the proposition that knowledge is only possible where power relations suspended and to develop the view that knowledge is not neutral or objective but rather is a product of power relations.[28] In other words knowledge is political in the sense that its conditions of existence or possibility include power relations. Thus Foucault says that:

'.... knowledge is to be found not only in demonstrations, it can also be found in fiction, reflexion, narrative accounts, institutional regulations, and political decisions.' [29]

By pursuing genealogical analysis, Foucault adamantly rejects the traditional strategy of theoretical development and empirical verification that is practiced by liberal positivists and Marxists alike. Foucault argues that systematic social science, especially careful theoretical elaboration, contains within itself an element

of domination of a technology of power.[30] Thus his work is presented as a series of analyses rather than work from which a general theory can be inferred.[31] However, to acknowledge that Foucault's works do not constitute a system is not synonymous with a denial of their coherence. Although his corpus has a somewhat fragmentary character, and encompasses a variety of apparently disparate topics, there is a clear direction to the work and a strong underlying thematic coherence.[32]

Foucault's rejection of constructing a general theory does not lead him to accept the alternative form of exegesis, that is, hermeneutics.[33] Both methods, err in two opposite directions: (1) they give priority to action in a manner that obscures the linguistic quality of experience, or (2) they analytically constitute language in formalist schemes that obscure the social context and the action component of experience. Foucault's interpretive analytic (genealogy) enables him go beyond the former (empiricism), wherein the visible exhausts signification, and the later (idealism) wherein the hidden idea explains away the visible fact. In other words Foucault's work steers a course between the dangers of materialist scylla and idealist charybdis. In his self-characterization Foucault says:

'I am not an artist, I am not a scientist. I am some body who tries to deal with reality through those things which are always, often, far from reality.'[34]

Foucault, by adopting Nietzschean strategy of genealogy, offers his historians, as we will see in section 2.4, a new framework for studying the past. This strategy oriented to discontinuity, to the differential play of power relations in the historical phenomena. In this way, Foucault challenges, in particular, the concepts causality and continuity in traditional history. His aim, as he says, 'is to introduce to the very roots of thought, the notions of chance, discontinuity and materiality.' [35]

Foucault does not constitute a new 'theory' neither does suggest or authorise a new 'practice'; on the contrary, Foucault's work has displayed more of the character of critique, than of an alternative theory and practice. [36] His work is a form of critical theory, as we will see in section 2.5, even though it does not construct a new, systematic set of principles for the guidance or direction of conduct. As Foucault states:

'Critique doesn't have to be the premise of a deduction which concludes: this then is what needs to be done. It should be an instrument for those who fight, those who resist and refuse what is. Its use should be in processes of conflict and confrontation, essays in refusal. It doesn't have to lay down the law for law. It isn't a stage in a programming. It is a challenge directed to what is.' [37]

The absence in Foucault's work of prescriptions, programmes and policies, it can be argued, derives not only from an opposition to global or totalizing forms of discourse and their effects but in addition, as we will see in section 2.6, from a radically different conception of the relationship between discourses, practices, and effects. [38]

In conclusion, by employing genealogical analysis in his work, Foucault is seeking to construct a mode of analysis of those cultural practices which have been instrumental in forming the modern individual as both object and subject. He concentrates his analysis on exactly those cultural practices in which power and knowledge cross. Genealogical analysis enables Foucault to introduce to the very root of thought new concepts of the relationship between power and knowledge, history, critique, theory and practice as we will see in the following Sections.

### 2.3 FOUCAULT'S CONCEPTION OF THE RELATIONSHIP BETWEEN POWER AND KNOWLEDGE

Central to Foucault's work on the historical conditions of possibility of the human sciences and the effects of their deployment in social and institutional practices is a conception of the mutual, inextricable interdependence of power and knowledge.

In the works, following the Archeology of Knowledge, Foucault traced the relationship between the human sciences (like

criminology and psycho analysis) and a system of institutions and socio-political controls. He demonstrated that such discourses become organized into disciplinary institutions, both in the West and East, and begin to exercise powerful shaping influence the social field. The human sciences by projecting 'man' as their object, begin to produce subjects, constitute them as autonomous and freely choosing. Foucault put it succinctly in the following terms:

'The moment when the sciences of men became possible, is the moment when a new technology of power and a new political anatomy of the body were implemented.' [39]

The implication of this position is not that the human sciences in each and every respect initiate or facilitate a disciplining or a regulation of conducts but that there has been and there continues to be a relationship of mutual reinforcement between the human science and technologies of power. [40]

In the analysis of the relation between knowledge and power, Foucault does not seek to reduce knowledge to a hypothetical base on power nor to conceptualize power as always a coherent strategy. He attempts to show the specificity and materiality of their interconnections. They have a connective, not a causal relationship, which must be determined in its historical specificity. Rather, the relation is such that knowledge is not gained prior to and independently of the use to which it will be

put in order to achieve power (whether over nature or over other people), but is already a function of power relations.[41]

Power, according to Foucault, produces knowledge, they imply one another; they are two sides of the same process, a site where power is exercised is also a place at which knowledge is produced. For example, in the prison, as Foucault argued, in order to normalise or transform offender, a knowledge is clearly required: a knowledge of the offender's life and of the crime committed, a knowledge of the circumstances. Thus the prison became a site within which a knowledge was constituted: a scientific knowledge of the offence and of the offender. It is in the prison, that the emergence of criminology might be situated. It is not a matter of first the prison, then the construction of delinquent biographies, and thereafter the emergence of criminology; rather, they appeared together. Also, the institutions of the asylum, the hospital, and the psychiatrist's couch have constituted not only contexts within which relations of power have been formed and exercised but in addition 'laboratories' for observation and documentation, from which bodies of knowledge have accumulated about the mad, the sick, the sexual subject.[42]

Furthermore, once it has been set in motion, the relation of power and knowledge produces a cycle of constant self-reinforcement. The development of knowledge increases control, and hence power leads to further fields of objectification.

Accordingly, Foucault is prepared to advance the general conclusion that:

'... there is no relation of power without the correlative constitution of a field of knowledge, nor knowledge which does not suppose and constitute at the same time relation of power.'[43]

An important implication of this conception of power-knowledge is that knowledge cannot be neutral, pure. In other words, what we take to be true or false, indeed the very distinction itself, is located within a political field. Knowledge is political not because it may have political consequences or be politically useful, but because knowledge has its conditions of possibility in power relations.[44]

If this seems strange to us, it is probably because we have become overburdened with epistemological considerations, have been preoccupied with determining the criteria for an elusive scientificity, or with the endless intricacies 'science' from that which we dismiss or devalue as 'ideology'. Within the human sciences we have become accustomed to the seemingly self-evident proposition that knowledge is only possible where power relations are suspended.[45]

Against those philosophers who suppose that knowledge is the reward of a disinterested pursuit of truth, Foucault suggests that knowledge and power form an articulated unity (he refers to a

pouvoir-savoir), and that truth itself, is always dependent on a particular regime of discourse. In this way, Foucault constituted a form of clarification of an earlier position taken by him over the question of knowledge, namely that knowledge does not detach itself 'from its empirical roots, the initial needs from which it arose, to become pure, speculation, subject only to the demand of reason. [46]

Such a conception of power-knowledge relations leaves no scope or space for exhortations addressed to the individual investigator or the community of scientists to strive for value-freedom, neutrality, or objectivity. In consequence those sciences in which human beings constitute both the subjects and objects of knowledge, investigators and investigated, namely the human sciences, are placed in particular jeopardy, for their claims to objectivity and detachment are fundamentally undermined. [47]

#### 2.4 FOUCAULT'S CONCEPTION OF HISTORY

Foucault's conception of history does not conform to any paradigm currently at work in history or the social sciences. Foucault has discussed historic 'discourses' in madness, disease and normality, crime and punishment, sexuality, and much else as well. The books treating these subjects take the form of histories, but they are far indeed from conventionally professional history-writing. They are also vehemently radical.

Foucault rejects the concept of global history the idea that the subject matter of history is finally society. Against the conception of linear time and political evolution, Foucault asserts the primacy of rupture and reversal, discontinuity and chance. In other words, history in Foucault's writings is neither totalizing history, nor historicizing history. It is a history that transgresses the epistemological categories of contemporary historiography.[48]

Foucault, as an opponent of linear and historicist history, labours to distance the past from the present, to disrupt the easy, cozy intimacy that historians have traditionally employed in the relationship of the past to the present.[49] Instead of treating the past as prologue, as part of an easily comprehensible, continuous series of events unfolding into the present, Foucault tried to establish its radical otherness, its difference.[50]

Traditional history aims at dissolving the singular event into an ideal continuity - as a teleological movement or a natural process. For Foucault 'effective' history deals with events in terms of their most unique characteristics, their most acute manifestations.[51] This does not mean that everything that has gone before is useless, but that it must be recast in order to preserve the specificity of events.[52]

An event, according to Foucault, is not measure by its inherent meaning or importance, but externally by its place in a field of social forces.[53] Foucault, consequently, refuses to

restrict history to the study of the great events: treaties, wars, battles, elections, discoveries, royal decisions. Events such as these, the stuff of traditional history, are events only superficially. For instance, 'the conflicts leading to Louis XVI's decline, to Napoleon's defeat at Waterloo, to Robespierre's execution are too often taken as events without contexts. Ideologies and power plays are abstracted from the ongoing hidden conflicts which, in daily life, sustained, then defeated, Louis XVI, Napoleon, and Robespierre. These were conflicts in discourse, in courtly rumor, in secrets passed in cafe's, in alliances amongst merchants, in soldiers' complaints'. [54]

In the place of great events Foucault takes seriously the ignoble in history: forgotten novels, a homicide's memoir, an hermaphrodite's story, a single tableau from the oeuvre of Magritte. [55]

Foucault, as an historian of discontinuity, speaks not of social change, but of transformation. In Discipline and Punishment, Foucault show us how the modern system of punishment based on incarceration is separated from the system of torture by a sharp discontinuity. [56] Foucault does suggest that the important transformations have not been so much quantitative -less severity, pain, cruelty, etc. - as qualitative, that is to say that the key change has concerned a 'displacement in the very object of punitive operation?' [57], from the body of the offender to the 'soul' of the individual.

This gap between the old and the new system of punishment serves to underscore the principle of difference, not progress, at the heart of Foucault's historiography. On one hand, the system of punishment of the old regime (torture), Foucault argues, was not pure barbarism but 'regulated practices'. It was designed to produce terror in the hearts of the public that witnessed the torture and thereby to reaffirm the power of the ruling class. Accordingly, instead of condemning the barbarism of premodern society, its inhumanity, injustice and irrationality, Foucault presents the difference of the pre-modern system by demonstrating that, on its own terms, it makes sense and is coherent. This does not mean that, Foucault wants to present a revised picture of the past, nostalgically to glorify the charms of torture, but to underline the transitory character of the present system and therefore to remove the pretense of legitimacy that it holds by dint of a naive, rationalist contrast with the past.[58] As Poster puts it:

'The remarkable achievement of Foucault's discourse is that it captures the past without justifying the present, as liberals do, or anticipating an evolutionary, utopian future, the way Marxists do. The display of the difference of the past avoids the danger of dismissing it (as barbarism) and thereby legitimating the present in the manner of liberals, as a superior and unsurpassable world.'[59]

On the other hand, the modern 'humane' punishment, Foucault

maintains, is not what it seems. The shift from 'atrocious' torture to humane 'correction' may look like increased humanitarianism and progressive recognition of the autonomy of the individual. However, Foucault argues that what looks like a new respect for humanity is, rather, a more finely tuned mechanism of control of the social body, a more effective spinning of the web of power over everyday life.[60] Foucault thinks that the real point of the new system of punishment (the penal system) is 'not to punish less, ... but to punish with more universality and necessity, to insert the power to punish more deeply into the social body'[61] His argument is that since the beginning of the nineteenth century a whole series of transformations have taken place in the penal system - 'judge something other than crimes', namely the individuals, what they are and what they might be; judgement has been diffused to other authorities, e.g. the doctor-judge, the social worker-judge ... etc.[62]

The spread of the discipline of the prison throughout the whole society is seen by the traditional historians as progress. But, according to Foucault, 'reading such a history of supposed progress is not, as the traditional historians would expect, reassuring and edifying, but frightening and disturbing'[63] This does not mean that the new system of punishment is bad but that it is dangerous. Foucault clarified this point in an interview as follows:

'My point is not that everything is bad, but that everything is dangerous, which is not exactly the

same as bad. If everything is dangerous, then we always have something to do....'[64]

Foucault's thesis is that we must free historical chronologies and successive orderings from all forms of progressivist perspective. As he says:

'.... it is a bad method to pose the problem as: 'How is it that we have progressed?' The problem is: how do things happen? And what happens now is not necessarily better or more advanced, or better understood, than what happened in the past.[65]'

Accordingly, rather than simply assuming we now understand better what our predecessors were trying to do the historian may have to hypothesize that we do not understand better, only differently.[66] In this way, Foucault argues, we can certainly regret what is bad for us now without knowing either that things were better before or that proposed ways to mend things will not actually produce other injustice [67] In short, Foucault's thesis is that most of us are unable to see the present because we see it through the eyes of the past, or the eyes of a 'future' that is a projection of the past, which amounts to the same thing.[68]

It should be noted that Foucault's critique of 'continuous history' is in his view, closely related to the necessity of decentring the subject. Not only does history have no overall teleology. It is in an important sense not the result of the action

of human subjects. Human beings do not make history; rather, history makes human beings. That is, the nature of human subjectivity is formed in and through processes of historical development. [69]

In conclusion, Foucault is doing history in a space different from that of the traditional social theory and history. His aim, He says, is to 'introduce into the very roots of thought the notions of chance, discontinuity' [70] and thereby to help us drop the notion of historical progress. Foucault places the history of continuities, and gradual developments, with the history of events. In the history of events, there are ruptures and reversals of a relationship of forces.

## 2.5 CRITIQUE IN FOUCAULT'S WORK AND ITS SIGNIFICANCE FOR CRITICAL THEORY

The contents of this section are divided into two parts: the first (Section 2.5.1) is devoted to clarifying the critical nature of Foucault's work; the second (Section 2.5.2) is concerned with the significance of Foucault's work for critical theory.

### 2.5.1 Critique in Foucault's Work

Foucault's histories, as we mentioned in Section 2.4, are not only histories of the past, but also critical analyses of power configurations persisting in the present. He is writing, as he says in *Discipline and Punish*, a 'history of the present' [71]

Yet Foucault criticizes the present without suggesting an alternative. Such an alternative, for Foucault, can be derived from neither the past nor the future, since we can't assert that they are better or worse than our own (see Section 2.4) as Foucault said in an interview:

'I am not looking for an alternative, you can't find the solution of a problem in the solution of another problem raised at another moment by other people. You see, what I want to do is not the history of solutions, and that's the reason why I don't accept the word alternative. I would like to do the genealogy of problems.'[72]

It is in this sense, and as it was shown in Section 2.4, that Foucault's work is a form of critical theory. In his writing especially those of the 1970s (Discipline and Punish, The History of Sexuality) he presents an effective critique of totalizing positions and traditional epistemological strategies.[73] More specifically, the two-fold purpose of Foucault's critique is: first, to free the analysis of power from the hold of the jurisprudential schema of the sovereign- subject relation; and secondly, to steer the analysis of discourses away from the usual epistemological concerns about their truth or scientificity in order to redirect it towards what Foucault terms 'the general politics of truth'.[74]

One of Foucault's persistent themes has been the critique of

what he terms the 'juridico-discursive' conception of power because, he claims, in one way or another, it permeates all analyses of power.[75] According to this conception, power essentially resides in the capacity to enunciate the law. This leads to an overemphasis on 'sovereignty' and the role of the state, and a corresponding blindness to procedures - of 'normalisation' -the production of useful and conforming individuals within the systems of power which form the fine mesh of social institutions.[76] In other words, Foucault's critique of 'the juridico-discursive' conception of power concerns two distinct issues: the particular conception of the sovereign-subject relation serving as the model of all power relation; second, the place of legal regulation in the field of power relations characteristic of modernity.

The transposition of the legal model to the field of power relations is not necessarily explicit; there is no presumption in Foucault's work that the usual analyses of power explicitly adhere to the juridico-discursive conception of power. But the argument is that this is precisely what they do when they pose such questions as 'who exactly holds power?' 'what is the source of power hidden beneath the multiplicity of local power relations? and 'who holds power and who is subject to it? For answers to these questions involve something very similar to the legal model.[77]

It should be noted that, although the power attributed to monarchical and state institutions has been the subject of critical analysis, criticisms have generally remained within the broad terms of reference of the juridico-discursive conception.

Critical analyses have tended to assume that law constitutes the form of power and that power needs must be exercised in the form of law. Thus the focus of criticism has been upon the point at which the exercise of power has exceeded the juridical framework, upon abuses and transgressions of the legal code.[78]

Foucault's observation is that: we have been imprisoned within a mode of conceptualising power, that is an embodiment of a historical form characteristic of a particular period in Western civilisation. With the emergence of new methods and techniques of power, and their penetration of earlier forms, as we will see in Chapter 3, the juridico-discursive conception has become an obstacle to understand power relations of our times.

The other side of Foucault's critique is concerned with the critique of traditional epistemological strategies. His aim is to interrupt the smooth passage of 'regimes of truth', to disrupt those forms of knowledge which have assumed a self-evident quality.[79] By illustrating the link between systems of truth and modalities of power, as we have seen in Section 2.3, Foucault asserts that knowledge cannot be neutral, pure. What we take to be true or false, indeed the very distinction itself, is located within a political field. (see Section 2.6)

### 2.5.2 The significance of Foucault's Critique for Critical Theory

If Foucault rarely uses the word 'critique' or describes

himself as a 'critical theorist', it is in part because his critique is of a new and specific sort which does not employ the familiar language of alienation, mystification, and repression. The nature of the more traditional theory concerned with the critique of ideology and repression has been formulated philosophically in different ways, primarily by the Frankfurt School and by Habermas.

Foucault's writing, especially *Discipline and Punish*, and *The History of Sexuality*, develops a good position for the reconstitution of critical theory.[80] In these texts, Foucault historicizes contemporary phenomena, undermining their naturalness, and specifies the mechanisms of domination inherent in them. This is a good achievement from the perspective of critical social theory.[81] This is because at the centre of the task of critical social theory is the effort to conceptualize and empirically demonstrate the historicity of contemporary modes of domination.[82]

Also, in these texts (prisons and sexuality), Foucault treats the question of language in a manner that bypasses the theoretical obstacles inherent in dualist assumptions about idealism and materialism, thought and action. In this way, he opens new paths for analysis and critique.[83] Whereas the traditional critical theory starts with the assumption that freedom is an ideal we must make practical. Foucault starts with the assumption that ideals and norms are always already 'practical' (see Section 2.6); the point of critique is to analyze the practices in which those norms actually figure, and which determine particular kinds of

experience. Norms, according to Foucault, are not in need of practice, they are already elements in a complex process which it is the task of critical thought to expose.[84]

Furthermore, in these texts (prisons and sexuality), Foucault develops a position that reorients critical theory to the particular social context of the twentieth century.[85] His aim, in these texts, is to explore a configuration of knowledge and power, or a set of configurations, that have become increasingly characteristic of twentieth-century European and American society. He argues that knowledge and power are deeply connected and that their configuration constitutes an imposing presence over advanced industrial society, extending to the most intimate recesses of everyday life. Accordingly, the form of domination characteristic of advanced capitalism is not, as traditional critical theory suggests, not exploitation, not alienation, not repression. It is instead a new pattern of social control that is embedded in practice at many points in the social field and that constitutes a set of structures whose agency is at once everyone and no one.[86] In this way, Foucault's work reorients critical theory to the realms of production of "autonomous", "free" subjects.

Generally, there is a progressively pronounced departure from ideology and repression as the focus of critique in Foucault's work, and a move toward a minute analysis of the practices that make particular forms of experience historically possible. This means that Foucault develops his own sort of critique.[87]

The conclusion of this section is that Foucault's work is a form of critical theory. His critique is directed to 'the juridico-discursive' conception of power which permeates all analyses of power, and the traditional epistemological concerns about their truth of scientificity. Foucault's critique is a new and specific sort which develops a good position for the reconstitution of critical theory. The reasons for this are: (1) it historicizes contemporary phenomena, undermining their naturalness, and specifies the mechanisms of domination inherent in them, (2) it treats the question of language in a manner that bypasses the traditional separation between thought and action. This opens new paths for analysis and critique, (3) it reorients critical theory to the new patterns of social control with its concern with the constitution of "autonomous", "free" subjects.

## 2.6 FOUCAULT'S CONCEPTION OF THE RELATIONSHIP BETWEEN THEORY AND PRACTICE

Whereas in the work of Foucault the implied relationship between discourses, practices and effects is one of non-correspondence.[88] The discourses of the social and human science have tended to contrast theory or discourse on the one hand with social practice or the real to the other and to assume that a particular rational ordering of social life may be engineered through a realization in one form or other of discourse (programmes or policies) in practice (action or conduct). In other words, these discourses assumed a correspondence between

discourse, practices and effects.

Foucault has argued that discourses, programmes, or rational schemas do not inform, guide practice. As he states:

'programmes don't take effect in the institutions in an integral manner; they are simplified, or some are chosen and not others; and things never work out as planned ... this difference is not one between the purity of the ideal and the disorderly, impurity of the real.[89]

For Foucault it is not that institutions and social practices are the reality, and rationalities and programmes merely versions of an ideal type, on the contrary, discourses, programmes, or rational schemas are themselves fragments of reality in complex relation with other social and institutional practices and that the effects or ends which emerge generally fail to correspond with those programmed. The social institutions and human behaviour, according to Foucault, are perpetually more complex than any programmatic formulation, with the result that there is always a lack of correspondence. This position has been succinctly expressed by Gordon in the following terms:

'Our world does not follow a programme, but we live in a world of programmes, that is to say in a world traversed by the effects of discourses whose object (in both senses of the word) is the rendering rationalisable, transparent and programmable of the real.'[90]

A lack of correspondence between discourses, practices and effects, according to Foucault, does not signify the absence of a relationship between programmes, practices and effects; rather it demonstrates the complexity of the social worlds and implies, first, that effects are other than explicitly programmed, and second, that the relationship of non-correspondence, or, to put it more positively, the actual, of unintended effects of programmes, should be examined. Perhaps the most obvious example of the complexity of this relationship in Foucault's work is to be found in the discussion of punishment and the prison.[91] In discussing changes in punishment Foucault has made reference to the distance between Bentham's disciplinary programme, embodied in the form of the Panopticon and its operation, and the reality of penal incarceration, which although modelled on a 'panoptic' schema and utilising associated disciplinary technologies of power, never functioned in accordance with Bentham's machine, and ultimately induced effects which were other than those programmed, namely the production of delinquency, rather than an elimination or reduction of crime.

In short, Foucault's intention is to transgress all, not just some, of the traditional dichotomies: theory/practice, attitudes/behaviour, language/action, knowledge/power. These dichotomies limit the play of thought and action by organizing their contents. For Foucault, theory is in practice, and practice is theoretical because, as he illustrated, knowledge is in power and power is knowledge. This conception of the relationship between theory and practice, in turn, opens new paths for analysis

and critique.

## 2.7 THE RELEVANCE OF FOUCAULT'S PHILOSOPHY TO THE CONCERN OF THIS STUDY

Foucault's work is outlined, more generally, in the first part of this chapter. The conclusion is that, Genealogical analysis enables Foucault to introduce to the very root of thought new concepts of the relationship between power and knowledge, history, critique, theory and practice. The relevance of these new concepts to this study's concern are discussed as follows.

Firstly, power and knowledge, according Foucault, have a connective, not a causal relationship. They imply one another; they are two sides of the same process, a side where power is exercised is also a place at which knowledge is produced. An important implication of this conception of power/knowledge is that knowledge cannot be neutral, pure. Knowledge is political because it has its conditions of possibility in power relations. Such a strand of thought is central to this study's concern. This is because the major concern of this study is the power relations in the process of setting accounting standards. The study starts from the premise that this process is political. It is political not because they may have political consequences or be politically useful, but because they have their conditions of possibility dependent upon power relations.

Secondly, Foucault replaces the history of continuities,

gradual development, struggles between classes, the evolution of states, and institutions, with the history of events. In the history of events, there are ruptures and reversals of relationship of forces. History, for Foucault, is not a question of progress, but rearrangements in the relations among the multiple forces that comprise a social formation. In a like manner we looked at the changes in the accounting standards and the process of setting them not as a technical progression towards better standards or better process of setting them. But we looked at these changes as different events. Each event (ED, SSAP,...etc.) is rendered visible through invisible power relations which are preceded and surrounded such event. This articulation will enable us to see each event (ED, SSAP,..etc) in terms of its most unique characteristics, their most acute manifestations. In other words, it will enable us to preserve the specificity of each event, without ignoring what has gone before. In this way, we will avoid the danger of seeing any new event (ED, SSAP,...etc) as better than the past event.

Thirdly, there is a progressively pronounced departure from ideology and repression as the focus of critique in Foucault's work, and a move towards a minute analysis of the practices that make particular forms of experience historically possible. In this way, Foucault develops his own sort of critique, and in turn, offers a good position for the reconstitution of critical theory. Foucault's critique is directed to the 'juridico-discursive' conception of power and the traditional epistemological concerns about their truth or scientificity. Foucault's critique is the

lens through which we can critically evaluate the adequacy of the literature of accounting and finance and other disciplines for satisfying the need of this study's concern. Also, through this lens, the exposure of the invisible (unregonized) operations of power in the process of setting accounting standards, will be possible.

Fourthly, and finally, Foucault transgresses all, not just some, of the traditional dichotomies, between theory and practice. These dichotomies, according to Foucault, limit the play of thought and action by organizing their contents. For Foucault theory does not inform, guide practice. Theory is in practice, and practice is theoretical because knowledge is in power and power is knowledge. Such an understanding of the relation between theory and practice will enable us to see accounting theories themselves as fragments of reality in complex relation with accounting practice. Accordingly, we can see the changes in the accounting standards and the process of setting them as neither a pure accounting theory nor a pure accounting practice. They are rather the outcomes of interactions between accounting theory and accounting practice in a continuous historical process.

The conclusion of this Section is that Foucault's philosophy, outlined in the previous Sections (Sections 2.1 to 2.6), has a great potential, at the more general level, as a methodological approach in the context of this study. This methodological approach is the new lens through which the critical review of the literature will be possible, and in turn, the evaluation of its

relevance in satisfying the need of this study. Also, through this lens this study will be able to expose the invisible power relations between UK companies and the ASC preceded and surrounded each change in the chosen standards and the process of setting them.

## 2.8 CONCLUSION

The contents of this Chapter have been primarily concerned with Foucault's work more generally and its relevance in the context of this study.

In the first part of the Chapter, an understanding of the underlying themes of Foucault's philosophy was presented. It was argued that Foucault's particular methodology -genealogy- enables him to introduce to the very root of thought new concepts of the relationships between power and knowledge, history, critique, and theory and practice.

In the second part of the Chapter, the relevance of these new concepts to this study's concern was addressed. It was argued that these new concepts have great potential as a methodological approach to understand the interactions and power relations between UK companies and the ASC.

In the spirit of the genealogical method, discussed in this chapter, Foucault's distinctive notion of power and its relevance

to the concern of this study will be clarified in the following Chapter. Building on the genealogical method, Foucault's aim, as we will see in the following Chapter, is not to provide a theory of power, or an account of its origins, source or foundations, but rather to describe, what he calls an analytics of relations of power, the concrete mechanisms and practices through which power is exercised.

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CHAPTER 3

FOUCAULT'S CONCEPTION OF POWER  
AND ITS RELEVANCE AND APPLICABILITY  
IN THE CONTEXT OF THIS STUDY

3.0 INTRODUCTION

In the previous Chapter Foucault's work and its relevance to this study's concern were discussed more generally. Building on this discussion, this Chapter has two purposes. Firstly, to clarify Foucault's notion of power as distinctive and novel, and how this new perspective allows Foucault to reassess our understanding of power in modern society. This is the concern of the first part of the Chapter (Sections 3.1 to 3.6). Secondly, to argue and demonstrate the relevance of this new conception of power to understanding the interactions and power relations between the UK companies and the ASC. This will be addressed in the second part of the Chapter (Section 3.7).

The concern of the first Section (Section 3.1) is to show that Foucault's aim is to produce not so much a 'theory' of power as an 'analytics' of power. This analytic of power depends on five general 'propositions' or methodological precautions. First, power is not possessed by subjects, it is rather exercised in the effect of one action on another action; this is the concern of Section 3.2. Second, and following on from this first point, power

is not restricted to political institutions, it is a network of relations: Section 3.3 is devoted to clarifying this proposition. Third, power relations are intentional and non-subjective: this is the concern of Section 3.4. Fourth, power is not merely a form of repression, or prohibition, but it has positive, productive effects: Section 3.5 is addressed to understanding this proposition. Fifth, power relations are accompanied by resistances: this is the concern of Section 3.6.

The relevance of this analytic of power to this study's concern is addressed in Section 3.7.

### 3.1 FOUCAULT'S AIM IS TO PRODUCE NOT SO MUCH A 'THEORY' OF POWER AS AN 'ANALYTICS' OF POWER.

In the spirit of the genealogical method, discussed in Chapter 2 (Section 2.2), Foucault's account of power is not intended as a theory. Rather, Foucault is proposing what he calls an analytics of power.[1] In other words, Foucault does not approach the question of power in terms of some fundamental principle from which its manifestations may be deduced, but in terms of the concrete mechanisms and practices through which power is exercised. The aim is not to provide a theory of power, or an account of its origins, source or foundations, but rather to describe the various techniques, programmes and strategies for the control of the conduct of people's lives.[2]

Foucault regards any approach to the question of power in

terms of some fundamental principles or utopian schemes as misguided strategy condemned in advance to set the analysis of power on a wrong course.[3] Foucault says:

'... if one tries to erect a theory of power one will always be obliged to view it as emerging at a given place and time and hence to deduce it, to reconstruct its genesis. But if power is in reality an open cluster of relations, then the only problem is to provide one self with a grid of analysis which makes possible an analytic of relations of power.'[4]

If power is not a thing, or the control of a set of institutions, as we will see in Sections 3.2 and 3.3, then the task for the analyst is to identify how it operates.[5] For Foucault, if we are to develop an understanding of power, our efforts have to be directed towards a study of the mechanisms of power and their preconditions, literally towards an analysis of the conditions on which their effectiveness depends.

Accordingly, Foucault criticized western political philosophy for its devotion to such abstractions, first principle, and utopian -i.e. theory. He argues that in the west we have consistently approached the problem of political order by building models of the just social order or searching for general principles by which to evaluate existing conditions. But, Foucault claims, it is exactly this emphasis, this 'will to knowledge', that left us almost totally in the dark about the concrete functioning of power in

western societies. Our task is to cast aside these utopian schemes, the search for first principles, and to ask instead how power actually operates in our society.[6]

In short, the aim, for Foucault is 'to move less toward a theory of power than toward an analytics of power: that is, toward a definition of a specific domain formed by power relations and toward a determination of the instruments that will make possible its analysis'[7]

It should be noted that Foucault's analysis of power is a non-essentialist analysis. This type of analysis, according to Wickham, does not understand its object in terms of an -all-important essence (like the economy, the state or the creative individual). [8] A non-essentialist analysis treats its objects in terms of its specificity, its particular conditions of possibility, without reference to an eternal, external essence. In this way, a non-essentialist analysis allows a far more thorough understanding of its object as it is not restricted to considerations in terms of an essence.[9]

The notion of condition of possibility, it must be stressed, should not be confused with the notion of real causes. Conditions of possibility is a term which refers to the means by which the connections between an object -as a specific site or specific set of relations- and other objects are theorized. It refers to the way they are theorized free from the requirement to grant one or more of these other objects a causal status, that is, free from the

requirement to grant one or more of them the status of determining essence.[10] To put it more simply, an object -as a specific site or specific set of relations- is connected to other objects in a way which effects its specific form and therefore these other objects must be considered in any analysis.

By adopting non-essentialist analysis of power, Foucault, as we will see in the following sections, shifts the 'why' question to a 'how' question.

### 3.2 POWER IS NOT POSSESSED BY SUBJECTS, IT IS RATHER EXERCISED IN THE EFFECT OF ONE ACTION ON ANOTHER ACTION

Foucault does not think of power as something possessed by those who exercise it. He wants to free us from this theoretical schema of appropriation of power, that is, from the idea that power is something that is possessed -something that some people possess and others do not possess.

Power, For Foucault, is exercised rather than possess. There is nothing more to power relations beyond their exercise. That is, the objectives served by relations of power are immanent in their exercise. As he says:

'power is neither given, nor exchanged, nor recovered, but rather exercised, and that it only exists in action.' [11]

Also, Foucault states:

'Power must be studied at the point where it is indirect and immediate relationship with that which we can provisionally call.... its target, its field of application, there -that is to say- where it installs itself and produces its real effects.'[12]

Power in that sense is not a mysterious substance with a nature, essence, and origin,. It, in the substantive sense, does not exist'[13]

For Foucault, power exists only when it is put into action. In effect what defines a relationship of power, according to him, is that 'it is a mode of action which does not act directly and immediately on others. Instead it acts upon their actions: an action upon an action, on existing actions or on those which may arise in the present or the future'[14]

This means that freedom, according to Foucault, is both the condition and the effect of power. It is a condition because power is only exercised on free beings and only in so far as they are free, and it is an effect since the exercise of power will invariably meet with resistance, which is the manifestation of freedom.[15] Foucault illustrates this point by suggesting that a slave in chains has no real options of alternative action or escape, such a degree of slavery could not be called a power relation. Its rather a physical relationship of constraint. On

the other hand 'a power relationship can only be articulated on the basis of two elements which are indispensable if it is really to be a power relationship: that the other (the one over whom power is exercised) be thoroughly recognized and maintained to the very end as a person who acts; and that faced with a relationship of power, a whole field of responses, reactions, results, and possible inventions may open up.' [16] Consequently there is no face to face confrontation of power and freedom which is mutually exclusive (freedom disappears everywhere power is exercised), but a much more complicated interplay.

If power does not exist, the question that should be asked, according to Foucault, is 'how is it exercised?' rather than either 'what is power?' or 'where does it come from?' or even 'why is it exercised?'. Answering the latter questions would, according to Foucault, fail to account for a considerable number of phenomena which fall in the domain of power relations. As he put it:

'.... an extremely complex configuration of realities is allowed to escape when one treads endlessly in the double question: what is power and where does power come from?' [17]

Thus, Foucault's own analyses of power in *Discipline and Punishment*, and *The History of sexuality*, are primarily guided by the question 'how is power exercised in specific domains under particular historical conditions?', and the answers to the questions 'what is power?' and 'why is power exercised?', when given, are

always in terms of the specific forms of exercise of power. He does not take the question of 'how' to mean 'how does power manifest itself?' but 'by what means is power exercised?' and 'what happens when power is exercised?'. [18]

To approach the theme of power, as Foucault argues, by analysis of 'how' is to give oneself as the object of analysis power relations and not power itself. Foucault's conception of power is conceived to be relational, something that is exercised from a variety of points in the social body, rather than something that is 'acquired, seized, or shared'. Power, for him, is an effect of the operation of social relationships, between groups and between individuals. Every group and every individual exercises power and is subjected to it. This means that power relations do not exist outside other types of relation, as the traditional model of power suggest, (those found in economic processes, in the diffusion of knowledge, in sexual relation); but are immanent in them, internal to, intrinsic to, these other relations. [19]

Power, Foucault proclaims, is ubiquitous, not because it is able to assemble everything under its invincible unity, but because it is produced at every moment, at every point, or rather in every relation of one point with another. [20] And as far as we go in the social network, we always find power as something which 'runs through', it, that acts, that brings about effects. [21]

If power is exercised at innumerable points, then it has to be challenged point by point. In other words, if power works from the

bottom up, then it must be studied from local points as 'micro-powers'. [22] This implies that power is not simply what the dominant class has and the oppressed lack, but it is a strategy, and the dominated are as much a part of the network of power relation as the dominating. Power, for Foucault, is not a property but a strategy. As he puts it:

'Power is not conceived of as a property, but as a strategy .... Its effects of domination are attributed not to 'appropriation' but to dispositions, manoeuvres, tactics, techniques functionings .... One should decipher in it a network of relations, constantly in tension... rather than a privilege that one might possess....' [23]

It should be noted that implicit in the conception of power as a network of relations is the presumption that there are no general reasons for submission to power relations, that individuals submit to them for a large variety of reasons which cannot be encapsulated within the binary opposition between internal and external enforcement. Just as power relations are open-textured so too are the reasons for submission to them. [24]

The conclusion from this section is that power, according to Foucault, is not possessed by subjects, it is rather exercised in the effect of one action on another action. In other words, power is not a property that is possessed by the dominant class and is lacked by the dominated. Power is a complex strategy spread

throughout the social system in a capillary fashion, and the dominated are as much a part of the network of power relation and the particular social matrix as the dominant.

### 3.3 POWER IS NOT RESTRICTED TO POLITICAL INSTITUTIONS, IT IS A NETWORK OF RELATIONS

Power, according to Foucault, is not institutional, not a structure, nor a certain force with which people are endowed: it is the name given to a complex strategic relation in a given society.[25] In other words, by power, Foucault does not mean a unified state apparatus whose task it is to ensure the subjection of the citizens of a particular society. Nor does he mean a general system of domination exerted by one group over another, the effect of which spreads to the whole society. Power should be understood as 'the multiplicity of power relations' at work in a particular area.[26]

Foucault's aim is to free us from the notion of the localisation of power, that is, the idea that political power is always localised in a definite number of elements and essentially in the state apparatus. As he writes:

'An analysis in terms of power should not postulate as initial data the sovereignty of the state, the form of law or a global unity of domination, they are only the terminal forms of power' [27]

Foucault suggests rather that:

'power is everywhere: not because it embraces everything, but because it comes from everywhere.... power is always already there.....one is never 'outside it'.[28]

Since relations of power were conceived to be rooted in the system of social networks their study, according to Foucault, could not be reduced to a series of institutional analyses. Thus, Foucault advocates that one should conduct an ascending rather than descending analysis of power. The ascending analysis of power 'starts from its infinitesimal mechanisms, with their own history, their own trajectory, their own techniques and tactics, and then see how these mechanisms of power have been and continue to be invested, colonised, utilised, involuted, trasformed, displaced, extended, etc., by ever more general mechanisms...'[29] In other words, in contrast to the 'descending form of analysis of 'power' (that is, the specification of a global principle supposedly embodied in the form of the state and, then, the deduction of different strata of power relations from that global principle). Foucault wants the analysis of power to take an 'ascending form': the analysis of local relations first, and then the analysis of their interrelations in terms of 'global strategies' of power.[30]

One important consequence of conceptualizing power as an 'ascending' rather than 'descending' phenomenon, as we will see below, is that the conception of power in terms of the state or

class apparatus is called into question.

Within contemporary political theory and analysis the issue of the state has assumed an enormous significance. In the case of Marxism the state, albeit conceptualised as servicing or guaranteeing the development of productive forces and the reproduction of relations of production, has been depicted as the privileged site of the exercise of power which needs must be captured or infiltrated if a programme of radical social transformation is to have any chance of success.[31]

This overemphasis on the state, according to Foucault, has had undesirable analytical and political consequences.[32] Analytically it has precipitated a neglect of individualising forms of power, the emergence of new technologies of power having been obscured by the focus upon the state.[33] In other words, conceptualizing power in terms of the state apparatus leaves unexplored the 'hidden nature' of the disciplines: that its power is not 'univocal, that there exist innumerable points of confrontation...each with its own risks of conflict, of struggle, and of at least temporary inversion of power relation'.[34] Politically it has led revolutionary movements to constitute themselves in the image of the state, to seek to accumulate comparable politico-military forces, and to adopt hierarchical and bureaucratic forms of organisation, the corollary of which has been that a state apparatus has been deemed integral to the successful negotiation of a post - revolutionary 'transitional' period. Thereby revolutions have been undermined, one state from being

replaced by another with the same objectives and the same effects. In contrast, Foucault argues, it is even inadequate to say that the state apparatus are the stake in an internal or external struggle. The state apparatus is a concentrated form -an auxiliary structure- the instrument of a system of power, which goes far beyond it, so that, looked at in practical terms, neither the control nor the destruction of the state apparatus can suffice to bring about the disappearance or the change of a definite type of power.[35] As Foucault put it:

'Power isn't localised in the state apparatus and that nothing in society will be changed if the mechanisms of power that function outside, below and alongside the state apparatus, on a much more minute and everyday level, are not also changed.'[36]

Accordingly, scattered throughout Foucault's deliberation on the question of the exercise of power are a series of cautionary remarks concerning the problems which arise from the conceptualization of power in terms of the state apparatus. As he said in an interview:

'One impoverishes the question of power if one poses it solely in terms of legislation and constitution, in terms solely of the state and the state apparatus. Power is quite different from and more complicated, dense and pervasive than a set of laws or a state apparatus.[37]

Also, as he pointed out in another interview:

'To pose the problem in terms of the state means to continue posing it in terms of sovereign, that is to say, in terms of law. If one describes all these phenomena of power as the state apparatus, this means grasping them as essentially repressive: the army as a power of death, police and justice as punitive instances, etc....'[38]

This does not mean that, Foucault argues, the state isn't important; what he wants to say is that 'relations of power, and hence, the analysis that must be made of them, necessarily extend beyond the limits of the state. In two senses: first of all because the state, for all the omnipotence of its apparatus, is far from being able to occupy the whole field of actual power relations, and further because the state can only operate on the basis of other, already existing power relations. The state is superstructural in relation to a whole series of power networks that invest the body: sexuality, the family, kinship, knowledge, technology, and so forth.'[39]

For Foucault the power of governments over the societies always relies on a deep power within society, such that 'power always comes from below'. In other words, the power of state to produce an increasingly, totalizing web of control is intertwined with and dependent on its ability to produce an increasing specification of individuality. In his own words:

'since the sixteenth century, a new political form of power has been continuously developing. This new political structure, as everyone knows, is the state. But most of the time, the state is envisioned as a kind of political power which ignores individuals, looking only at the interest of the totality, or, I should say, of a class or a group among the citizens. That's quite true. But I'd like to underline the fact that the state's power (and that's one of the reasons of its strength) is both an individualizing and a totalizing form of power. Never, I think, in the history of human societies -even in the Old Chinese society- has been such a tricky combination in the same political structures of individualization techniques, and of totalization procedures'[40]

The distinctiveness of the modern state in Foucault's view lies in its utilisation of individualising techniques of power, as a result, Foucault has speculated that the state may only be comprehended through an analysis of the tactics and techniques of government by which its effects are produced.[42] In other words, rather than assuming state domination of society and then proceeding to an analysis of the respective state apparatus, modes of operation, and forms of representation of ruling-class interests, the immediate object of analysis, according to Foucault, is the emergence and development of individualising techniques of power with which the state has become linked.

This concern with the individualising techniques of power, also helps to explain Foucault's neglect of class domination, and his presentation of power as a machine in which everyone is caught, those who exercise power just as much as those over whom it is exercised [42]

Certainly, according to Foucault, there is within the social field a 'class' which, looked at strategically, takes up a privileged place and can assert itself, score up victories and can achieve an effect of superior power for its own benefit. As he put it:

'.... Certainly everyone doesn't occupy the same position; certain positions preponderate and permit an effect of supremacy to be produced .....

[43]

This means that Foucault does not deny the realities of class domination. Rather his point is that power is exercised upon the dominant as well as on the dominated; there is a process of self-formation or autocolonization involved. For example, in order for the bourgeoisie to establish its position of class domination during the nineteenth century, it had to form itself as a class. There was first a dynamic exercising of strict controls primarily on its own members. The technologies of confession and the associated concern with life, sex, and health were initially applied by the bourgeoisie to itself. It was only at the end of the century that these technologies were applied to the working class. [44] As Foucault says:

,... the strategy of moralisation (health campaigns,

workers' housing, clinics, etc.) of the working class was that of the bourgeoisie. One could even say that it is this strategy which defined them as a class and enabled them to exercise their domination.'[45]

This means that unless the political technologies had already successfully taken hold at the local level, there would have been no class domination. It is in this sense that Foucault views power as operating throughout society.

Accordingly, Foucault abandons class as the primary explanatory concept. Class, an organizing concept, remains, but it does not dominate his social theory of power. He criticizes Marxist analyses in conceptualizing power in terms of class domination. He says:

'What strikes me in Marxist analyses is that they always contain the question of class struggle, but that they pay little attention to one word in this phrase, namely, 'struggle'.... they focus mainly on defining class, its boundaries, its membership: but never concertely on the nature of the struggle'[46]

By way of a summary we may note that: Foucault has introduced a conception of power as a deep strategic configuration in which institutions, classes or groups are never controlling agents, the change of which is 'not acquired once and for all by a new control of the apparatus nor by a new functioning or a destruction of the institutions. This position adopted by Foucault derives from his

rejection that 'there is no first and fundamental principle of power which dominates society down to the least detail? We experience power only in diverse and multiple ways at the 'micro-level' when we find ourselves subjected to particular exercises of power'[47] For Foucault, then, neither comprehending the world nor changing it depends on grasping the totality, since the concept of totality is not applicable to his understanding of power as an open-ended network or grid. Rather his 'micro-physics' of power depends on comprehending power by first studying the everyday practices where individuals continually experience micro-powers, the particular confrontations with resistances to impositions of power. Charting these micro powers will then reveal the more general terrain of the larger social battles taking place. Change does not occur, however, by transforming the whole at once but only by resisting injustice at the particular points where they manifest themselves. To continue the military metaphor, which Foucault uses frequently, the battle can be won only by the continued efforts of the individual combatants.

The conclusion from this section is that power cannot be localised in a definite number of elements and essentially in the state apparatuses. There is no focal point, for Foucault, but rather an endless network of power relations. This conception of power reduces the significance of questions such as 'who has power?' or what intention or aims do power holders have?'. Foucault recommended that our interest should be directed to other questions, namely of 'how things work at the level of ongoing subjugation, at the level of those continuous and uninterrupted

processes which subject our bodies, govern our gestures, dictate our behaviours etc'. [48] Rather than focus on the issue of the motivation or interest of particular groups, classes or individuals in the exercise of power, or on the constitution of an all-powerful state or sovereign, attention should be directed to the processes by which subjects are constituted as effects of power.

#### 3.4 POWER RELATIONS ARE INTENTIONAL AND NON-SUBJECTIVE

Foucault thinks of power as intentionality without a subject, such that power relations are intentional and can be described without being attributed to particular subjects as their conscious intentions. [49] In other words, the intelligibility of power does not derive from the decision of an individual subject but from the fact that relations of power are pervaded by calculation, and by aims and objectives. [50] As he put it:

'They (power relations) are imbued, through and through, with calculation: there is no power that is exercised without a series of aims and objectives' [51]

At the local level, Foucault claims, there is often a high degree of conscious decision making, planning, plotting and coordination of political activity. [53] To put it another way, every disciplinary act is planned and calculated; power is intentional at the tactical level where guard confronts prisoner; doctor, patient; lectures, audience. But the set of power

relations, the strategic connections, the deep function of power has no subject and is the product of no one's plan.[53]

What Foucault seems to be affirming here is that, aside from the particular conscious purpose which agents pursue in their given context, there is discernible a strategic logic of the context itself, but this cannot be attributed to anyone as their plan, as their conscious purpose.[54] In other words, besides the strategies of individuals, which are their projects, there is a strategy of the context. The whole constitution and maintenance of the modern system of control and domination is an example. Foucault speaks of its growth and self-maintenance in strategic terms.[55] Foucault's thesis is that power can only be understood within a context; and this is the obverse of the point that contexts can only in turn be understood in relation to the kind of power which constitutes them.[56]

It should be noted that Foucault does not have to see political actors as essentially hypocrites or pawns of power. Actors more or less know what they are doing when they do it and can often be quite clear in articulating it. But it does not follow that they know the broader consequences of these local actions. As Foucault phrased it succinctly:

'people know what they do; they frequently know why they do what they do; but what they don't know is what what they do does'[57]

The fact that, Foucault argues, individuals make decisions about specific policies or particular groups jockey for their own advantage does not mean that the overall activation and directionality of power relations in a society implies a subject.[58]

In the light of the above discussion, Foucault advocates that an analysis of power should

'.... not look for the headquarters that presides over its rationality; neither the caste which governs, nor the groups which control the state apparatus, nor those who make the most important economic decisions direct the entire network of power that functions in a society (and makes it function); the rationality of power is characterized by tactics that are often quite explicit at the restricted level where they are inscribed.... tactics which becoming connected to one another, but finding their base of support and their condition elsewhere, end by forming comprehensive systems; the logic is perfectly clear, the aims decipherable, and yet it is often the case that no one is there to have invented them.'[59]

In conclusion, the intelligibility of power relations, according to Foucault, is not to be found in terms of causality, of events at one level causing or explaining events at another, but rather in a series of aims and objects. However, these are not

attributable to an individual subject, not even to a ruling caste, but arise in an apparently anonymous way from the local situations in which they first appear.

3.5 POWER IS NOT MERELY A FORM OF REPRESSION OR PROHIBITION, BUT IT HAS POSITIVE, PRODUCTIVE EFFECTS

Foucault's aim is to play down the repressive and negative aspects of power and to present the operation of power as primarily positive and productive. As he put it:

'We must cease once and for all to describe the effects of power in negative terms: it 'excludes', it 'represses', it 'consors', it 'abstracts', it 'masks, it conceals. In fact power produces; it produces realities; it produces domains of objects and rituals of truth'[60]

This means that power, for Foucault, constitutes the individuals on whom, and through whom it subsequently operates. In other words, power appears as a constitutive subject, not exercised on something whose existence is independent of it, but creating the very objects on which it is imposed.

In defining the effects of power as repression, Foucault argues, one adopts a purely juridical conception of such power: one identifies power with a law which says 'no' power is taken above all as carrying the force of a prohibition. This is quite

inadequate for capturing what is precisely the productive aspect of power. As he says:

'... If power were never anything but repressive, if it never did anything but to say no, do you really think one would be brought to obey it? What makes power hold good, what makes it accepted, is simply the fact that it doesn't only weigh on us as a force that says no, but that it traverses and produces things, it induces pleasure, forms knowledge, produces discourses.' [61]

Foucault suggests a historical reason for the conception of power as merely a form of repression or prohibition. The more or less centralizing monarchies that grew up during the Middle Ages brought a measure of order and peace to the mass of warring forces that preceded them, by a system of delimited territory and hierarchized authority. That authority was embodied in the sovereign and his law: the law bound the subjects to keep the peace and the sovereign passed judgement and punished accordingly. The law was not merely a weapon manipulated by monarchs: it was the very mode in which the monarchical system was manifested and gained acceptance. [62] In his own words, '... it [monarchy] made itself acceptable by allocating itself a juridical and negative function, albeit one whose limits it naturally began at once to overstep'. [63] From the Middle Ages the exercise of power has always been formulated in terms of law. [64]

Despite differences of objective from one period to another, Foucault argues, the representation of power has remained haunted by monarchy. In political thought and analysis we have still not cut off the head of the king. Hence the importance still not accorded in the theory of power to the problems of right and violence, law and illegality, will and liberty and, above all, the state and sovereignty (even if sovereign, is no longer embodied in the person of sovereign, but in a collective being). To conceive of power in these terms is to do so from within a historical form -juridical monarchy- that is peculiar to our own societies. Peculiar and, after all, transitory. For, although many of its forms have survived and will continue to do so, it has been gradually penetrated by quite new mechanisms of power that are probably irreducible to the representation of law.[65]

These new mechanisms of power, as Foucault demonstrated at length in *Surveiller et punir*, have played an increasing part, since the late seventeenth, on the management of people's lives through direct action on their bodies: they operate not through a code of law, but through a technology of normalization. As the action of these mechanisms has increased, there has been a corresponding decline in the capacity of the juridical to serve power as a channel or a system of representation.[66] Foucault describes this new form of power as follows:

'In the seventeenth and eighteenth centuries, a form of power comes into being that begins to exercise itself through social production and social service.

It becomes a matter of obtaining productive service from individuals in their concrete lives. And, in consequence, a real and effective 'incorporation' of power was necessary, in the sense that power had to be able to gain access to the bodies of individuals, to their acts, attitudes, and modes of everyday behavior.' [67]

Foucault calls this new regime of power, 'bio-power'. He explains that bio-power 'brought life and its mechanisms into the realm of explicit calculations and made knowledge - power an agent of the transformation of human life'. [68] This new form of power over life has operated in two principal ways: one concerned with the subjugation of bodies' and the other with 'the control of population'. [69] In the first, the body approached not directly in its biological dimension, but as an object to be manipulated and controlled. As a new set of operation, of procedures, those joinings of knowledge and power that Foucault calls 'technologies'- come together around the objectification of the body. They form the 'disciplinary technology'. The aim of disciplinary technology, according to Foucault, whatever its institutional form -and it arose in a large number of different settings such as workshops, schools, prisons, and hospitals- is to forge a docile body that may be subjected, used, transformed and improved. [70] The second, was centered on the body as species, as a living organism subject to such biologic-environmental factors as birth and death-rates, health, life expectancies. These factors were operated by a series of regulatory controls: a bio-politics of the population. [71] In

short, the disciplines of the body and the regulations of the population constituted the two poles around which the organisation of power over life was deployed.

The new tactics of power defined by disciplinary power are qualitatively different from the system of power associated with the sovereign and sovereignty. They are being subject to the following criteria. First, the exercise of power is to be obtained at the lowest possible cost: in economic terms this means low expenditure, and in political terms it means that power is to be exercised discretely in order to reduce the likelihood that resistance would be aroused. Second, the impact, intensity, and extent of the effect of power is to be maximised without interruption. Third, the 'economic' growth of power is to be linked with 'the output of the apparatuses (educational, military, industrial or medical) within which it is exercised'. [72]

It was in the course of the eighteenth century that discipline -the methods of observation, recording, calculation, regulation, and training to which the body had long been subjected in monasteries, armies, and workshops- became a general formula of domination. [73] Foucault selects Bentham's plan for the panopticon as an appropriate representation of this formula of domination. Bentham's 'Panopticon' has been described by Foucault as the architectural configuration of the new mechanism of power. In its 'ideal form' the architectural construction of a field of visibility, in which the observer remains unseen, creates a relationship of power in which those who are subject to observation and conscious of their

visibility conspire to produce their own subjection. In addition, such a construction lends itself to experimentation of individuals, to the assessment of different modes of training or treatment, and to the observation of effects. A panoptic mechanism may be deployed in a variety of contexts where a multiplicity of individuals are located (e.g. hospitals, schools, prisons, factories, and workshop), its effect being to make possible an improvement in the quantity, quality, intensity, and efficacy of the exercise of power.[74]

By adopting Bentham's 'Panopticon' as a formula domination, Foucault maintains that disciplinary power is exercised through its invisibility; at the same time it imposes on those whom it subjects a principle of compulsory visibility. In discipline, it is the subjects who have to be seen. Their visibility assures the hold of the power that is exercised over them. It is the fact of being constantly seen, of being able always to be seen, that maintains the disciplined individual in his subjection.[75]

It should be noted that the diffusion of the disciplinary modality of power, according to Foucault, does not mean that it has replaced all the other forms of power; but it does mean that it has infiltrated the other forms of power.[76] In other words, the spread of normative rationality does not mean that the law fades into the background or that the institutions of justice tend to disappear, but rather that the law operates more and more as a norm, and that the juridical institution is increasingly incorporated into a continuum of apparatuses (medical,

administrative, and so on) whose functions are for the most part regulatory.[77] The entry of medicine, psychiatry, and some social sciences into legal deliberations in the nineteenth century led in the direction of what Foucault calls a systematic 'normalization' of law -that is, toward an increasing appeal to statistical measures and judgements about what is normal and what is not in a given population, rather than adherence to absolute measures of right and wrong.[78]

This new kind of disciplinary power was without question, according to Foucault, an indispensable element in the development of capitalism.[79] But the relationship between the economic changes that resulted in the accumulation of capital and the political changes, that resulted in the accumulation of power remains to be specified. Foucault argues that the two are mutually dependent: 'each makes the other possible and necessary; each provides a model for the other'.[80] For instance, 'the massive projection of military models onto industrial organization was an example of (the) modeling of the division of labour following the model laid down by the schemata of power'.[81] Disciplinary technologies, in other words, preceded modern capitalism. In Foucault's argument, they are among its preconditions. Without the availability of techniques for subjecting individuals to discipline, including the spatial arrangements necessary and appropriate to the task, the new demands of capitalism would have been stymied. In a parallel manner, without the fixation, control, and rational distribution of populations built on a statistical knowledge of them, capitalism would have been impossible. The

growth and spread of disciplinary mechanisms of knowledge and power preceded the growth of capitalism in both the logical and temporal sense. Although these technologies did not cause the rise of capitalism, they were the prerequisites for its success.

In the light of the previous discussion, Foucault's thesis is that, while we have not ceased talking and thinking in terms of the old model of power (sovereign power), we actually live in relations of power which are quite different, and which cannot be properly described in its terms. What is wielded through the modern technologies of control is something quite different, in that it is not concerned with sovereignty and law but normalization. That is, it is above all concerned with bringing about a certain result, defined as health or good function. Accordingly, Foucault suggests that we must stop considering power as simply negative. Power can also be, and perhaps is predominantly, positive and productive.

This suggestion is illustrated and deepened, in Foucault's latest book (History of Sexuality), in the course of what turns out to be an overthrow of one of the commonplaces of cultural debate -the assumption of an historical repression of sexuality which reached its apogee during the nineteenth century.[83] Rather than treat the history of sexuality as a documentation of acts of repression, Foucault directs his attention to the operations of power. At this point he introduces the notion of discourse. He provides the following definition of discourses as:

'.....tactical elements or blocks operating in the field of force relations.'[84]

Foucault's argument is that in every day life no action is innocent, no project is carried out from the pure intention of the actor. Individual reason is not the power that determines what happens. All practice is subject to the pressure of discourse. He is not referring merely to printed discourse but to spoken discourse as well.[84] Discourses for him are loci of power. They must be read from the vantage point not of the author or the intended audience but from the perspective of how they constitute a power relation. In *The History of Sexuality*, Foucault argues, the discourses that are valuable are not those of the most penetrating thinkers, those that contain the best concept of sexuality. The level he is offering is much closer to the pulse of social life. His discourses are those of ordinary doctors; they are the files of clinics that treat sexual 'disorders; they are the letters of local priests; they are grant proposals for the study of sexuality; they are the psychotherapist's file; they are the files of social welfare agencies. At these locations, in these discourses, the play of power and the question of sexuality reveal themselves.[85]

Given his theory of discourse Foucault maintains that sex was not repressed in the nineteenth century as Freudo-Marxists would have us believe, but through the spread of discourses on sex, including psychoanalysis, forms of sexual practice are created.[86] Discourses on sex, Foucault maintains, flourished in the nineteenth century as never before. As he put it:

'... the past two centuries have witnessed an increasing proliferation of discourses on sex -the writings of medical men in the eighteenth and

nineteenth centuries, the formation of psychoanalysis in the late nineteenth centuries, the multiplication of sex therapies and research in the late twentieth century- all sharing the premise that some deep truth about individuals was bound up with their sexuality.[87]

Foucault's thesis is that what characterised the event we perceive as an intensification of repression was more a transformation of the regime of discourse concerning sexuality. The flourishing of medical, paramedical and psychiatric discourses, which described sexual behaviour and its 'aberrations' with meticulous devotion to detail, was more a question of a change in the economy of sexual behaviour than of its restriction.[88] These developments can only be comprehended, Foucault suggests, if we cease to think of power and pleasure as standing in a relation of exteriority. The very rigour with which the space of the family comes to be ordered, controlled and invested by the discourses of education, medicine, religion, constitutes a set of techniques whose effect is not to repress, but to prolong, intensify and refine the possibilities of pleasure. As he put it:

'pleasure and power do not cancel each other; they do not turn against each other; they pursue, overlap, and release each other'[89]

In the light of the above discussion, rather than seeing the last several centuries as a history of increasing repression of

sexuality, Foucault suggest an increasing channeling, 'a regulated and polymorphous incitement of discourse.' [90] This does not mean that Foucault deny the fact of repression, rather he rejects the view of power as merely repressive. Repression, according to him, is one effect among others of a complex set of mechanisms concerned with the production of discourse, power and knowledge. In other words, Foucault wants us to examine how power flows through the channels formed by discourse to reach, penetrate, and control individuals right down to their most private pleasures, using the negative methods of refusal and prohibition, but also, is a positive way, excitation and intensification - what he calls 'the polymorphous techniques of power'.

The conclusion from this section is that, power, according to Foucault, is not merely negative, repressive, and prohibiting, but positive and productive. Since power is actually positive, the view that it is negative functions as an ideology masking its actual nature. Thus, we must free ourselves from this image of power as merely repressive, says Foucault, if we are to understand how power actually operates in our technologically advanced societies. We must look at the positive effects of power, at what it produces; analyse power and its techniques in terms of their own specificity.

### 3.6 POWER RELATIONS ARE ACCOMPANIED BY RESISTANCES

Although resistances do not constitute a major topic of theme of Foucault's analyses, they are not absent or insignificant. It is quite clear, according to Foucault, that such practices are an inherent feature of relations of power. Foucault defined power in such a way that resistance constitutes a condition of its very existence. Power, as we mentioned in section 3.2, is exercised in the effect of one action on another action, on existing action or on those which may arise in the present or the future. This means that the very existence of power relations presupposes forms of resistance, not as an external effect or consequence of the exercise of power, but as an inherent feature of the power relation.

According to Foucault, the body not only represents the object or target of power, it also constitutes the location or site of resistance and opposition. The investment of power in and over the body may well produce an awareness of and control over bodily forces, but it also creates the possibility of a reaction against power, of health against the economic system, of pleasure against the moral norms of sexuality, marriage decency.[91] Thus resistances are always already implicated in power relations. They derive their means of struggle, their very social location from prevailing form of power.[92] A power that produces reality also produces its own resistances. At the same time every advance of power produces 'resistances' as an inevitable counter-effect. Resistance is 'co-extensive and contemporary with power'[93].

If we accept the view that where there is power there is resistance, then it follows that just as power is present everywhere in the social network so is resistance. This means that the network of power relations is paralleled by a multiplicity of forms of resistance.[94] However, this does not mean, as some critics have implied, that resistance is 'doomed to perpetual defeat, on the contrary, as Foucault argues, it constitutes an 'irreducible opposite' of power relations.[95]

According to this understanding of the nature of resistance, Foucault suggests that instead of taking relations of power as the starting point for analysis, attention should be devoted to a study of resistance. As he writes:

'I would like to suggest another way to go further towards a new economy of power relations, a way which is more empirical, more directly related to our present situation, and which implies more relations between theory and practice. It consists of taking the forms of resistance against different forms of power as a starting point. To use another metaphor, it consists of using this resistance as a chemical catalyst so as to bring to light power relation, locate their position, find out their point of application and the methods used. Rather than analyzing power from the point of view of its internal rationality, it consists of analyzing power relations through the antagonism of strategies.[96]

It should be noted that Foucault's argument about resistances means that human existence has not been completely encompassed by techniques of power through which it is governed and controlled. In other words, human existence has not succumbed to the 'iron - cage' anticipated by Weber but has escaped total subjection and subordination through forms of resistance to the exercise of power[97]. This serves to further undermine interpretations which conflate the conception of the disciplinary society with that of a disciplined society. Also, implicit in the interpretation of the disciplinary society as equivalent to a disciplined society is a conception of a close correspondence between rationalities and the functioning of institutions, the implication being that a disciplinary rationality may materialise or be realised in the form of a disciplined society. Such a conception is the very antithesis of the position outlined by Foucault, which is that programmes never work out as planned - in other words, that the normal relationship between programmes and practices is one of non-correspondence as we clarified in Chapter 2 [Section 2.6].

### 3.7 THE RELEVANCE OF FOUCAULT'S 'ANALYTIC OF POWER' TO THE CONCERN OF THIS STUDY.

In the previous Sections (3.1 to 3.6) the nature of Foucault's analytic of power was clarified. In this Section, the relevance of this analytics of power to this study's concern will be justified.

The traditional understanding of power turned on the fact that some give commands and other obey. This understanding assumed

that power is possessed, negative, intentional. Thus these theories of power always ask the question 'who has power' 'why do some people try to exert power?'. This traditional model of power is not an appropriate framework for exploring the interactions and power relations between UK companies and the ASC. This is simply because there is no such legal power between regulated companies in the UK and the ASC. The ASC is a wholly private body. No legal powers have been delegated to it by government. In this context, there is a possibility that both sides (the ASC and Companies) exercise power.

In the absence of specific legislation in the UK accounting standards, its operations can be characterised by the exercise of disciplinary apparatuses/techniques. In that sense Foucault's analytics of power (with its focus on exposing these disciplinary techniques of power) has great potential as a methodological approach for understanding the power relations between companies and the ASC. Through this methodological approach this study will be able to reveal the invisible micro-powers exercised in the process of setting accounting standards. Such a methodological approach can be justified further in the following points.

Firstly, this approach addresses power in terms of exercising rather than possession. In that sense, it can be suggested that power is not totally entrusted to the ASC who would exercise it alone, over the companies, or by the companies over the ASC. It is rather exercised by all involved in the process of setting accounting standards. Also, if power is exercised rather than

possessed, the appropriate question should be asked, according to a Foucauldian approach, is 'how' rather than 'who' or 'why'. In this way, the question should be asked in the context of this study is 'how power is exercised in the process of setting accounting standards?'. In that sense, this Foucauldian approach provided a different focus to more traditional scientific concerns.

Secondly, this approach is concerned with the relation of power rather than power itself. This will enable us to look at the relation of power between the companies and the ASC rather to look at the power of the ASC or the power of companies. Also, and maybe more importantly, this approach will enable us to locate this relation in the wider network of power relations with all the other interested parties in the standard-setting process.

Thirdly, this approach recognized the intentional as well as the unintentional effects of exercising power. In this way, by adopting this approach, this study can consider the unintentional effects on the outcome of exercising power in the process of setting accounting standards. These unintentional effects were ignored completely, in the previous studies as we will see in Chapter 4.

Fourthly, and finally, such approach is concerned with the positive aspect of power. This positive aspect of power is reflected in the concern of the modern technologies of power with bringing about a certain result, defined as health or good function. This will enable us to reveal, for the first time, the positive

aspects of power exercised in the standards-setting process.

The conclusion from this section is that Foucault's analytic of power has great potential as a methodological approach to the concern of this study. By adopting a such methodological approach, this study, and in contrast to all the previous studies (which will be discussed in Chapter 4), asks a very different question (i.e. How power is exercised between UK companies and the ASC?). It will trace the micro-powers exercised between UK companies and the ASC in the context of the wider network of power relations with other interested parties. In this way, it will reveal the disciplinary, relational, unintentional, positive aspects of power exercised between UK companies and the ASC. In this way, by adopting Foucauldian analytics of power, this study will enrich our understanding of the interactions between UK companies and the ASC.

### 3.8 CONCLUSION

The purpose of this Chapter was two-fold: firstly, to clarify the nature of Foucault's analytics of power (This is the concern of the first part of the Chapter -Sections 3.1 to 3.6); Secondly, to demonstrate the relevance of this analytics of power to understand the interactions and power relations between UK companies and the ASC (This the concern of the second part of the Chapter -Section 3.7).

It is emphasised at the beginning of the first part of the

Chapter (Section 3.1) that Foucault's aim is not to provide a theory of power, or an account of its origins, source or foundations, but rather to describe, what he calls an analytics of power -the concrete mechanisms and practices through which power is exercised. The conclusion from this analysis of power can be summarised as follows.

Firstly, power is not possessed by subjects, it is rather exercised in the effect of one action on another action. Power is a complex strategy spread throughout the social system in a capillary fashion, and the dominated are as much a part of the network of power relations and the particular social matrix as the dominant.

Secondly, following on from this, power cannot be located either in a definite number of elements and or, in the final analysis, essentially in the state apparatus. There is no focal point, for Foucault, but an endless network of power relations. Accordingly, rather than focus on the issue of the motivation or interest of particular groups, classes or individuals in the exercise of power, or the constitution of an all- powerful state or sovereign, attention should be directed to the processes by which subjects are constituted as effects of power.

Thirdly, power relations are intentional and can be described without being attributed to particular subjects as their conscious intentions. What Foucault wants to affirm here is that, power is intentional at the tactical level, but the set of power relations,

the strategic connections, the deep functionalism of power has no subject and is the product of no one's plan. In other words, aside from the particular conscious purpose which agents pursue in their given context, there is discernible a strategic logic of the context itself, but this cannot be attributed to anyone as his/her plan, as his/her conscious purpose.

Fourthly, power is not merely, negative, repressive, but positive and productive. Foucault's thesis is that, while we have not ceased talking and thinking in terms of the old model of power (sovereign power), we actually live in relations of power which are quite different, and which cannot be properly described in its terms. What is wielded through the modern technologies of control is something quite different, in that it is not concerned with sovereignty and law but normalization. That is, it is above all concerned with bringing about a certain result, defined as health or good function. Accordingly, Foucault suggests that we must stop considering power as simply negative. Power can also be, and perhaps is predominately, positive and productive.

Fifthly, and finally, power relations are accompanied by resistances. Power, according to Foucault, is exercised only over free subjects, that is subjects whose conduct or action exists within a field of possibilities. This means that the very existence of power relations presupposes forms of resistance, not as an external effect or consequence of the exercise of power, but as an inherent feature of the power relations, and in turn, the network of power relations is paralleled by a multiplicity of forms of

resistance.

This Foucauldian analytics of power, it is argued in the second part of the Chapter (Section 3.7), has great potential as a methodological approach to the concern of this study. This is because there is no specific legislation in the UK accounting standards. The ASC is a wholly private body. No legal powers have been delegated to it by government. Given that, the operation of the standards and the process of setting them can be characterised by the exercise of disciplinary power. Thus, the most appropriate way to understand this power, following Foucault's approach, is by asking the question: 'How is power exercised between UK companies and the ASC'. The answer for this question, following again Foucault's approach, is by tracing the micro-powers in standard setting. In this way, by adopting Foucauldian analytics of power, this study will reveal the disciplinary, relational, unintentional, positive aspects of power exercised between the UK companies and the ASC. This, in turn, will enrich our understanding about the standards and the process of setting them.

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## CHAPTER 4

### CRITICAL LITERATURE REVIEW

#### 4.0 INTRODUCTION

In this Chapter the literature will be critically reviewed through the lens of the Foucauldian approach outlined in the previous two Chapters. The aim of this critical review is to demonstrate that the stock of knowledge of this literature is inadequate to satisfy the need of this study.

This study has a particular defined set of concerns as expressed in the centre Section of Figure 4.0. These concerns indicate that power, inter-organisation, profession, regulation and accounting and finance concerns are important for this study. These concerns are addressed in the literature of different disciplines. Accordingly, there is a need in the context of this study to review all these disciplines. The first two Sections of this Chapter are devoted to addressing this literature. The disciplines other than accounting and finance will be addressed in the first Section (Section 4.1), while the second Section (Section 4.2) will be devoted to the accounting and finance literature. In Section 4.3, the accounting studies which have been informed by a Foucauldian approach will be discussed and critically evaluated. All of this critique will be informed and viewed

through the lens of the Foucauldian approach described in the previous two chapters.

#### 4.1 CRITICAL REVIEW OF DISCIPLINES OTHER THAN ACCOUNTING AND FINANCE

This Section will be divided into four Sub-Sections. The first (4.1.1) is devoted to addressing the Political and Sociological Literature of Power. The second (4.1.2) is concerned with organisation theory. The third (4.1.3) is devoted to addressing the sociology of the profession. Finally, Sub Section 4.1.4 is concerned with the literature on regulation theory.

##### 4.1.1 Political and Sociological Theories

The concept of power has been extensively discussed in the political and sociological theories . These discussions can be classified, as suggested by Cooper and Robson (1989), into three paradigms. These are the subjectivist approach, the integrative approach and the historical materialist approach. In this Sub-Section, the nature of these approaches will be addressed and criticised on the ground of their inadequacy to satisfy the concern of this study.

##### Subjectivist Approach

This approach is looking for the subject of power, asking 'Who

has power?. This is to be identified in the outcomes of particular issues and thereby related to the actions of the powerful. In other words, power is indentified as the causal link between interests and outcome(s). Lukes (1974) identified a three dimensional view of power under the umbrella of the subjectivist approach.

The one dimensional view reflects the pluralism perspective adopted by Dahl (1957). This was described by Lukes as involving '...a focus on behaviour in the making of decisions on issues over which there is an observable conflict of (subjective) interests, seen as express policy preferences, revealed by political participation'. (p.15) In this view 'an attempt is made to study specific outcomes in order to determine who actually prevails in decision making'. The focus of this view, as summaried by Lukes, is on: (a) behaviour, (b) decision-making, (c) (key) issues, (d) observable (overt conflict) and (subjective) interests, seen as policy preferences revealed by political participation.

Lukes criticised this view, arguing that 'the one-dimensional view of power offers a clear-cut paradigm for the behavioural study of decision making power by political actors, but it inevitably takes over the bias of the political system under observation and it is blind to the ways in which its political agenda is controlled' (p.57)

The two dimensional view reflects the Elitist perspective adopted by Bacharch and Baratz (1962, 1963, 1970). This view

redefined, according to Lukes(1974), the boundaries of the one dimensional view by allowing for '..consideration of the ways in which decisions are prevented from being taken on potential issues over which there is an observable conflict of (subjective) interest.'(p.20) The focus of this view of power, as summarised by Lukes, is on: (a) decision-making and non-decision-making, (b) issues and potential issues, (c) observable (overt or covert) conflict, and (d) subjective interests, seen as policy preferences or grievances.

Building on the criticism of the first and second dimensional views of power, Lukes advanced a third one (radical view) which 'allows for consideration of the many ways in which potential issues are kept out of politics, whether through the operation of social forces and institutional practices or through individuals' decisions. This control of potential issues can occur in the absence of actual observable conflict, which may have been successfully overted- though there remains here an implicit reference to potential conflict. What one may have here is a latent conflict, which consists in a contradiction between the interests of those exercising power and the real interests of those they exclude.'(p.24) The focus of this view, as summarised by Lukes, is on: (a) decision-making and control over the political agenda (not necessarily through decisions), (b) issues and potential issues, (c) observable (overt or covert) and latent conflict and (d) subjective and real interests.

This subjectivist approach is ahistorical, conceptualizing power as something that is possessed by subjects. Accordingly, this approach is unable to reveal and trace the disciplinary, relational, unintentional, positive aspects of power. In other words this approach is unable to analyse the ways or the techniques through which power is exercised. As these techniques of power are the major concern of this study, the subjectivist approach provides an inadequate basis upon which to build.

#### Integrative Approach

This approach is concerned with 'the power to command things'. It focuses on social integration by asking the question 'Power to do what?', Power is treated as if it can be exercised to the benefit of all. With this approach the legitimate, functional and socially cohesive possibilities for power are emphasised at the expense of other aspects. Power is presented as a generalised capacity which is an important advance on the notion of power purely as an individual capacity as suggested by the integrative approach.

Although the integrative approach presents power as a generalised rather than individual capacity (as represented by the subjectivist approach), it is ahistorical and looks for the effect of power. This, in turn, means that this approach is unable to trace and reveal the techniques through which power is exercised. Accordingly, this approach again provides an inadequate

basis for this study.

### Historical Materialism Approach

This approach is concerned with the production of systems of power asking 'What are the sources and effects of power?' This approach as developed by Poulantzas (1973,1978), ties power to class. It represents the capacity of a class to realize its specific objective interests. It also ties the concept of power to both conflict and interests.

Although this approach is historical, by linking power to a class the approach is trapped to conceptualising power as something which is possessed. In this way, the approach is unable to reveal the ways, the techniques, through which power is exercised, and in turn it is unable to reveal the disciplinary, relational, positive aspects of power. As the major concern of this study is to reveal these aspects of power, the historical materialist approach is inadequate to satisfy the need of this study's concern.

This Sub-Section has critically reviewed and evaluated the political and sociological literature on power. This literature is classified into three approaches. These are the subjectivist, integrative, and historical materialist approaches. The subjectivist approach is ahistorical, conceptualizing power as something that is possessed by the subject. In this way the

approach focuses on linking the interests or preferences of the subject of power to the outcome. The integrative approach, although it presented power as a generalised capacity rather than an individual capacity (presented by the subjectivist approach), it is ahistorical and concerned with the effects of power. The historical materialist approach, although it is historical, focuses on the sources of power rather than the media through which power is exercised. All these approaches do not ask the question, which is the concern of this study, 'How is power exercised?'. Accordingly, all these approaches are inadequate to satisfy this study's concern.

#### 4.1.2 Inter-Organisation Theory

In organisation theory, particular inter- organization theory, the relationships between the organisations and their environment have been extensively discussed. In this Sub-Section, some of the studies addressing these relationships will be discussed and critically evaluated.

Katz and Kahn (1966) were perhaps among the first researchers to recognize the pervasiveness and complexity of interactions between organisations and their environment. Thus, elements of the environment are viewed as influencing the organisation, and the organisation is viewed as defining, creating and/or influencing its environment through the exchange of resources. Importantly, Katz and Kahn recognised the role of information, which they

viewed as being an important resource with diverse characteristics (e.g. it is internal and external, and passive and active). Information can be used in sensing changes in the environment and organizational malfunctions, and in influencing external and internal decision makers.

In a similar vein, Thompson (1967) stated that organisations must not only perform their missions successfully, they must also use appropriate language to convince important environmental elements that they are fit for future action. But, consistent with contingency theory (Lawrence and Lorsch, 1967; Duncan, 1972), the processes by which this communication is achieved should be shaped by the nature of the environment. Thompson argued that in simple, stable environments, organisations can demonstrate fitness for future action by providing documentary evidence of historical improvement in what it has achieved. In contrast, because of the inherent instability of complex, dynamic environments, the form of information conveyed to external parties in such settings would be directed at demonstrating the organisation's own efforts to come to grips with a changing environment.

Pfeffer and Salancik (1978) argued that organisations are able to survive to the extent that they are effective, where effectiveness derives from the 'management' of demands placed on them by task environmental elements upon which they are dependent for resources. This 'management' may, in turn, be internally oriented (e.g. altering organizational activities in response to

the environment) or externally oriented (e.g. influencing the environment by passive or active means).

Zeitz's (1980) discussion regarding 'dialectical interaction' directly addressed the duality of organisations as adaptors to and influencers of their environments. He reasoned that organizations both (1) construct major portions of their environments through the production of scarce output resources and through their control of interaction network, and (2) adapt to the environment in the sense that their actions are constrained through externally controlled input resources, and through established networks of relations and /or external expectancies that have arisen. Thus, organisations at once control and are controlled by the environment in a continuous, interactive process.

Bonis (1980) argued that the organisation does not only adapt to the environment; it acts upon it as well. Perrow (1970) stated that " while we tend to see the environment as having an impact upon organisations, and the organisations attempting to minimize or utilize that impact, we might just as well reverse the causal sequence. Each organisation is itself the environment of some other entity and as such, the organisation yields power".  
(p.231)

In a similar vein, Thompson and McEwen (1971) pointed out that those organisations subject to control are also agents of social control. It is useful, as Mensah (1981) has argued, to

consider the distinction between adaptation and directiveness in terms of the behavior of the organisation and indirectiveness in terms of the behavior of the organisation towards its environment. In the former case, the organisation reacts in response to changes imposed on it by the environment, but in the later case, the organisation actively seeks to change conditions in the environment to its favour.

Ackoff and Emery (1972) classified the relationship between the organization and its environment as adaptive and active interaction. The former occurs when an organisation reacts or responds to an internal or external change by modifying itself, and active interaction on the other hand, occurs when the organisation, using its resources and creative capabilities, aggressively seeks to alter conditions in the environment.

McNeil (1978), emphasising the importance of recognising the reciprocal relationship between organisations and their environment, argued that the failure to consider the joint and independent operation of the adaptation-domination process could lead to faulty models of the organisation-environment relationship. There would appear to be two compelling reasons for further investigation of this phenomenon. First, the failure to understand domination may lead to oversimplistic models of organisations and, second, the practical importance of improving business- government relationships is apparent in a democratic society.

Although the relationships between the organisations and the environment have been discussed extensively as indicated above, little attention has been given to a systematic documentation and analysis of the relationships between the organisation and regulators. This might be attributed to what Sonnenfeld (1982) sees as the lack of complementarity between research in organisational theory and that in business and society. The latter has focused largely on public affairs issues, with little attention given to specific interactions between regulatory bodies and business organisations. On the other hand, the organisational theory literature has emphasised actions taken by the organisation in response to customers, competitors, suppliers, and so forth, but not actions taken in response to the regulatory bodies.

Although this gap in the literature is becoming well recognised, and the call for research on this important topic is being highlighted by organisation theorists (Pfeffer and Salancik, 1978) and regulatory economists (Jaskow and Noll, 1978), little empirical work has yet been attempted. Some notable exceptions to this general lack of scholarly attention have been the work by Post (1978), Post and Mahon (1980), Aplin and Hegarty (1980), Cook et al (1983), Ungson, James and Spicer (1985), and Birnbaum (1985).

Post (1978) pointed out there are three general patterns of response (1) adaptive, which emphasises organisational reaction to the external events; (2) proactive, in which the organisation

attempts to initiate, alter, or modify the prevailing environment; and (3) interactive, which recognised that corporate purposes and public purposes are both changing, though not at the same rate or in the same direction. He argued that 'in a variety of industries, facing different kinds of external change, responses that are predicated on organisational reaction (adaptation) to the public issue, or managerial efforts to alter or manipulate the environment (proaction) to defuse public issues are increasingly likely to fail.' (p.217) Post argued that the conventional adaptive and proactive responses may be useful tactical approaches, but they are no longer effective strategic approaches to change in the increasingly political context in which managements and organisations perform.

Post and Mahon (1980) have developed a set of hypotheses in response to the question of whether organisations in regulated industries respond to external change in the same general ways as do firms in unregulated industries. An exploratory case study of the automobile insurance business in Massachusetts was undertaken as a means of examining how a regulatory agency focuses an "articulated" change for an industry, how the industry responds to such change and whether the corporate responses of industry firms reflect the patterns of response discussed in the literature.

Aplin and Hegarty (1980) examined the strategies business lobbyists, consumer groups, unions, and federal agencies employ to shape federal legislation. Their results reveal that three major

sectors adopt different strategy sets and these strategy sets have varying impacts on the legislative process.

Cook et al (1983), based on existing literature and deductive logic, presented a theory of organisational response to regulation in the hospital sector. They indicated that their work "provide(s) a framework for considering this issue by suggesting a more general theory of organisational response to regulation" (p.194). Cook et al argued that their theory contained two major components. The first involves conceptualising the nature of the regulatory process. The second involves conceptualising the nature of organisational responses. These responses, in turn, may be divided into those involving adaptation and those involving selection -the two basic sources of organisational change. They concluded the study by highlighting three points. First, it was postulated that organisations initially will make changes in their own internal structure, managerial strategies, and mix of products and services in order to adapt to regulation. Continued environmental pressure will lead eventually to the formation of various types of interorganisational arrangements. Second, the emphasis on inter-organisational responses to regulation identifies specific factors that lead to the formation of particular types of interorganisational alliances. Third, the theory suggests that the nature of the organizational changes that may occur in responses to variations in the regulatory environment as well as the conditions under which each type of response is likely to occur.

Ungson, James, and Spicer (1985) compared the effects on organizations in two industries of regulatory agencies and on the sectors of the task environment. Their findings indicated that regulatory agencies differ from other sectors in their internal organisational adjustments to their actions. Firm size and age are systematically related to these differences. These findings are explained in terms of industry differences and changing dispositions of managers.

Birnbaum (1985), used data from representative privately-owned profit-making, privately owned non-profit and publicly-owned non-profit organizations to determine differences in influence strategy and whether organizational context (e.g. size, dependence, and fear) are significant explanatory variables for variation in influence strategies across industries. Their study found support for the hypotheses that context has a significant positive effect on information-based influence strategies. Further, fear of environment legislation is found to be related negatively to pressure strategies.

The problem with these studies on the more general level (relations between the organisation and environment) or on the specific level (the relationship between the organisation and regulatory bodies) is that they suffer from an epistemological problem in the sense that their major concern is with tight theoretical elaboration and defined empirical verification. This, it can be argued, is an oversimplification of reality where

theories are themselves fragments of this reality in a complex relation with other social and institutional practices. Also, this literature suffers from methodological problems by emphasising cause and effect relations in the depiction of reality. It ignores the unintended effects. In the light of these problems, the studies discussed above, assumed that all organisations strive to maintain their autonomy and identity, reduce uncertainty, and prevent unnecessary dependence on their environments- particularly the regulatory environments. This is problematic in the sense that organisations do not predominately seek autonomy in the manner suggested by such studies. In addition, these studies (although their major concern is the interactions between the organisations and their environment more generally and organisations and their regulators more specifically) do not address power relations incorporated in these interactions. In so doing they failed to fully capture the reality of these interactions.

In the light of the above problems, this stock of knowledge about interactions between organisations and environment, particularly the regulatory environment, forms an inadequate basis upon which to build in the context of this study.

#### 4.1.3 The Sociological Literature of Profession

There is a considerable body of literature on the nature of the professions. This literature has been extensively reviewed in Tonkin's study (1983) and critically evaluated in Puxty's study

(1984).

Tonkin (1983) summarised his review in the following three points. Firstly, the literature on the profession has continued the search for a minimal set of criteria for the identification of a profession. Secondly, the literature has tried to identify a dynamic model of the process of professionalisation. Such a model would tend to imply that the process starts with some occupational group which in time acquires the distinguishing characteristics of a profession. Thirdly, the debate in the literature is often in terms of whether or not a specified profession is acting in the "public interest" either generally or in respect of some specified issue.

Puxty (1984) critically evaluated the various approaches to the analysis of the profession. He covered: the traits approach (with its emphasis on the attributes of profession), person-profession studies, functionalist approaches, economic approaches, neo-Weberian studies, and Marxist analyses.

The aim of this Sub-Section is not to repeat such an extensive discussion (because this is not the main theme of this study) but rather to critically evaluate, generally, this literature in the context of this study and in the light of the Foucauldian model.

In general, the literature of the profession emphasises the knowledge base of the profession. This, in turn, it can be argued,

has led to the following problems.

Firstly, it represents such knowledge base as a particular source of power. This power base, according to this literature, enables the professions to exert substantial influence on social change processes and to constrain the preferences of individuals outside the profession. This, it can be argued, is misleading because it assumes power as something which can be possessed by a particular group. Also it concentrates on the effect of exerting power in terms of the repression or constraining of others. This model of power is rejected in the context of this study as indicated in Sub-Section 4.1.1.

Secondly, this literature ignores the constitution of this professional knowledge. As Goldstein (1984) argued: 'sociologists of the professions recognise that professions must have knowledge bases, but they treat these as givens, placing the constitution of professional knowledge outside the purview of their investigation. Foucault, on the other hand, has constructed the "disciplines" so that they are at one and the same time social entities and generators of the very knowledge which they apply to society.' (pp.176-177) Goldstein, building on Foucault, indicated that 'once their (power and Knowledge) dual nature has been established, the "disciplines" are maintained by a circular process: the non-discursive aspect serves as the basis for the discursive aspect; the discursive aspect, publicly represented as knowledge or science, then legitimates the non-discursive. It is the second half

of the circle that sociologists of the professions have always recognized; they have always asserted that the social role and status of professionals is legitimated by their esoteric expertise. But the first half of the circle, the constitution of "professional" knowledge through "professional" practice, is Foucault's special theoretical contribution.' (p.183)

Thirdly, the literature on profession ignores totally, the ways through which the setting of any regulatory standard can be achieved. In other words it ignores the question 'How the professional standards can be set? This is a major question in the context of this study.

Accordingly, such stock of knowledge is inadequate to satisfy the need of this study's concern.

#### 4.1.4 The literature on Regulation

Regulation is defined in the literature as 'a process consisting of intentional restriction of a subject's choice of activity, by an entity nor directly party to or involved in that activity.' Mintick (1980, p.134). Regulatory research is generally considered and developed in the context of government and government appointed agencies. Mintick (1980) refers to regulation as 'government policing of organisational activities with respect to a rule prescribed in the public interest.' (p.89) In a similar vein, Stigler (1964) refers to it as 'an attempt by the state to

use its legal power, to direct the conduct in our context, especially the economic conduct -of non governmental bodies.' (p.119)

Such articulation, it can be argued, is problematic in terms of its emphasis on intentionality and restriction, ignoring totally the unintentional, positive aspects of regulation. Also the assumption that regulation is a one way relationship from the regulator to the regulated group(s) is an oversimplification of the reality where both regulators and regulated are located in a network of relations with other groups or elements of the environment.

Although Bernstein (1955) has recognized the dual process of regulation, arguing that regulation is best conceived as a two-way process in which the regulatory agency and the regulated group try to control each others behaviour, the process is still articulated in terms of a traditional model of power with its emphasis on legal power and its intended and restrictive effects.

In the literature, most usages of the term "regulation" emphasises the economic nature of regulation [with exception of Bernstein (1955), Herring (1936)], and in turn, it ignores the political and social nature of regulation.

Bernstein (1955) considered regulation as a political process. Rules are not rigidly applied to reach the regulatory outcomes of

restriction of private activity. Any restriction is the result of interaction and adjustment processes between contending parties. Also, Herring (1936) argued that the greater the degree of detailed and technical control the regulator seeks to exert over industrial and commercial groups, the greater must be their degree of consent and active participation in the very process of regulation, if regulation is to be effective or successful. Despite this recognition of the political dimension of regulation by Bernstein and Herring, their articulation of this important political aspect modeled in terms of the traditional model of power with its emphasis on exerting rather than exercising regulation.

Also, as Joskow and Noll (1978) indicate: 'most of the empirical studies on regulation are motivated by some variant of the question of regulation versus deregulation'. (p.2) He suggested that 'to understand the effects of regulation or to pursue regulatory reform requires not only a better understanding of the relationship between legislators and regulators, but also a better understanding of how the regulatory process itself works'. (p.49)

This emphasis, in the literature on the economic aspect of regulation and on the discussion of regulation versus deregulation, inevitably leads to ignoring the techniques and apparatus of regulation.

According to Peltzman (1976, p.212), there are basically two main theories of economic regulation. The original, traditional

theory, is the "public interest" theory or what is called the 'consumer protection' theory and the other is the "capture" theory or what is called the 'producer protection' theory. The former is basically a welfare economics idea that regulation is primarily to protect the consuming public from the inefficiencies and inequities of the normal market forces. On the other hand, the economic 'capture' theory of regulation [which is originally produced by Stigler (1971) and developed by Posner (1974)] argued that regulation is not designed to promote the public good, as idealists would like to believe, but, contrarivise, is to serve the private interests of the most powerful groups, which, in essence, 'capture' the benefits of regulation for themselves only.

Stigler (1971) even argued that, because industry has much higher per-capita stakes in regulatory programmes than consumers or other groups, industry will devote more attention and effort to regulatory politics. Regulatory legislation, will, therefore, virtually always be designed for industry's benefit. Industry, he argued, percieves that its overall financial position can be significantly affected by regulatory agency decisions, and it can therefore generate rather intense activity aimed at influencing them.

Stigler stated that 'As under agency theory, all the actors involved with regulation are assumed to be rational self-seeking and wealth-maximising individuals, who, in this case, are operating in a political 'market'. A government and its appointed agencies

have a unique 'product' to offer for 'sale' - "the power to coerce". And in return to their legislative favours, are looking for 'payment' in terms of financial contributions and/or other support (e.g., votes).....'(p.4)

Following Stigler, Wilson (1980), and Quirk (1981) emphasised the role of industry in the regulatory process. They argued that there is little doubt that regulated industries are often powerful and even dominant forces in regulatory administration, and that their influence has often deflected regulation from serving interests or the need of industry. Quirk provided a variety of causal factors as explanations for such pervasive industry influence.

The problem with these two theories of regulation is that each of them emphasised the role of a particular class (i.e consumer or producer). In so doing, they linked the outcome of the regulatory process to the interests of a particular class. Such articulation is problematic in the sense that both classes (consumers and producers) are all involved in a network of relations with other classes in society.

In summary the literature of regulation articulates the relationships between the regulated groups and regulatory bodies in terms of the legal form with its emphasis on the intended, restricted effects. In so doing, it ignores the unintended and positive effects of regulation. Also, the literature emphasises the

economic nature of regulation, ignoring the social and political nature of such processes. Furthermore, by emphasising the role of a particular class (producer or consumer) in the regulatory process, the literature fails to capture the complex and dynamic nature of this process where different classes are involved. Finally, most of the problems of this literature, it can be argued, are due to the epistemological and methodological problems incorporated within these studies. The epistemological problem is reflected in the emphasis of these studies on tight, simple theoretical elaboration and their use of empirical data only for verification purposes. The methodological problem is reflected in the emphasis of these studies on the visible, simple and static nature of the phenomenon under investigation. Accordingly, the literature of regulation is inadequate to satisfy the need of this study's concern.

The conclusion of this Section is that the political and sociological literature of power is inadequate to satisfy the need of this study's concern. This is because this stock of knowledge does not ask the question, which is the major concern of this study: 'How is power exercised?'. Also, the literature of inter-organisation theory on both a general (i.e relations between the organisations and environment) and specific level (i.e relations between the organisations and regulatory environment) is rejected in the context of this study due to epistemological and methodological problems implicit within this literature as discussed above. This led to oversimplification in the

articulation of the relationships between the organisations and environment on the more general level and the organisations and the regulatory environment on the specific level. In addition, the literature of the sociology of the profession is rejected in the context of this study. This is because it emphasises the knowledge base of the profession, ignoring the constitution of this knowledge base. Finally, the literature of regulation is rejected in the context of this study since: (1) it emphasises the economic nature of the regulatory process, ignoring the political and social nature, (2) it emphasises the legal form of regulation, ignoring the disciplinary nature of these forms, and (3) it focuses on the role of one group (industry) in the regulatory process, ignoring the role of the other interested groups.

#### 4.2 CRITICAL REVIEW OF THE ACCOUNTING AND FINANCE LITERATURE RELATING TO STANDARD SETTING

This Section will be divided into three Sub-Sections. The first (4.2.1) will be concerned with a critical review of the accounting studies addressing political and power aspects of standard-setting. In the other two Sub-Sections (4.2.2 and 4.2.3) some selected empirical studies addressing the standard setting process in the US and UK context will be discussed and critically evaluated in some detail. The aim of this critical review is to demonstrate that these accounting and finance studies are an inadequate base upon which to build to satisfy the concern of this study.

#### 4.2.1 Political and Power Aspects of Accounting Standards

There is growing acceptance of the view that the setting of financial accounting standards in the USA and UK is a political activity. Examples include Horngren (1972,1973, 1976); Gerboth (1973); Moonitz (1974); May and Sundem (1976); Armstrong (1976); Watts and Zimmerman (1978,1979); Solomons(1978); Hope (1979); Carter (1981); Macve (1981); Tonkin (1981,1983); Brown (1982); Burggraaff (1983); Bromwich (1985); Harrison and Mckinnon (1986); and MacArthur (1985, 1988a, 1988b).

Horngren wrote a number of articles attempting to get accounting standard-setting recognised as a political process (1972,1973, and 1976). He argued that 'the setting of accounting standards is as much a process of political action as of flawless logic or empirical findings.' (1973 p.61)

A similar view has been expressed by Gerboth (1973) who argued that '... when a decision-making process depends on public confidence, the critical issues are not technical, they are political.'(p.479)

Commenting on the role of the FASB in the USA, May and Sundem (1976) stated that 'accounting information is like many other commodities produced in our economy today, the private market for such information is modified by explicit public policy decisions....Therefore the FASB must consider explicitly political (i.e. social welfare aspects) as well as accounting theory and

research in its decisions ... This implies that policy makers must go beyond comparing alternative policies regarding the degree to which their outputs conform to certain purely technical or aesthetic standards, e.g. "true economic value", "true income", "relevance and objectivity", (pp.747-63)

Solomons (1978) expressed some doubt as to how the political choices are to be made without destroying the credibility of the policy making body.

Macve's report (1981) emphasised the political aspect of the standard setting process, saying that 'The different individuals and groups involved with financial reporting, whether as users, preparers or auditors, often have conflicting economic interests, and any decision about accounting practices (which will affect them all) have to be made after weighing up the consequences for these different parties and what their respective rights are. These problems make accounting and the establishment of a conceptual framework a "political" as well as a "technical "matter" ' (p.13). The report said that 'Given that the theories of politics and social choice themselves have no 'agreed conceptual framework' then by implication accounting, in this respect, has to cope without one as well'. (p.52)

Burggraaff (1983), suggested two possible meanings of this "political" aspect. First, "an issue has political implication when the issue is taken up by political bodies, governments, governmental agencies, or political parties in order to pursue

their objectives". Second, an issue may be said to have a political aspect where in the private sector the interests of various groups are affected by the way the issue is solved and those groups vary in their judgement as to the appropriateness of the solution." (p. 4). The second of these definitions is consistent with the analysis of the literature of 'the economic consequences of accounting standards.'

Moonitz (1974) argued that the role of interested parties in the standard setting process, and in particular management, is important because they will attempt to influence the accounting standards setting process to their own advantage.

Armstrong (1976) pointed out that lobbying by the various interested groups to the standard setting bodies (because a particular accounting proposal affected their personal economic welfare) illustrated "the highly political nature of establishing accounting standards." (p.78)

Carter (1981) argued that one explanation for the existence of the political aspect of accounting standard setting process is recognised by the 'economic consequences' accounting literature. Examples include, Zeff (1971,1980); Demski (1974); Horwitz and Kolodny (1980); Laughlin and Puxty (1981,1983).

Demski(1974) pointed out that the economic consequences argument states that there exist rational and self-interested economic agents who have incentives to change their behaviour as a

result of changes in accounting standards.

Hope (1979) pointed out that the standard-setting process is a political one, and that the Accounting Standard Committee may be able to gain political acceptability by seeking to make only those incremental changes to existing practice and to existing standards, which are acceptable to the community.

Some of the studies emphasised the role of corporate management in the standard setting process [such as Moonitz (1974); Brown (1982); and Kelly-Newton (1980)]

Brown (1982), a former staff member of the FASB, describing the attention given to letters of comment on accounting issues received from corporate sources, indicated that 'In context of the due-process procedures established by the FASB corporate input is playing an active and vital role in setting accounting standards'. (p.292) Brown pointed out that 'For all major projects, the FASB generated constituent input via three different forms; (1) written responses to discussion memorandum..(2) oral responses at a public hearing, and (3) written responses to an exposure draft, ...' (p.283)

The problem with these studies is that, although they have tried to examine the political aspects, they have tried to squeeze all political behaviour into a 'rational' economic 'mould' (e.g.explaining everything in terms of 'selective incentive'). They have, also, characterised the process of setting accounting

standards as 'political' because it may have political consequences rather than because the process itself has its conditions of possibility dependent upon power relations. As a result of that, these studies fail to consider the power relations incorporated in this process.

Other studies [such as Kelly-Newton(1980); Hussein (1981,1977); and Harrison and Mckinnon (1986)] viewed the standard setting process from different angles.

Kelly-Newton (1980) characterised the process of setting accounting standards as an agency of engineered social change. Within such a framework, she characterised new accounting standards as innovations and the policy-making and implementation process as a process of diffusion of an innovation.

Hussein (1981,1977) adopted just such a diffusion of innovation perspective. He characterised accounting standards as an innovation, arguing that there are conflicting interests to be met in the decision-making stages and, because participants do not all have the same decision-making power, they bargain with each other to determine the outcome. Using the inflation accounting standard, Hussein tested his hypotheses. A mail questionnaire was conducted in which respondents were participants in the US accounting standard setting processes, either as decision makers, that is, members of the FASB, or as others, that is change agents, opinion leaders or bargainers. Discriminant analysis was conducted on several variables and the results did not reject the hypotheses.

Harrison and Mckinnon (1986) viewed the process of corporate reporting regulation and accounting change as a social system, and accordingly they used change analysis to induce the attributes and essential properties of that system. In contrast to Kelly-Newton (1980) and Hussein (1981), they argued that by viewing corporate reporting regulation as a social system, policy makers become seen as a constituent part of that system and themselves subject to change. Attention is directed, therefore, not only to change within the system, but also to change of the system. They criticised current research into accounting policy formulation and change based on the diffusion of innovation model. They argued that 'this research suffers from a lack of explicit attention to culture and history, and is restricted by its focus on the diffusion aspect of change and its relative disregard of the stimuli for change. It is these deficiencies that we seek to overcome by building an alternative social system'. (p.235)

This recognition of the political aspect of the standard setting process has generated considerable research drawing implicitly or explicitly on the concept of power. Examples include (Meyer 1974; Rockness and Nikolai(1977); Haring (1979); Sutton (1980); Hussein and Ketz (1980); Newman (1981a, 1981b); Brown (1981); Selto and Grove (1982,1983); Hope and Briggs(1982), Hope and Gray (1982); Ibrahim (1986), Booth and Cocks (1990).

Meyer (1974) considered the relationships of (1) individual policy board member preferences and employment affiliation and (2) employment affiliation of individual policy board members and

aggregate board preferences for the APB. He found that '.. no homogeneous group of Board members dominated (all other groups) such that it usurped the power of APB' (P.195).

Rockness and Nikola (1977) focused exclusively on the relationship between individual (APB) policy makers and employment affiliation, with no investigation of any individual's influence on actual outcomes. Using multidimensional scaling, Rockness and Nikolai discovered no obvious groups based on employment and voting records for the APB.

Haring (1979) investigated expressed preferences on FASB standards and, unlike Meyer (1974) or Rockness and Nikolai (1977), found that outcomes are affected by the views of accounting firms rather than the views of companies and academe.

Hussein and Ketz (1980) were concerned with dominant coalitions. They concluded that the Big Eight were not unified and are, therefore, not a ruling elite. In addition to considering a priori voting strength, an empirical construct for power was computed by Hussein and Katz (1980) in an effort to discover systematic differences in the power of constituencies in actual votes. They found that although Big Eight members of policy boards may have large a priori power indices, an ex post construct demonstrates that their observed influence has been no greater than that of non-Big Eight representatives.

Selto and Grove 1982, replicated and extended Newman's (1981a)

study ( to be discussed in the following Sub- Section), they similarly concluded that a bloc of former members of the Big Eight apparently had not exercised control in excess of their votes in the deliberations of the FASB. The main purpose of analysing voting behaviour of the FASB, they argued, was to determine whether sub-groups of members control the voting behavior beyond their apparent representation. Such information could be used as an input by the Financial Accounting Foundation in filling Board vacancies or in evaluating new voting structures for the Board. A more blatantly political use of voting models would be to guide lobbyists who wish to influence FASB outcomes. Corporate lobbyists, for example, might concentrate their efforts (i.e., their position papers and oral presentations) on members of the FASB most likely to vote as a bloc on future issues. Researchers, in turn, could use the same kinds of models to describe lobbyists' behavior. For example Selto and Frankes (1981) have attempted to tie these concerns over the effects of Statement No.34 to lobbying efforts before the FASB.

Selto and Groves (1983) pointed out that previous studies on the voting activities of the FASB [Newman 1981a;1981b] and Selto and Grove (1982) have examined whether some members or coalitions of members of the FASB wielded voting power in excess of their votes. Each of these studies, they argued, was conducted without the benefit of a general theory of voting on the FASB- a theory which would predict (explain) members' voting behaviour(s). Instead, each provided descriptive evidence on the relative ability of different voting indices to ascertain the existence of voting

coalitions from prior voting behaviour.

Selto and Groves (1983) stated that 'since we have no theory to support these results, we attempt to confirm them by testing the predictive ability of the proposed measures of voting power on SFAS Nos.45-69 for these same coalitions.' (p.622) They concluded that 'voting power indices do not provide useful predictions of voting behaviour observed with the FASB.' And they suggested 'A testable theory of FASB voting is needed if positive research is to be accomplished in this area'(p.622)

Hope & Briggs (1982) recognised that the deferred taxation debate in the UK, had not been conducted purely in technical terms, but also in the political atmosphere in which the ASC necessarily operates." (p.83) They investigated the power relationship between the constituency of the ASC and its policy outcomes. They usefully considered agenda setting, the mobilisation of bias, and the use of a conceptual framework to justify partisan decisions.

Recently Booth and Cocks (1990) adopted Clegg's conception of power in discussing several facets of the accounting profession. One of these facets is setting accounting standards.

As we have seen the primary focus of the above studies, except Hope and Briggs (1982) and Booth and Cocks (1990), has been the relationships between the voting behaviour of Accounting Principles Board (APB) and Financial Accounting Standards Board (FASB)

members, and the preferences of external groups. By linking voting behaviour to the outcomes, these studies are adopting the one dimensional view of power discussed in Sub-Section 4.1.1. Accordingly, the problems of this model of power are incorporated in the analysis of these studies. Also these studies, adopted a positivist methodological approach with its focus on the visible, simple, and static nature of the phenomenon. Accordingly, these studies failed to capture the dynamic and complex nature of the process of setting accounting standards. Although Hope and Briggs (1982) and Booth and Cocks (1990) have adopted a different methodological approaches from positivism, they also have problems. Hope and Briggs' analysis is limited by viewing the standard setting process as a bargaining process. And they linked preferences to outcomes. Booth and Cocks, by adopting Clegg's conception of power, emphasised the need to extend the limited behaviourist view of power (i.e the one and the two dimensional views) to the role of social structure. But they failed to consider the media (i.e techniques of power) through which power is exercised.

In the light of the above discussion all the studies addressing the concept of power in their analysis, discussed above, are inadequate to satisfy the concern of this study.

The conclusion from this Sub-Section is that although there is a growing recognition of the political dimension of accounting standards, such recognition is shaped by understanding the process in terms of its economic and political consequences, rather than

understanding the process itself with its 'conditions of possibility' dependent upon power relations.

The recognition of the political aspects of accounting standard setting has generated considerable studies drawing implicitly or explicitly on the concept of power. But all of these studies, by adopting the subjectivist approach to power, have failed to fully understand the nature of relations of power exercised in this process. Also most of these studies suffer from epistemological and methodological problems. The epistemological problem is reflected in these studies in their emphasis on their tight theoretical development and defined empirical verification. The methodological problem is reflected in these studies in their emphasis on the visible, simple and static nature of the phenomenon. In so doing, these studies fail to capture the dynamic and complex nature of the process of setting accounting standards. Accordingly, these studies are unable to provide a suitable basis upon which to build for this study.

In the two following Sub-Sections (4.2.2 and 4.2.3) some selected empirical studies addressing the standard setting process in the US and UK context will be discussed and critically evaluated in some detail.

#### 4.2.2 Empirical Studies of Accounting Standard Setting in the US Context

In this Sub-Section some of accounting studies on accounting standards in the US context will be discussed and, then, critically evaluated. The aim of such evaluation is to demonstrate that these studies are inadequate as a stock of knowledge on which this study can build.

Watts and Zimmerman (1978), argued that 'management plays a central role in the determination of standards. Hence, it seems appropriate that a precondition of a positive theory of standard-setting is understanding management's incentives.'(p.113)

They assumed that individuals act to maximise their own utility. Accordingly, they assumed that management lobbies on accounting standards based on its own self- interest. (p.113)

In the light of this assumption Watts and Zimmerman have attempted to formulate a 'positive theory of accounting', by exploring those factors influencing management's attitudes to accounting standards which are likely to affect corporate lobbying on these accounting standards. In other words they focused on the question of why firms would expend resources trying to influence the determination of accounting standards. They indentified certain factors which are expected to affect corporate lobbying on accounting standards. These factors are taxes, regulation, management compensation plans, bookkeeping costs, and political

costs. These factors combined into a model which predicts that large firms which experience reduced earnings due to changed accounting standards favour the change. Firms oppose the change if the additional bookkeeping costs justify the cost of lobbying. This prediction was tested using submissions by companies to the FASB's Discussion Memorandum on General Price Level Adjustments. The empirical results, according to Watts and Zimmerman, were consistent with the theory.

Watts and Zimmerman's study, adopting a positivist approach with its emphasis on the visible, simple, static, causal relations, focused on the causal link between the stated preferences of only one interested group (corporate management) and one outcome (the standard on General Price Level Adjustment). In doing so they ignored the effect of other interested groups, intentionally or otherwise, on the outcome. They, also focused only on the written submissions, ignoring the other ways of interactions (visible and invisible) between corporate management and the FASB. Implicit in their emphasis on the written submissions is the assumption that the role of corporate management is only to react to the FASB in only one stage (after issuing a discussion paper or an exposure draft), rather than to interact in different stages in the standard. In addition they fail to locate the interactions between corporate management and the FASB concerning a specific standard (i.e inflation accounting) within the context of the wider interactions about the standard-setting process more generally. Finally, Watts and Zimmerman claimed generalisations about the relationship between corporate management and the FASB, although

they considered only one case (the inflation standard). This is problematic in the sense that the nature of the standard and the period in which it was issued might have an effect upon the nature of these relationships.

Klein (1978) analysed stated preferences in the written submissions to the US exposure draft "Financial reporting for segments of a business enterprise", published by FASB in September 1975.

Using content analysis of these written submissions, Klein attempted to determine whether or not the stated preferences in these written submissions were incorporated in the final outcome of the standard.

From the results, Klein concludes (pp.162-170):

(1) the exposure draft is more than a proposal. It is a means by which the FASB can (a) "test market" a proposal ; (b) extend boundaries; and (c) update its own information on interested parties;

(2) the FASB is more than simply a rule-maker. It serves to buffer those who prepare accounting information from (a) Government agencies; and (b) users of accounting information. It also serves to pre-condition users and preparers to new requirements; and

(3) 'the process...invites criticism. The fact that this criticism exists is not so important as the manner in which it is handled'

Although Klein's study considered the role of all other

interested groups in setting the standard rather than one group (as Watts and Zimmerman did), it is subject to similar criticisms as that addressed to the Watts and Zimmerman's study (1978). These are: (1) the study linked the stated preferences to the outcome, ignoring the unanticipated consequences, (2) it focused on only one form of interaction (i.e written submissions), ignoring the other visible and invisible forms of interaction, (3) implicit in the focus on the written submissions in Klein's study is the assumption that the role of interested parties is just to react to exposure drafts, rather than to interact through multiple ways at different stages of the standard, (4) the study, adopting a positivist approach, made generalisations about the process of setting accounting standard from examining only one case (i.e financial reporting for segments of a business enterprise). This is problematic, as the nature of the standard and the period in which it was issued, are different from another. This difference will lead to different interactions between the interested groups and the FASB.

Porter (1979) investigated the role of inputs from defined constituencies in the standard formulation process of the (FASB). He utilised a case study to describe the input from a constituency and assess the role it played with respect to a specific accounting standard context with regard to the issue of accounting for restructured debt. The constituency responses were examined via content analysis in order to identify: (1) those interest groups which responded on the issue; (2) how the constituency responded and (3) the nature of the communications in the responses. Finally,

tentative hypothesis were formulated concerning the interrelationships between the input from the constituency and the FASB's standard setting process.

The constituency response would have been both written and oral. However, the case study was restricted to an analysis of the written comments from a constituency.

Constituency responses were then ranked according to the proportion of responses which (a) utilized analytic techniques and (b) addressed the fundamental accounting issues. The results indicated that financial analysts, CPAs, and academe responses ranked the highest on a concern for these issues but accounted for less than nine percent of the total responses. Banking responses ranked the lowest and accounted for more than seventy percent of the total responses.

All groups, except the accounting constituency (academe and CPA), mentioned that the economic impact of a standard should be considered by the Board. Additionally, with the exception of the accounting constituency, every constituency group commented on pervasive issues pertaining to the accounting framework which were not intended by the FASB to be addressed.

The accounting treatment of particular presentation issues were of concern to most of the interested groups. This suggests a desire by the constituencies to have some input into the basic direction of a standard. However, peripheral issues (such as the

classification on the financial statements) were not of concern to a majority of the constituencies. The accounting constituency commented more frequently on presentational characteristics than did the remaining groups who were more frequently concerned with the issues which would affect their group.

Porter drew several implications from the analysis of this case study. First, certain elements of bargaining or political actions were noted in the responses, particularly in those of the banking group. Since coalitions within the constituency may be expected to shift, then policy views were assumed to also alter resulting in policy decisions not necessarily being consistent and/or cohesive if they are affected by bargaining. Second, few of the responses utilized analytic techniques. Based on the observation it was argued that FASB should strive to encourage more responses from those groups which rank highest in terms of their analytic input. Conversely, the Board should strive to dissuade those responses which represent bargaining or which address issues immediately relevant to the standard. They should do this by screening preliminary drafts of FASB communications to insure that responses are not generated due to a misinterpretation of the issues. Third, the dichotomy between the accounting constituency and the remaining respondents suggested heterogeneity of attitudes toward the objectives of financial statements and suggesting the completion of the conceptual framework project was of paramount importance.

However, as Porter argued, since intergroup conflicts are

still likely to occur between the FASB and its various constituencies to shifting goals or differing perceptions of the objectives, bargaining is likely to reappear and, to the extent it impacts on the standards, the FASB should explicitly recognise and represent such forces in its analysis to reduce the expectations of interested parties in relation to strictly analytic standards.

In general, Porter's study is subject to the same criticism as those discussed above for Watts and Zimmerman (1978).

Brown (1979,1981) has attempted to (1) describe characteristics of preferences expressed by respondents, and (2) to evaluate the degree of FASB alignment with those preferences. Nine primary topics were selected for analysis. Within the nine projects, the analysis was limited primarily to discussion memorandum responses.

Policy questions for the nine projects were used as the basis for data extraction. Respondents' preferences for each policy question were extracted from their submissions to the FASB. Three positions were deemed to be possible for each question: (1) yes; (2) no; (3) neutral or no response.

Multidimensional scaling (MDS) was used to address the following question: are there systematic groupings or relationships of input preferences of the twenty-seven FASB respondents? Discriminant analysis (DA) was used as a complementary technique to MDS.

From the results, Brown concluded that distinct heterogeneity along a 'preparer/ attestor' dimension was discovered. He also found that the FASB did not align itself with any single group consistently, suggesting either compromise between board members (an intermediate position) or unstable coalitions.

Although Brown's study, in contrast to the research Watts and Zimmerman (1978), considered all interested parties in the standard setting process and in more than one standard, the study suffers from similar research problems related to the use of positivistic approaches as addressed in the above critique of the work by Watts and Zimmerman. These are: (1) the emphasis on the visible relations (written submission), ignoring the invisible ones. (2) the emphasis on the causal link (stated preferences and the outcome, ignoring the unanticipated consequences, and (3) the focus on the written submissions implicitly means that the study assumed that the role of the interested parties is just to react to the FASB at only one stage (after issuing a discussion paper or an exposure draft). In so doing, the study failed to capture the interactive role, at different stages in standard setting, of these interested parties.

Newman (1981a), based on two characterizations of a priori voting power which have been developed and evaluated in political science and game theory, examined the effect of historical size and rule changes in the APB and FASB on the power of various constituencies given explicit assumptions regarding bloc voting. He found that none of the changes had significantly affected the

voting power of Big Eight representatives.

Although Newman's study drew explicitly on the concept of power, it suffers from two types of problems. Firstly, the study, by adopting the one dimensional view of power, suffers from the problems of this model discussed in Sub-Section 4.1.1. Secondly, it also suffers from the same problems of positive research discussed in this Sub-Section.

The conclusion from this Sub-Section is that studies concerned with accounting standard in the US context are dominated by the positivist methodological approach. By adopting this approach, the emphasis of these studies was on visible, simple, static causal relations between interested parties and the FASB. All these studies focused on the written submissions, ignoring the other ways of interactions particularly the invisible ones. All of them have tried to make a causal link between the stated preferences and the outcome, ignoring the unanticipated consequences. Even the studies utilising a power concept [such as Newman (1981a)] in their analysis, have selected a simple model of power (i.e. the one dimensional view) to accommodate the positivist methodology they adopted. In doing so the problems of these simple models of power (discussed in Sub-Section 4.1.1) are incorporated in their studies.

These studies, therefore, do not provide an adequate basis upon which to build for this study. Apart from the above problems, these studies are conducted in the US context with its greater formal government involvement which is markedly different from

the UK context where government involvement is minimal formally.

#### 4.2.3 Empirical Studies of Accounting Standard Setting in the UK Context

In the UK context only five empirical studies of the standard setting process have been conducted. These are by Sutton (1980); Tonkin (1983); Hope and Gray (1982); MacArthur (1985); and Ibrahim (1986). Only two of these studies [Hope and Gray (1982) and Ibrahim (1986)] address "power" in their analysis. In this Sub-Section these studies will be discussed and critically evaluated. The aim of this evaluation is to demonstrate that they are inadequate as a stock of knowledge upon which this study can build.

Sutton (1980) examined the response of one group (Corporate management) to a proposed accounting rule (ED 18 "Accounting for Inflation"). The study, following Watts and Zimmerman (1978), assumes that managers are influenced solely by economic considerations. From an economic point of view, a company will only actively support or oppose a proposed standard if the perceived benefits to it from doing so exceed the costs. The corporate preferences conveyed to the ASC reflected managers' assessments, not only of the effects of the proposed standard on their company but also of their influence over the ASC's decisions. The first part of the study examined in detail the conditions under which management will lobby the standard-setting body. It is shown, building on Downs' (1957) analysis of the economics of political action, that the decision to lobby is also susceptible to a

cost-benefit analysis.

The second part of Sutton's study tried to identify the economic effects of one proposed UK financial accounting standard (i.e ED 18 Accounting for Inflation), as perceived by companies which decided that lobbying was worthwhile. UK companies that made submissions in 1977 to the ASC's Inflation Accounting Steering Group were divided into two groups, supporters and opponents, based on their stated position regarding the adoption of Current Cost Accounting, CCA, in the primary financial statements. Using prior research and an analysis of the submissions, four economic effects of adoption of CCA [on bookkeeping and the production of financial information; corporate taxation; other government policies (e.g., Price controls, regulation of monopolies); and debt contracts] were highlighted. Respondents were assumed to have weighed the consequences of CCA in all four areas. Supporters expected, overall, a net benefit from its adoption, opponents a net cost.

Sutton's results did not confirm his hypothesis. The discriminant function was unable to distinguish successfully CCA's supporters from its opponents. This led Sutton to criticise himself on the ground that his classification of stated preferences into supporting or opposing may have been incorrect, and the possibility that the hypotheses might not have captured all the variables.

Following Watts and Zimmerman (1978), Sutton's study suffers from the same problems of positive research discussed in

Sub-Section 4.2.3. First of all, Sutton's study attempted to build causal link between stated preferences and the outcome of a proposed standard (i.e ED 18 accounting for Inflation). This is problematic in the sense that it ignores the unanticipated consequences and the unintentional effect of the other interested parties. Also, the study considered only the written submissions. In so doing, it ignored the other visible ways of interactions and ignored completely the invisible ones. In addition, the study characterised the role of the corporate management as just to react to the ASC in the form of written submissions, and in turn it failed to capture the interactive role of these corporate management and others at the different stages of setting the standard. Furthermore, by focusing on the role of corporate management, it failed to locate such a role in context of the role of the other interested groups. Finally, the study failed to locate the interaction related to the Inflation Accounting Standard (specific level) within the interactions concerning the process of setting accounting standards on the more general level.

Tonkin (1983) characterised the accounting standard setting processes in the UK as a simple majority voting process in which the letters of comment are characterised as a collection of votes on proposals put forward by the ASC in an exposure draft. It is hypothesised, in this study, that a simple majority of votes would be sufficient to determine the outcome for a proposal. The outcome is characterised as the change between an Exposure Draft and its related Statement of Standard Accounting Practice.

Tonkin examined the written submissions of all exposure drafts published from mid 1977 to 1980 (excluding the inflation accounting exposure draft). Data analysis concentrated on an investigation of the relationship between the stated preferences of participants and the outcome of the process. In particular, two measures of the strength of association between these stated preferences and the changes from the original proposal to the final accounting standard were developed. These measures, called "influence" and "sensitivity", enabled distinctions to be made between the various classes of individual participants to assess their impact on the UK accounting standard setting process.

The results from this study demonstrated that (1) votes do count. In other words, the UK accounting standard setting processes are demonstrably political, (2) a significantly greater sensitivity is given to the votes of professional firms of accountants, and to the votes of representative bodies of accountants, than to the votes of companies. These results, according to Tonkin, suggest that further research needs to be conducted to establish any causal mechanism which may be operating.

Tonkin's study suffers from the positive research problems discussed in the previous Sub-Section. Although Tonkin considered more than one exposure standard during the period from mid 1977 to 1980, his analysis is still limited to the interaction after the exposure draft, ignoring the interaction in the other different stages of the standard setting. Also during the selected period of study (1977-1980), it can be argued, there was intensive

interactions between the interested parties and the ASC on the process of setting accounting standard on the more general level.

Tonkin, by adopting a positive research methodology, was unable to link such interactions on the more general level with the interactions on the specific level.

Hope and Gray (1982) applied Lukes' one dimensional view of power, to the development of a single accounting policy statement -the ASC's statement on Research and development (R and D). The aim was to identify causal relations between actions, opinions of the industry, particularly the aero-space industry, and the actual behaviour of the ASC.

The selection of R and D as the issue for consideration was not, according to Hope and Gray, an arbitrary one. 'In the first place the ASC issued two exposure drafts and one accounting standard on the topic each of which, by using almost identical arguments, came to very different conclusions. These three policy statements thus provided a good opportunity to identify causal relationships between actions, opinions and events and ASC behaviour. Secondly, unlike, for example, the topic of inflation accounting which has ramifications for the whole of financial reporting and has produced a daunting weight of opinion and activity, R and D is a reasonably self-contained topic, which has not generated a voluminous literature. Finally, it was reasoned that the determination of R and D policy would be less subject to such 'non-accounting' factors as inflation rates, currency exchange

rates ....' (p.537)

Hope and Gray argued that 'SSAP 13 advocates the immediate write-off of all research expenditure and the possible capitalization of development expenditure meeting certain criteria. It advocates disclosure of movements on deferred development expenditure and the amount carried forward at the beginning and end of the period. These are quite different requirements from those stipulated by ED14 where full immediate write-off and full disclosure were called for.'(p.454) The research question was: What has brought about this reversal of opinion? The answer to this question, building on the examination of the written submission, was that on both the key issues of accounting treatment and disclosure the views of industrial opinion have prevailed -i.e that companies and their representative bodies had power to overturn policy statements with which they disagreed. Hope and Gray identified what they claimed was the causal link between actual behaviour and outcome. As they stated 'the study of actual behaviour (the submissions to ED14 and ED17) suggests that the specific outcome (the recommendations of SSAP13) of the decision making process (the formulation of an R&D policy) was determined by the aerospace industry.' (p.551)

Although Hope and Gray directed the attention of accounting researchers to addressing power, using a political and sociological framework, in the process of setting accounting standards, their study is limited by the adoption of a simple model of power (i.e the one dimensional view). First of all, the study, as shown above,

seek to identify causal links between the preferences of a particular interested group (i.e aerospace industry) and the outcome (SSAP14). This is problematic in the sense that it ignores the unanticipated consequences and unintended effects by other interested groups. Also, the study characterised the companies as holding power and the other groups ( i.e interested group and the ASC) as not. This again is problematic from a Foucauldian perspective in the sense that power is not possessed by any party or group, it is rather exercised in and through interactions. Accordingly, the study ignores the relational nature of power. For example, although Hope and Gray, indicated that the treatment suggested by the aerospace companies was also suggested by accounting firms. But they deny the effect of the accounting firms recommendation on the outcome. As they stated: 'As no evidence can be found that the ASC has changed its stance on the accounting treatment issues because of pressure exerted primarily by the auditing profession, this second factor (the recommendation advocated by the accounting firms) is deemed to be of dubious importance' (p.545) This is a simple argument by Hope and Gray, and it is due to the simple model they adopted with its inability to capture the relational nature of power. Considering such a relational nature of power, it is possible to suggest that the recommendation of the accounting firms, intentionally or otherwise, might support the industry's recommendation and in turn has an effect on the outcome (SSAP13). In addition, Hope and Gray, by adopting the one dimensional view of power with its emphasis on the actual behaviour (visible) ignored the invisible interactions between the ASC and the companies. In doing so, their study failed

to reveal the disciplinary, positive aspects of power in setting the R and D standard. Also, by adopting the one dimensional view of power, Hope and Gray, failed to locate the power relations on this particular standard (SSAP14) within the wider context of interactions and power relation concerning the process of setting accounting standards at the more general level. Finally, by focusing the study on one single issue (SSAP14), Hope and Gray failed to consider the effect of the nature of standard and the time of it being issued on the nature of power relations.

MacArthur (1984), following Watts and Zimmerman 1978 and Sutton (1980), investigated some of the economic factors that motivated UK corporate management to lobby the ASC in response to selected exposure drafts of accounting standards. The basic research question was: 'Why did corporate management of UK companies show explicit concern for proposed accounting standards, as evidenced by their lobbying frequency and expressed preferences, when the capital market effect of alternative accounting methods has been largely discounted?' (p.16)' In other words, what factors motivated the corporate management of UK companies to lobby the ASC and determine the expressed preferences?

The investigation was restricted to the corporate 'comments' on twenty-three EDs issued between 1970 and 1982. The frequency with which companies lobbied the ASC on twenty three EDs issued between 1970 and 1982 was compared with proxy-variables. Statistical methods used included multiple discriminant analysis, multiple regression, and various univariate tests. Some supportive

descriptive evidence was reported of perceived economic consequences from proposed standards, both from the text of corporate 'comments' and also gleaned from the 'annual reports and accounts' of companies which had lobbied the ASC.

From the results of the empirical tests, supported by some descriptive analyses, MacArthur maintained that their hypotheses (that some potential economic consequences of proposed accounting standards did appear to be important factors in motivating both the frequency and content of 'corporate' submissions to the ASC) had been substantiated.

MacArthur's study suffers from the same problems of other positive research discussed in the previous Sub-Section as well as in Sutton's and Tonkin's studies. All of these studies, by adopting a positivist approach with its major concern on visible, static causality, focused on the link between the stated preferences in the written submissions.

Ibrahim (1986), based on influence theory, tried to answer the following questions:

1. Why and how have the industrial companies in the UK tried to influence the ASC?
2. How much success have they achieved and what are the reasons behind this success?

In the light of influence theory, Ibrahim characterised the

industrial organisations as influencing agents, and the ASC as a target of influence. Using empirical evidence derived from the written submissions on exposure drafts in four accounting standards (Accounting for Depreciation, Accounting for R&D, Accounting for Deferred Taxation, and Accounting for Value Added Tax). The first three were chosen because these were contentious standards with attempts by the companies to influence the ASC, while the fourth one was chosen because it was a non-contentious standard without clear influence attempts.

Using empirical evidence from the written submission on these standards and some theoretical explanation from the accounting literature the study concluded:

1. There is a motive behind exerting influence over the ASC by these companies. This motive was the effect of the Depreciation Standard on distributable profits, the effect of the R&D standard on cash flows, and the effect of the Deferred Taxation standard on liabilities and net earnings. All of these are traceable to concerns with of organisational growth and survival.
2. Although the ASC, as a target of influence, possessed the characteristic of resisting influence, there were opportunities for influence. This was claimed to be because its resistance to influence is reduced, to some extent by its "motive base" and its "cognitive basis".
3. The companies' success in exerting power on the ASC was attributed not only to the characteristics of these companies (the influencing agent) or the characteristics of

the ASC (the target of influence), or the methods and types of influence, but, also and of greater importance, to the interaction of all of these elements as a whole.

Ibrahim's study, by adopting the subjectivist approach on power and influence discussed in Sub-Section 4.1.1, incorporated the defects of this approach in understanding the relationships between companies and the ASC. Firstly, it characterised this relationship as one way from the companies to the ASC and not from the ASC to the companies. Secondly, it considered written submissions as the only method of influence. This means that it focused on the visible ways of interaction, and even within these it emphasised only on the written submission, ingoring other visible ways of interactions such as meetings between the companies and the ASC. Thirdly, the study ignored the effect of the other interested groups on the relationship between the ASC and the companies. Fourthly, it linked the outcome (i.e SSAPs) to the influence attempt by the companies. This is problematic in the sense it ingores the influence of the other interested parties, intentionally or otherwise, on SSAPs. In conclusion, the study, by adopting a simple model of power (the one-dimensional view) failed to capture the complex nature of the process and the dynamic of the interactions and power relations in the process of setting accounting standards.

Summarising this Sub-Section it can be seen that although the studies about the process of setting accounting standard in the UK, were conducted in a different context from that in the US,

all these studies [with the exception of Hope and Gray (1982) and Ibrahim (1986)] have tried to replicate the studies conducted in the US context particularly by Watts and Zimmerman (1978). In so doing, these studies are subject to the same criticism addressed to other positive research discussed in the previous Sub-Section.

Although Hope and Gary (1982) and Ibrahim (1986) adopted a different methodological approach from the positivist one, their studies adopted a very simple model of power and influence (i.e. the one dimensional view of power). In so doing the problems of this model of power are incorporated in their analysis.

Accordingly, these studies although they are conducted in the UK context, are inadequate to satisfy the need of this study's concern.

The conclusion of this Section is that although there is a growing recognition of the political dimension of accounting standards, such recognition is shaped by understanding the process in terms of economic and political consequences, rather than understanding the process itself as having its conditions of possibility dependent upon power relations.

The recognition of the political aspects of accounting standards has generated considerable empirical studies about the political aspect of accounting standards in both the US and UK. Some of these studies are drawing implicitly or explicitly on the concept of power. Most of these studies suffer from epistemological

and methodological problems. The epistemological problem is reflected in the focus of these studies on tight theoretical development and using empirical data only for verification purposes. The methodological problem is reflected in these studies in their emphasis on the visible, simple, static causal relationships. In so doing, these studies failed to capture the dynamic and complex nature of these relationships in the process of setting accounting standards. Even the studies which addressed the power concept, provided only a limited analysis by adopting a simple model of power (the one dimensional view). In so doing they failed to fully capture the nature of the relations of power exercised in the process of setting accounting standards.

Accordingly these studies are an inadequate basis upon which to build for the purposes of this study.

#### 4.3 ACCOUNTING STUDIES INFORMED BY FOUCAULT'S APPROACH

In the previous two Sections a wide range of literature has been critically evaluated in terms of its usefulness or otherwise for this study. Using a Foucauldian perspective it was demonstrated that the literature discussed is inadequate to satisfy the need of this study's concern. Foucault's work on the other hand, does provide a powerful methodological approach and basis upon which to build to satisfy the need of this study's concern. This approach informed some of recent accounting studies covering a wide range of accounting topics. In this Section these studies are critically reviewed to reveal the way they approached Foucault's insights, and

in turn, to avoid some of the problems which accompanied their attempts.

Most of these studies [i.e. Burchell et al (1985); Hopwood (1987); Miller and O'Leary (1987); Loft (1986); Hoskin and Macve (1986, 1988); Robson (1988); and Preston (1989), as we will discuss below, explore the conditions of possibility for the emergence of particular accounting practices and accounting bodies and, more generally, the interweaving between accounting and the social.

Burchell et al's study (1985), adopting a historical genealogical approach, is concerned with the sudden upsurge of interest in value added that occurred in the United Kingdom during the late 1970s. As they indicated '..it is precisely our interest in the relation between accounting change and social change that motivates this study of value added.' (p.487)

They identified three arenas, namely the explication of standards for corporate financial reporting the management of the national economy and the functioning of the system of industrial relations. In the discussion of these arenas Burchell et al have attempted to outline a three branched genealogy of the specific social space within which value added appeared and developed. As a consequence of tracing this genealogy, the space which the value added event occupied is seen to be comprised of a very particular field of relations which existed between certain institutions, economic and administrative processes, bodies of knowledge, systems of norms and measurement, and classification techniques.

The study of this particular accounting change enabled them, as they argued, not only to move towards grounding accounting in the specific social contexts in which it operates but also to raise and discuss what they see to be some important theoretical issues which have to be faced when seeking to understand the social functioning of the accounting craft. (p.408)

Although Burchell et al adopted a Foucauldian genealogical analysis they did not clarify the nature of this type of analysis to the reader before using it in their accounting study. Also, although the core element of genealogical analysis is the mutual relationships between power and Knowledge, Burchell et al did not explore such relations -the word "power", for instance, was never mentioned in their analysis.

Hopwood (1987) reviewed and evaluated existing perspectives on accounting change. Thereafter three examples of accounting change were discussed. Based on these cases, a number of theoretical issues relating to the understanding of the process of accounting change was examined. Emphasis was placed on the diversity of factors implicated in accounting change, the constitutive as well as reflective roles of accounting and the ways in which accounting change can shift the preconditions for subsequent organisational changes.

Hopwood argued that 'although a great deal of attention has been devoted to the history of accounting, most of the studies that are available have adopted a rather technical perspective

delineating the residues of the accounting past rather than more actively probing into the underlying processes and forces at work.' (p.207)

Hopwood's investigation at least has served, as he argued, to illustrate the possibility for an analysis of accounting change that is not dependent on abstract conceptions of potential and does not impose any unifying orchestration of action. It also aims to have indicated the ways in which historical analyses can give insight into accounting dynamics. Recognising that the roles that accounting serves cannot be considered in isolation of the practices of the craft. In other words there is a need for an appreciation of the specific practices that constitute the craft and the organisational processes which endow them with significance and meaning.

Hopwood's study is subjected to the same criticism addressed to Burchell et al's study. These are: (a) the study did not clarify the nature of Foucault's analysis to the reader before using it in the accounting context, and (b) the study did not address power relations which underlined these accounting changes.

Miller and O'Leary (1987) have argued that cost accounting is not simply a process of collecting and processing data on productive performance that can be explained by functionalist or class-interest based theories for organisation control. In other words, instead of an interpretation of standard costing and budgeting as one stage in the advance in accuracy and refinement of

accounting concepts and techniques, it is viewed as an important calculative practice which is part of a much wider modern apparatus of power which emerges in the early years of this century. The concern of this form of power is seen to be the construction of the individual person as a more manageable and efficient entity. This argument is explored through an examination of the connections of standard costing and budgeting with scientific management and industrial psychology. This knowledge is then related to others which, more or less simultaneously, were emerging beyond the confines of the firm to address questions of the efficiency and manageability of the individual.

In defining their concern as with the 'construction of the governable person' they would not want to imply an image of a totally obedient individual. They wanted rather to examine the power relations in terms of which the lives of individuals are viewed, measured and supervised. In gesturing towards recent developments within accounting they wanted to suggest ways of interpreting the construction of the notion of complex persons as a rationale for a series of practical interventions. In so doing they suggest that accounting today can be viewed as expressing, albeit in a considerably modified form, a mode of exercising power in the formulation of the subject which was installed in the early decades of this century.

The problem with this study, as Boland (1987) indicated, is that although it used the power-knowledge thinking of Foucault, 'the readers are spared from a review of Foucault's insights into

knowledge and power in the modern world. They have not told us how someone could, someday, do a study using that important scholar's ideas. Instead, they have gone ahead and done it.... And so they could always be criticised for errors of omission, for glossing too lightly over important points or for failing to fully capture the beauty and promise of Foucault's insights.' (p.267)

Loft (1986), adopting Foucault's genealogical approach to history, has sought to challenge the view of accounting as a purely technical matter outside the realm of the social. Some general ideas concerning the nature of cost and management accounting and its role in society were developed and, as an example of how accounting might be researched from this critical perspective, cost accounting in United Kingdom in the period of the First World War and the years following was examined in some detail. The very diverse ways in which cost accounting and cost accountants were involved with the social and political life of the period in which they were living was illustrated. The relationship between accounting and society, according to Loft, must not simply be seen as one way -accounting reflecting the wide society in which it exists. Accounting itself has a constitutive role.

Although Loft adopted Foucault's genealogical approach to history, she did not inform the reader explicitly the nature of this approach and its relevance to her study. But this information is important to the reader in the sense that it will help him/her both to fully understand what is being said as well as to provide him/her with the way to implement this way of thinking in other

studies.

Hoskin and Macve (1986) argued that it is inadequate to attempt to explain the significance of accounting in modern society by identifying any clear link between its use and the improvement of rational economic decision taking. Accordingly, they suggested that the historical elaboration of Foucault's concept of "power-knowledge" can explain both the late-medieval developments in accounting technology and why the near-universal adoption of a discourse of accountancy was delayed until the nineteenth century. The main argument of Hoskin and Macve was focused on two separate developments: the invention of a particular accounting system, double-entry, taking place in the thirteenth and fourteenth centuries, and the much later social development of a discourse of accountancy, in the nineteenth century, wherein the double-entry system gained widespread adoption (and elaboration) and a professional network of accountants appeared. They departed from the conventional view of this late development (which normally links it in some general way to the Industrial Revolution), and concomitantly advance an explanation of the former development, in power-knowledge terms, as part of a general transformation in writing. They suggested that 'in order to explicate the problem of the interrelation between power and knowledge, that it is necessary to explore how these two major transformation in the practice of accounting are linked to transformation in the techniques for organising and creating knowledge developed by pedagogues -transformations which enable the emergence of new forms of power.' (p.106) In particular they focused on the examination

as a technique of knowledge and a technology of power.

Hoskin and Macve (1988) explored the suggestion that the preeminence of the USA in the development of cost and management accounting might be traced to the influence of the engineering graduates of the military academy at West Point, where a meticulous pedagogic system was devised by Sylvanus Thayer in the years after 1817, a grammatocentric system based on ubiquitous written archives and examinations utilising mathematical grading.

They have two objectives: firstly, to re-examine the published histories of two industrial institutions well known to have been instrumental in the early development of managerialism in the USA -the Springfield Armory in Massachusetts, and the railroads, particularly the Western Rail network in Pennsylvania (whose headquarters also happened to be at Springfield). They aim to identify how the West Point influence may have spread to them through the social network of its graduates. Secondly, to call for a re-examination of the original records of these institutions to verify this new history: for the records did not appear to have been examined previously from this "disciplinary" perspective.

Their overall concern is to re-analyse apparently economic-rational changes in accounting and accountability in a wider historico-theoretical frame which explains their development as aspects of a general shift in power-knowledge relations which Foucault characterised as the development of disciplinary power; and to identify where the crucial discontinuities from previous

accounting and management practices occurred.

The comment on Hoskins and Macve (1986) and (1988) is that these two studies have avoided some of the problems mentioned in the previous studies adopting a Foucauldian approach, in the sense that in utilising genealogical analysis, they emphasised the core elements of such an analysis (i.e the relation of knowledge and power) and they, to some extent, clarify the nature of such relations before embarking on their analysis. But, such a conception of power-knowledge is very much connected with relational, positive, unintentional aspects of power. These concepts, it appears, have been ignored in the two studies by Hoskin and Macve making their analysis to some degree partial and incomplete.

Robson's study (1988) has tried to enhance our understanding of accounting in its social context by an analysis of the establishment of the Accounting Standards Steering Committee (ASSC) by the ICAEW in December 1969. Following Burchell et al (1985), Robson identified particular arenas related to the emergence of the ASSC. The arenas were: corporate mergers and state policy; financial markets, industry and financial calculation; and the accounting profession and regulation.

These arenas were linked to the creation of the ASSC. He argued that if we look at significant developments in the context of accounting in the period when the ASSC was formed we find an increase in merger activity with a corresponding increase in the

issuance and reliance upon profit forecasts, and increasing general demand for financial information from security analysts, and some highly-published criticisms of accounting. Because of the tradition of self-regulation in the the profession, it responded by establishing the ASSC.

The comment on this study is that Robson did not provide any clarification of the nature of Foucault's work before embarking on the application of this approach in his study's context. Also, Robson, did not explore how these arenas, particularly the last one (self-regulation in the profession), did manifest themselves in the form of disciplinary techniques which rendered the emergence of the ASSC possible. This problem is due to, it is suggested, the concentration in Robson's work on one aspect of Foucault's work (i.e the conditions of possibility for the emergence of a particular event) and ignoring the other aspects such as the relationship between power and Knowledge, and the disciplinary, relational, positive aspects of Foucault's conception of power. These aspects of power are, for Foucault, essential in exploring the emergence of any event or any change.

Preston (1989), using a case study, attempted to reveal and explore the disciplinary technologies of Foucault, exercised by the British Inland Revenue which is seen to influence the bookkeeping and accounting practice of an organisation. The accounting process is seen to be inextricably involved in this technology, both as the focus of the Revenue's interest and as a facilitative technology which renders the financial transactions

visible to the Revenue's 'gaze'.

His study is therefore concerned with the impact that the extant powers and practices of the Inland Revenue have on the accounting practice at the organizational or micro-level rather than the historical emergence of these powers and practices and their interweaving with accounting. The organisation is seen as a site for the exercise of the Revenue's powers and practices and is therefore an appropriate context to research their effects.

Drawing on the work of Foucault, Preston's study suggested that 'the Revenue operates a disciplinary technology applied both at the level of the company and at the level of the directors. This technology, which not only includes legislation but extends beyond it, is based upon the principle of visibility and surveillance. The techniques employed include registration, categorization, administrative placement, the compilation of dossiers and the threat of investigation. .... The disciplinary ideal of creating the effect of continuous surveillance may never be fully realized. Resistance to the powers and practices of the Revenue is possible, the Directors of Axis could have decided to keep no records as a possible means of avoiding the Revenue's gaze rather than developing more sophisticated ones.' (p.411)

This articulation of the relationships between the Revenue and the company, is arguably problematic in terms of Foucault's analytics of relations of power. The articulation of the revenue as exercising power and the company as resisting such power, means

that the author is still trapped in the sovereign model of power. This model identifies a subject of power and a target of power and methods of influencing (one of them is the threat of punishment). Such articulation is clear in Preston's work as indicated above, and also is reflected in using the term 'powers and practices of the Revenue' through his work.

Although the major claim of the study is the connections and interweaving of the Inland Revenue and the organisation, such connections are not fully captured due to characterising the relationship between the Revenue and the Company as the former to exercise power and the later to resist it.

The conclusion of this Section is that although the studies discussed in this Section shed some light concerning the importance of Foucault work in accounting and managerial studies, these studies have, in the main, adopted Foucault's insights without introducing to the reader the nature of these new insights [such as Burchell, et al (1985), Hopwood (1987), Miller and O'Leary (1987), Loft 1986), Robson (1988) and Preston (1989)]. Also these studies picked on one aspect of Foucault's work, and dealt with it separately from the other aspects [such as Burchell et al(1985), Hopwood (1987), Loft (1986), Robson (1988) and Hoskin and Macve (1988)]. In addition, some of these studies did not fully capture the essence of some central tenets of Foucault's thinking [such as the relational nature of power utilized in Preston study (1989)].

The message of this study is that Foucault's work is a coherent whole and it is difficult to pick up certain pieces of Foucault's thinking and speak about them separately. To capture the full beauty and strength of Foucault's insights is only possible by adopting his work as a whole.

#### 4.4 CONCLUSION

In this Chapter the literature of accounting and finance and other disciplines is critically reviewed through the lens of a Foucauldian approach -outlined in the previous two Chapters. The aim of this critical review is to demonstrate that the stock of knowledge of this literature is inadequate to satisfy the need of this study.

The reason for reviewing disciplines other than accounting and finance is that this study has different aspects. These aspects are power, inter-organisational relationships, profession, regulation and accounting and finance. These aspects are addressed in the literature of different disciplines. Accordingly, there is a need in the context of this study to review all these disciplines. The first two Sections of this Chapter were devoted to looking at this literature. In the third Section, the accounting studies which have been informed by a Foucauldian approach were discussed and critically evaluated.

The conclusion of reviewing the literature from other disciplines is that the political and sociological literature of

power is inadequate to satisfy the need of this study's concern. This is because this stock of knowledge does not ask the question, which is the major concern of this study, 'How is power exercised?'. Also, the literature of inter-organization theory at both the general level (i.e. relations between the organizations and environment) and the specific level (i.e. relations between the organizations and the regulatory environment) is rejected in the context of this study as it suffers from epistemological and methodological problems. These problems led to oversimplification in the articulation of the relationships between the organizations and environment on the more general level and the organizations and the regulatory environment on the specific level. In addition, the literature of the sociology of the profession is rejected in the context of this study. This is because it emphasises the knowledge base of the profession, ignoring the constitution of this knowledge base. Finally, the literature of regulation is rejected in the context of this study due to: (1) it emphasises the economic nature of the regulatory process, ignoring the political and social nature, (2) it emphasises the legal form of regulation, ignoring the disciplinary forms, and (3) it focuses on the role of one group (industry) in the regulatory process, ignoring the role of the other interested groups.

The conclusion from the critical review of the literature of accounting standards is that although there is a growing recognition of the political dimension of accounting standards, this recognition is shaped by understanding the process in terms of its economic and political consequence, rather than

understanding the process itself with its conditions of possibility dependent upon power relations.

The recognition of the political aspects of accounting standards has generated considerable empirical studies about the political aspect of accounting standards in both the US and UK. Some of these studies draw implicitly or explicitly on the concept of power. Most of these studies suffer from epistemological and methodological problems. The epistemological problem is reflected in their focus on tight theoretical development and their use of empirical data as only a source for verification. The methodological problem is reflected in their emphasis on the visible, simple, static causal relationships. In so doing, these studies fail to capture the dynamic and complex nature of these relationships in the process of setting accounting standards. Even with the studies which addressed power, their analyses are limited by adopting a simple model of power (the one dimensional view). In so doing they fail to fully capture the nature of the relations of power exercised in the process of setting accounting standards.

Accordingly these studies are rejected in the context of this study as they are unable to satisfy its concern.

The conclusion from reviewing accounting studies adopting a Foucauldian perspective is that although these studies shed some light concerning the importance of Foucault's work in accounting and managerial studies, these studies adopted Foucault's insights without introducing to the reader the nature of

these new insights. Also these studies picked on one aspect of Foucault's work, and dealt with it separately from the other aspects. In addition, some of these studies did not fully capture the essence of some of Foucault's notions.

Thus by rejecting the existing literature in accounting and other discipline, it is suggested that the Foucauldian approach discussed in the previous two Chapters has great potential as a basis for the concern of this study. Bearing in mind some of the problems of adopting this approach in other accounting studies, the following three Chapters will be devoted to applying Foucauldian work in understanding the interactions and power relations between UK companies and the ASC.

CHAPTER 5

INTERACTION AND POWER RELATIONS  
ABOUT THE STANDARD SETTING PROCESS

5.0 INTRODUCTION

The ASC and the standard setting process, as it is shown in Figure 5.0, are dynamic in a sense that they have changed over the time since the creation of the ASC in 1970.

Considering this dynamic nature of the ASC and the standard setting process, and based on the Foucauldian model -discussed in chapters 2 and 3-, and the critical literature review -presented in chapter 4, this chapter has two connected purposes.

Firstly, to argue and illustrate -based on the materials available in the financial press and the ASC documents-, that the creation of the ASC in 1970 and the changes followed to 1988, as visible events during this period, were preceded and surrounded with invisible interactions and power relations between UK companies' finance directors and other directors, and other interested parties and the ASC concerning the accounting standards and the process of setting them.

This will, and in contrast to the previous studies discussed in chapter 4, both demonstrate and lend support to three points:

(1) the role of UK companies' finance directors and other directors in the standard setting process, can only be fully understood within the context of interaction and power relations between the ASC and other organisations concerned with financial reporting (2) this role of UK companies finance directors and other directors in the standard setting process is not just a reactive role in terms of written submission to the ASC, but also, and maybe more importantly, it is an interactive role in which different ways of interactions are involved; (3) the interactions and power relations between the ASC and UK finance directors of companies and the others are not only about specific standards, but they are also, to some extent, about the standards and the process of setting them more generally.

Secondly, and building on the above first purpose, to analyse, further, the disciplinary nature of power exercised in the standard setting process and to reveal its positive, productive effects for this process. Also to analyse, further, the relational nature of this power and to reveal its intentionality without a subject. This, in turn, will provide evidence that the attempt in the previous research, discussed in chapter 4, to understand the process of setting accounting standards in the light of sovereign model of power, is misleading.

The contents of this chapter, therefore, can be divided in two parts. The first part -covering section 5.1 to 5.4- is devoted to addressing the first purpose. The design and content of these sections is contained in summary form in Figure 5.0; each section

is concerned with each event depicted. The second part -covering section 5.5- addresses the second purpose.

**5.1 ICAEW'S STATEMENT OF INTENT AND THE CREATION OF THE ASC (1969/1970)**

The accounting standards programme was announced with the publication, in December 1969, of 'ICAEW'S Statement of Intent on Accounting Standards'. This Statement of Intent had five objectives, as follows:

1. To narrow the areas of difference and variety in accounting practice.
2. To disclose the accounting bases adopted when items in accounts depend substantially on judgement of values.
3. To discuss all departures from definitive standards.
4. To provide an opportunity for appropriate bodies to express their view on draft proposals for new standards.
5. To suggest improvements in accounting standards established by legislation.

In January 1970, the Council of the Institute created an Accounting Standards Steering Committee (ASSC), later renamed (ASC), to fulfil the objectives outlined in the statement of intent. The ASSC's constitution defines its objectives as follows: 'Bearing in mind the intention of the governing bodies to advance accounting standards and to narrow the areas of difference and variety in accounting practice by publishing authoritative statements in the public interest on the best accounting practice

which will wherever possible the definitive-

- a) To keep under review standards of financial accounting and reporting.
- b) To publish consultative documents with the object of maintaining and advancing accounting standards.
- c) To propose to the Councils of the governing bodies statements of standard accounting practice.
- d) To consult as appropriate with representatives of finance, industry and government and other persons concerned with financial reporting.

The publication of the Statement of Intent on Accounting Standards by the ICAEW and the creation of the ASC in 1970 as visible events at that time, we argue and demonstrate in this section, were preceded and surrounded by invisible interactions and power relations between UK companies' finance directors and other directors and other interested parties and the professional bodies. These interactions and power relations manifested themselves in a variety of ways which are depicted in a diagrammatic form in Figure 5.1 and described below.

However, before proceeding to look at these ways of interactions and power relations, it is important to make general comments about the nature of Figures 5.2 to 5.4 as well as resolve, at this stage, one prior matter concerning the distinction between visible and invisible interactions and power relations. These Figures are built upon Foucault's model outlined in chapter 2 and 3 in which power is seen as a network of relations which is exercised

from different, dispersed points through disciplinary techniques. The effects of such disciplinary techniques are not invisible in a sense that it is exercised upon the individuals even without their knowing.

Two types of interactions are contained in the Figures. The first (depicted around each circle) refers to indirect interactions and power relations such as published articles, speeches by officials,.....etc. The direct interactions (such as meetings between ASC and finance directors) are depicted around the central line of each circle. Each circle represents the interactions and power relations in one year and it needs to be read, with the code given at Appendix (B), horizontally (to see the time of interaction starting from January to December each year) and vertically (to see the type of interaction) at the same time.

Both types of interactions (direct and indirect), it is argued, although they are visible in terms of their appearance, are invisible in terms of their effects upon the interactors. For example, published article in the financial press (as a way of indirect interaction) and a meeting between the ASC and some of finance directors (as a way of direct interaction) are both visible in terms of their appearance, but they are invisible in terms of their effects upon the thinking and acting of both the standard setters (ASC) and the companies' finance directors and other directors and other interested parties.

In 1969, as it is shown in Figure 5.1, the publication of the

Statement of Intent was preceded by the following forms of interactions and power relations.

Mr M. Greener (69.1) wrote: 'it seems that very little effect is being made towards standardization'. He was invited by The Accountant to review the position from inside the profession about accounting standards his findings were revealed in three articles (69.2), (69.3), (69.4) with the aim to stimulate thought and provide further comments. In these articles, Mr Greener argued that unless members of the accounting profession recognize and accept comments both in the preparation of accounts and in auditing them, and apply such standards consistently, it is not surprising if the reports they produce tend to be confusing to the lay reader.

Professor Stamp (69.5) suggested that the profession was rapidly approaching a crisis of credibility and argued the case for the development of a new approach to the development of accounting standards. This provoked comments from Mr Waldron (69.6) in which he said 'it is true that, as compared with the USA, we in Britain have been less involved as a profession with philosophical argument on 'postulates', nor have 'accepted conventions' the same absoluteness that is often sought in America. 'Perhaps there is room for this greater academic examination in a learned profession, although, on intellectual bias has its own pitfalls.'

Mr Devhurst (69.7), commenting on Professor's Stamp article and on Mr Greener's articles, said that 'There has recently been a good deal of comment in one form or another which has been critical

both of accountants and auditors. In my view these criticisms have arisen because the basic position of the auditors is wrong, and because the basic aim of published accounts has been lost sight of.'

Commenting on Mr Dewhurst, Mr Cooper (69.8) said: 'I think Mr Dewhurst should be explicit on two points: (1) How does he distinguish between a limited company and its ordinary shareholders? (2) Is his concern for (a) the present ordinary shareholders or (b) possible future ordinary shareholders who would like information which might enable them to make a profit on a purchase of shares to the detriment, of course, of the existing shareholder who will sell his shares or (c) the company's competitors or (d) the financial press.'

Mr Greener (69.9), commenting on Mr Dewhurst, said that 'Mr Dewhurst wishes auditors fees to be paid by some central organisation, though he does not say to whom they should report. Would it not be better if fees were paid as at present but that reports were made directly, and in the first place, to the Board of Trade for it is the Board of Trade that approves auditors on behalf of shareholders?'

In reply to Mr Cooper and to Mr Greener, Mr Dewhurst (69.10) said, replying to the former, 'I would say that published accounts are provided for the present shareholders of the company. Of course, this information should be, and is, available to everyone, i.e. the public. My argument is that, this being the case, such

accounts should not only be intelligible to the public, but also be prepared on understandable and sensible accounting principles. I do not think they are.' He said, replying to the letter, 'I do not think auditors should be authorized as they are now effectively - by the directors. That way they must be liable to various influences and pressures to which they should not be.'

Addressing the annual dinner of Manchester Society of Chartered Accountants, Lord Shavcross (69.11), chairman of the City Take-Over Panel, said: 'In this country (UK) accountancy is perhaps regarded as more of an art and it sometimes appears that many different views may be held about the proper way of dealing with the same matter. Thus, questions of valuations of stocks, valuation of work in progress, the proper depreciation policy to be adopted by a company, how much research and development expenditure should be written off, how to deal with the business of associated companies all seem to be matters on which a wide range of differing judgements are permissible.'

In a report on Lord Shavcross' speech (69.12), and in a press article (69.13), there was a call for the accounting profession to reduce investors confusion and anxiety by tidying up accounting principles. This provoked a response from Mr Parker (69.14) in which he said: 'The truth is that there is a wide measure of agreement on accounting principles, not just in this country but throughout the English speaking world. Of course, as in any profession, there are unsolved problems and divergences of opinion, but as has already been said publicly, when important differences

arise over the measurement of profit they are most often not accounting principles but on the application of them to what are essentially matters of commercial judgement.' This reply, in turn, provoked comment from Professor Stamp (69.15) in which he said: 'Mr Parker states, for example that 'it is an accepted principle that the stocks and work in progress of a going concern should not be brought into account at more than they will fetch on realization in the ordinary course of business.' 'This so-called principle', Stamp said, 'leaves the door wide open and, as a recent competent and highly professional study has shown, there are wide variations in methods of valuing stocks in United Kingdom companies which are not justified by difference in the circumstances of the companies. Yet all the variations fall under the umbrella of Mr Parker's 'principles'. This is surely exactly the situation of which Lord Shawcross complains.'

It was reported (69.16) that the ICAEW intended to advance accounting standards.

In an article (69.17), it was argued that a tougher line is required from the accountancy profession to standardize accounting procedures. This provoked comments from Mr Gear, Professor Lawson, and Mr Laugharne. Mr Gear (69.18) said: 'It would seem to me that while you state an ideal few would disagree with, you fail to fully appreciate the problems involved a mere directive from the Institute of Chartered Accountants is not enough, legislation to support it is vitally necessary.' Professor Lawson (69.19) pointed out that 'the real truth of the matter is that the so called

principles of accounting allow so much tolerance in application that the parties mentioned are, sooner or later, highly likely to arrive at results which, despite the fact that they differ, nevertheless command doctrinal support on both sides. That is to say, if the present situation is conflict prone, existing accounting principles constitute an important contributory factor.' Mr Laugharne (69.20) argued that 'There is great difficulty in matters such as stock valuation and fixed asset depreciation, in attempting to lay down rigid rules which are equally applicable to different situations and varieties of business. He said: 'a balance must always be kept between the need for common standards and the responsibility of the auditor for making an independent professional judgement.'

In 1970, one commentator (70.1) said: 'it is preferable to leave the accounting profession free to move towards standardization.'

The President of the ICAEW (70.2), in the annual dinner of the West of England Society at Bristol, talked about the Institute's Statement of Intent on accounting standards, and the role of the profession in maintaining standards and ethics.

Mr Devhurst (70.3) argued that 'simplicity and standardization, which are necessary to arrive at a single, meaningful figure for reported earnings in published accounts, are essential in the preparation of these accounts, if they are to be understood.' This provoked comments from Mr Beecham and from Mr

Glibbens. The former (70.4) said: 'In making his case for standardization in published accounts Jim Dewhurst sets out the problem in the terms in which it has been discussed for many years both inside and outside the profession, but it is doubtful whether these are such as to render it capable of an acceptable solution.' The latter (70.5) said: 'May I suggest, through your columns, a more practical answer to the problems raised by Mr Dewhurst than that given by him...' In reply to Mr Beecham and Mr Glibbens, Mr Dewhurst (70.6) said 'It seems sad to me that they mostly concentrate on the more negative of the two points that I have tried to make.....', emphasizing that 'what is required is substantial standardization of terminology and method of presentation, in reported accounts and, as well, some standardisation in the treatment of particular items in the accounts.'

Speaking at the annual dinner of the west of England Society at Bristol, Sir Ronald Leach (70.7) said that the Institute's statement of intent on accounting standards had been exceptionally well received particularly by such bodies as the CBI, the Stock Exchange, and the City Take Over Panel. Emphasising the role of the profession in maintaining standards and ethics, he said: 'There was, of course, much more to being a member of 'profession' than having initials after one's name, it implied interest in maintaining standards and ethics.'

Mr Laugharne (70.8) argued that a 'closed' view of accounting standards can defeat the object of a continual improvement in the

quality of the information in published accounts.

The president of the Scottish Institute (70.9), speaking at the Annual Meeting of the Institute, said that 'It (accounting standards) poses very difficult problems indeed, problems, to which no instant solution, but problems to which we must try to find the right answers. 'Failure to find answers to some of these problems on accounting standards could jeopardize the standing of the profession in a business community that is increasingly articulate and increasingly critical.' he said.

Sir Ronald Leach (70.10) announced, in March, that the ICAEW will have the first of its detailed, draft proposals for the reform of accounting methods ready for publication in June.

On 29 April 1970, Sir Ronald Leach (70.11), the President of the ICAEW, called an informal meeting of financial journalists to let the press know how the institute was getting on with its accounting standards plans.

In April, the ICAEW (70.12) issued the first Survey of Published Accounting. Commenting on this survey (70.13), it was said that 'it is a work which has a valuable contribution to the understanding of how accounting principles are applied in practice, and whose contents we expect to see much quoted in debate.'

In a press conference (70.14), Sir Ronald Leach, supported by two members of the Council, Mr Stanley Dixon, and Mr Douglas

Morpeth indicated the thinking and approach to the subject of accounting standards by the Council of the ICAEW, following the publication of the Statement of Intent (December 1970). Introducing the discussion, Sir Ronald Leach disclaimed any intention of presenting a rigid format of company accounts: even if this were possible, alternative forms would be necessary for different types of business. Mr Dixon, speaking as chairman of an industrial concern as well as an accountant, referred in particular to Professor Stamp's views as expressed in his recent book Accounting Principles and the City Code (The Accountant, April 16th). The third speaker, Mr Morpeth, was concerned with the auditor's independent duty of reporting. Commenting on this press conference, a press report (70.15) said: 'Not only is the Institute doing something about accounting standards: it is, at long last, taking pains to ensure that the world knows it is doing something.'

Addressing the ICAEW's Summer Course in Cambridge, D. Morpeth (70.16). Vice-President of ICAEW, called for new urgency on the accountants' programme of establishing standards practice in Britain. He said that recent disputes about the accuracy of financial statement might impair public confidence.

In a meeting, held in October 1970, between the Vice-Chairman of the ASC and the Chairman of Quotations Committee of the Stock Exchange at the later request, they discussed the means to carry on dialogue more closely with the ASC than through its observed member.

Sir Henry Benson (70.17), a past president of the ICAEW, talking about how management's role in relation to accounts can be improved, said: 'I don't think that it will be improved by further legislation.....what I think is necessary is a period of education during which management becomes aware of its obligation to a much greater extent than at present. This is one of the reasons why my Institute, only a few months ago, issued a document stating what the responsibilities of management were in relation to accounts.

On 10 December 1970, the ASC held a Plenary meeting in the presence of the members of ASC and of representatives of Issuing Houses Association, CBI, Panel on Takeovers and Mergers, Association of Certified and Corporate Accountants, The Stock Exchange, Society of Investment Analysts, and the Institute of Cost and Works Accounts. The Plenary meetings, it should be noted, are not empowered to take decisions binding on the ASC. They are informal association of organisations concerned with financial reporting. They have no formal terms of reference, no fixed dates of meeting even their title is variable 'Liaison group', 'Plenary committee', or 'Plenary meeting'.

The conclusion from this section is that there was a discourse during 1969 and 1970, as illustrated in this section, about the differences in the treatment of accounts dealing with the same matter and the urgent need for the publication of an accounting standards programme.

This discourse as shown in Figure 5.1, manifested itself in

the form of letters to the financial press [see (69.15), (69.18), (70.1), and (70.6)]; published articles [see (69.1), (69.2), (69.3), (69.5), (69.13), (69.14), (69.17), and (70.3)]; speeches by officials [see (69.11), (70.2), (70.7) and (70.16)]; press conferences [see (70.14)]. Involved in this discourse were accountants, auditors, academics, companies and profession. These groups interacted with each other through the financial press, as indicated in Figure 5.1 for 1969, in the form of writing letters in comment on articles [see (69.6), (69.7), (69.8), (69.19), (69.20)]; writing letters in reply to other letters [see (69.10)], or to to articles or to press comments or to speeches by official [see (69.11), (69.20), (69.14)].

This discourse, is connected in complex ways with the visible event of that time (the announcement of accounting standards programme in December 1969 and the creation of the ASC in January 1970).

## 5.2 SETTING UP WATTS' REVIEW GROUP IN FEBRUARY 1978

In February 1978, a review group was set up by the ASC under the chairmanship of Tom Watts with the following terms of reference:

'To review the process of setting accounting standards in the light of experience gained since the formation of the ASC in 1969 and to consider what improvements in that process could be affected.

To submit to ASC a draft consultative document containing the

recommendation of the Review Group which ASC could publish so as to obtain views and representations from all interested persons.'

In September 1978, the recommendations of the working party was published as a discussion paper. This visible event in 1978, we argue and illustrate in this section, was preceded and surrounded with interactions and power relations in a number of different forms. These forms are presented digrammatically in Figure 5.2 and described as follows.

In 1971, the ASC (71.1) issued a guidance note to the auditors to show how they deal with the departure from accounting standards. Mr Ken Sharp [(71.2) and (71.3)], in an article based on his talk in the annual conference of the Exeter and District Society of Chartered Accountants concluded that 'the effectiveness of the Company's programme depends not so much on enforcement as on the enthusiastic adoption by members generally of the Council's policy and the definitive standards.' He said: 'Let, therefore, all members adopt what is laid down, and if they are in disagreement, let them firstly make representations at the exposure stage and subsequently if they do not think the standard is working well, as it might not in practice, let them make further representations so that the matter may at the appropriate time be reviewed?.' In the same month, a press article (71.4), about accounting standards in the UK and its counterpart in US, said: 'since the intention to introduce accounting standards into the UK was first announced, the Chairman and Vice Chairman of the FASB have explained some of American problems and difficulties. In addition, Gordon Anderson

(71.5) discussed the reasons for the introduction of accounting standards and their probable repercussions. Furthermore, there was a Plenary meeting in May 1971 between ASC members and outsider organisations.

In 1973, Sir Ronald Leach (73.1) wrote, under the title 'The Role of the Accountant: Independence and Accounting Standards', that 'if accounting standards are enshrined in law, modification is far more difficult.' But, John Sull (73.2) argued that 'legal backing of standards is very necessary.'

In addition, the ASC, in its meeting held 13 June 1973, considered a draft statement explaining the obligation of accountants engaged in finance, commerce and industry as regards the maintenance of accounting standards.

In 1974, the ICAEW's Annual Survey of Published Accounts (74.1) revealed to what extent companies were adopting accounting standards. This provoked comments, from a spokesman from the English ICA (74.2) and from Sir Ronald Leach (74.3). The former said: 'the institute would be looking into cases in the survey where there had been an apparent breach of accounting standards. The latter said that he would like to see a more detailed breakdown of why companies had not followed or had only partially followed, accounting standards. Based on this survey, a press comment (74.4) suggested that only legislative backing would ensure adherence to accounting standards.

In addition, Department of Industry, Inland Revenue, Bank of England and International Accounting Standard Committee, after accepting the ASC invitation to attend a plenary meeting, attended the plenary meeting held in June 1974. In this meeting the Chairman of the ASC reported that he held a meeting with the Chairman of FASB in which the desirability of maintaining close links between the ASC and the FASB had been agreed.

In December 1974, it was reported (74.5) 'the ICAEW courses in 1975 will begin with a strong emphasis on accounting standards.'

In 1975, David Simpson (75.1) reported on the English ICA's survey of published Accounts, saying that 'The survey has thrown up two facts at least. The first is that in the case of some standards, universal compliance has swiftly been attained. On the other hand, considering the variety of treatment of the practices detailed in ASC standards and exposure drafts, the accountancy bodies, like good lawyers, are going to have to take some heed of the ways their regulation have operated in practice and tighten up the loopholes which have appeared.'

In two articles (75.3), (75.4), Professor Lee expressed his views about accounting standards and effective financial reporting. The first article was based on a paper (75.2) presented at the 22nd Summer School of the ICAS.

Addressing the English ICA's summer conference in Cambridge A. Forst (75.5), finance director of ICI, delivered a scathing attack

on accounting standards and the way in which they were applied in industry. He said: 'accounting standards were too strict in their application and left insufficient room for the vagaries and the characteristics. Based on this speech, he (75.6) wrote: 'The primary aim of accounting standards should be to produce a true and fair view of each particular business, and the accounting profession will not achieve this unless it adopts a more flexible and more practical approach to current problems.' Following this publicity, Mr Forst received a number of letters in support of his view. He (75.7) commented on these letters saying that: 'I don't want to suggest I have been deluged with letters, but obviously my remarks have struck a chord.'

The ICAEW (75.8) issued an Ethical Guide for members of the Institute to aid them to fulfil their duties towards the public, including those who retain or employ them, to the profession itself and to the other members of it.

Sir John Partridge (75.9), Vice President of the CBI, wrote about the objective of financial reporting and the industry's responsibilities.

In August 1975, the ASC (75.10) announced the publication of the Corporate Report as a discussion paper. Following this, the press (75.11) said: 'Scope and aims report calls for radical changes in accounting'; and it provided a summary and analysis of the report.

The Plenary meeting of liaison group of ASC was held on 29 October 1975 to discuss: (a) The Sandilands Report, (b) The Corporate Report.

Speaking at the Annual Dinner of the ICAS in December 1975, the President of the Scottish Institute (75.13), in defence of accounting standards, said: 'No one pretends that these standards are intended to be the last word on the subjects dealt with....'

In 1976, the ASC held a meeting, in January, with the Association of Investment Trust Companies. This meeting centered around the letter from the Association, dated 17 October 1975 in which the Association asked for special standards for particular industries using SSAP 6 as evidence for their arguments. Another meeting between the ASC and representatives of Building Societies was held in February 1975. This meeting was about compliance with accounting standards by Building Societies, and was based on a memorandum by the Building Societies Association -dated 2 January 1976-.

On March 31st, the ASC considered the Chairman's recommendation for developing the role of plenary meeting of ASC and for addition to the bodies represented at these meetings. The ASC believed at that time, that a number of advantages would follow enhancement of the role of these plenary meetings in the direction suggested. While avoiding the formality of public hearings, it would provide a forum of ventilating opinions, and exchanging views and assist ASC better to gauge reactions. Much misunderstanding or

resistance to proposed standards might be eliminated or at least modified by such exchanges, and the embarrassments of non-negotiable fixed positions reduced.

Accordingly, in the ASC meeting of March 1976, and after discussions, it was agreed:

(a) To redesignate plenary meetings 'the Consultative Committee of ASC.'

(b) To increase its membership by invitations to the following bodies:

- Insurance Association.
- Association of Unit Trust Managers.
- British Bankers Association.
- Institute of Directors.
- Association of Investment Companies.
- National Association of Pension Funds.
- National Economic Development Council.
- Trade Union Congress.

The Constitution and terms of reference for the Consultative Group of the ASC were considered at the ASC meeting of April 1976 as follows.

1. The ASC will established a Consultative Group composed of nominees of organisations represented of those concerned with financial reporting as producers or users of financial statements.
2. The number of members of the Consultative Group and the organisations invited to nominate representatives to it

shall be determined from time to time at the sole discretion of the ASC.

3. The Consultative Group will be convened by the chairman of the ASC at least three times each year.
4. The Consultative Group will be consulted by the ASC on matters relating to the programme, proposals and work of ASC.
5. The views of the Consultative Group will be reported to the ASC.

In a memorandum (76.1) to the ASC, the 100 Group of Finance directors had broadly accepted the aims of the Corporate Report. But took strong exception to some of the details.

John Symons (76.2) said that '.....I think the standards in the past have tended to be too mechanistic and too much of a straight jacket..... There's got to be flexibility: And I think it's beginning to come. I think its being recognised.'

Ian Teger (76.3), in reply to a question about taking an active part in the consultative side of standards, said: 'Yes, we appointed, about 15 months ago, an accountancy research officer and whenever we have had any reservation, we have made our views quite clear. He criticised SSAP 1 and SSAP 8 which has affected his company most directly.'

In a meeting, held in June 1976, the Consultative Group of the ASC discussed the general working procedures of ASC, The Corporate

Report, inflation accounting, and accounting for deferred taxation. This shows that the Consultative Group moved towards discussing specific standards.

In June, Sir Ronald Leach retired as a chairman of ASC and Sir William Slimmings took over. Following his retirement, Sir Ronald (76.4), in an interview, talked about the major problems of the ASC programme in its first five years, and the role of industry in setting accounting standards. Sir Ronald Leach said: '....the ASC, right from the beginning, had at least a third of its members drawn from industry....we also take considerable pains to get the composition of the working parties right. They are the people who actually do the work on preparing exposure drafts. And in some cases the Corporate Report was a good example we actually had a majority of industrial members on the committee....'

Tony Wilson (76.5), in an interview, expressed his views on the current state of accounting standards, and the role of industry in the consultation process. He said that 'there is not enough flexibility of accounting standards, citing SSAP 9 as an example.'

In August, the ASC (76.6) issued a statement of 'The Corporate Report'. The text of the statement said: '...the Report could be given specific expression by the development of accounting standards or guidelines to be adopted in practice.'

The DTI (76.7) issued a preliminary draft about 'Aims and Scope of Company Reports.' The paper, after welcoming the

publication of the Corporate Report by the accountancy bodies, made the following points. (1) What should be the purpose of company reports. (2) What new topics should in future be reported on? (3) The appropriate method of bringing these new topics for disclosure into regular practice. (4) Whether all companies, regardless of their size or the nature of their business should be required to publish the information. Following the publication of this draft, the CBI (76.8) mounted a scathing attack on it, claiming that 'neither the accountancy profession nor the government has asked the fundamental question of first, why there should be any company reports, at all, and second who are the people who should see what is actually happening in a company.'

David Hardy (76.9), in an interview, talked about the inflexibility of accounting standards, suggesting that industrial accountants must play a more active role in drafting standards.

Frederick King (76.10), in an interview, expressed his views about accounting standards arguing, that 'some standards are of considerable practical value and are necessary if accounts are to show the true position of a company. But others -I suppose deferred tax is the classic example- are in need of radical overhaul..... The trouble at the moment is that they are written like the Queen's Regulations and you have to obey them to the letter. The people who lay them down ought to draft in much more flexibility, so that if a board of directors think a standard is not applicable and the professional advisers agree then it should not be adopted.'

In October, the ASC considered a request from the Building Societies Association for membership of the Consultative Group.

B. Alexander (76.11), in an article, studied the formal aims of accounting statements, the effectiveness of accounting standards, and the interaction of accounting practice and legal disclosure requirements.

Peter Williams (76.12), in an interview, expressed his views about: (1) the Corporate Report and the subsequent 'Aims and Scope of Company Reports Consultative Document), (2) the relationship between the industrial accountants and the ICAEW. He said, regarding to the first point, 'I wouldn't disagree strongly with its broad recommendations, I think that it's too ambitious and rather impractical to incorporate everything in the report.' He suggested, regarding to the second point, that 'more time and publicity should be given to proposed changes in accounting methods..... and more communication between industrial members and institute should be exist.'

The ICAEW (76.13), (76.14) had launched a series of audio cassette/guidebook packages entitled 'Finance Managers' Guidelines'. The aim of these guidebook packages was to update the busy finance managers about the new accounting standards.

In 1977, Mr Stanley Kitchen (77.1), speaking at Manchester Society of Chartered Accountants, reaffirmed the view that the profession should not seek statutory powers which make accounting

standards compulsory.

Patrick Curtis (77.2) argued that the real trouble with standards is that, in many cases they are far too rigid. Also, James Miller (77.3) said that 'I approve of standards but only within a set framework. When a standard is essential then it should be flexible as long as the company's actions are made clear and there is no change on the standards effect.'

In March, the Consultative Group held a meeting at which the main subject for discussions were a report on the programme of the work of Inflation Accounting Standards Group, a report on the relationship between UK and Irish accounting standards, progress reports on the exposure draft on R&D, Depreciation, Deferred Taxation, and Foreign Currencies.

Kenneth Sherwood (77.4), under the title 'The Battle of the Standards', examined the relationship between International Accounting Standards and UK standards.

Desmond Wright (77.5), in an article titled 'Letting the public help setting accounting standards', wrote: 'Sir William Slimming and the ASC will no doubt be paying close attention to the conclusions of a study group set up to look into the workings of their American counterpart, the FASB. For the report published last week makes strong call for the FASB to open up its relations with all the people who makes use of financial statements, and to pay more attention performing the functions that these users

actually want.'

Charles Bracker (77.6) criticised accounting standards, saying that 'There seems to be a growing tendency towards becoming authoritarian and regrettably sometimes standards are insufficiently considered. He suggested that there should be 'much more discussion at branch level in the profession and a greater involvement of industrial accountants.'

In May, a group of Scottish Finance Directors (77.7) had been set up with the particular purpose of bridging the gap between the view of accountants in industry and accountants in the profession particularly in the debate on ED18 'inflation accounting.'

In a letter, dated 29 June 1977, the Chairman of the Auditing Practice Committee (APC) requested the ASC's views on departure from accounting standards in auditors' report. Following this letter, a meeting was held (27 July 1977) between ASC and APC in which it was agreed that, in order to improve communications between the two committees, the APC should be invited to send an observer to attend ASC meetings and the ASC would consider appointing an observer to attend APC meetings. Also, following a report from Professional Standards Committee (PSC) on the practical difficulties encountered in the interpretation of accounting standards, the ASC, APC, and PSC held another meeting -on 6 September 1977- with the purpose of discussing the way in which the three committees could co-operate in their work.

Professor Stamp (77.8) wrote, under the title 'Accounting Standards can the profession stir itself before the state steps in?' that 'The need for strict self-regulation by the profession, on this matter has been drawn to the attention of the profession's leadership by myself and others on many occasions. The response has invariably been one of bland and palsied complacency and indifference. It is with an increasing uncertain trumpet that the call for self-regulation is now being sounded.'

John Kirkpatrick (77.9), in an interview, expressed his views about communications between the profession and its non-practicing members, and about the aftermath of the inflation accounting debate.

The ASC (77.10) announced that 'the Future UK and Irish accounting standards are to be brought into line with international standards. This was welcomed by the Stock Exchange which decided to amend note 28 to the Listing Agreement to bring it into line with the practice to be adopted regarding departures from compliance with international standards.

David D. Rae Smith, senior partner of Deloitte Haskins & Sells, wrote a letter to Sir William Slimmings about the state of the accounting standards programme. This letter was publicised in March 6th 1979 with the written submission on Watts' consultative document. This shows that the organisations concerned with financial reporting not only react to the ASC invitation to

comment, but they also proact.

In a press comment (77.11), under the title 'Moves to bridge rift with industry', it was said that 'attempts are to be made to bridge the rift between industry based accountants and those in practice. As dissatisfaction amongst industrial accountants has grown over topics like accounting standards there has been a tendency to form industrial pressure groups like the 100 Group, the Midlands Finance Directors.' The comment indicated that 'pressure is growing for a series of small groups to be set up as off shoots of the chartered accountants district societies in much the same way as the small practitioners groups have grown over the past few years.' This, according to the comment, would enable grassroots industrial accounting ideas and theories to gain a wider currency than at present happens. At the same time, the London District society of Chartered Accountants, out of which the 100 group grew, had set up a committee to find ways of bringing the two areas of accountancy together.'

The Scots ICA (77.12) had launched a new attempt to bridge the growing void between members in practise and those in industry. It had set up a 13 man consultative committee of non-practising members, chaired by Douglas Macleod, Financial Director of Tennent Caledonian Breweries. John Kilpatrick (77.13) describe the committee as a sounding board for the council's ideas and a channel for bringing matters troubling non-practioners to the attention of the council.

Leslie Pincott (77.14) argued that '..... while difference of opinion do exist between industry and the profession, both have much to contribute to the development of new ideas. But I do not think that the views of non-practising accountants have been given the weight they deserve. In particular, I feel the profession is in danger of getting too bogged down in the minutiae of statutory accounts and auditing and not giving sufficient weight to the needs of business. That is one of the reasons why the 100 Group of Chatered Accountants in Industry was formed.'

P.Edge-Parkington (77.15), commented on the communication between industry and the ASC, arguing that 'the industrial accountants who actually write the accounts should play their part in the standard setting process.' He also, commented on the role of the 100 Group of Finance Directors in setting accounting standards, saying that 'It has achieved a platform from which the views of responsible members of industry are being heard. Not only heard by the Institute but to an extent by government as well. It has identified a definite need which you can see from the subsequent setting of the Midlands Group and the Scottish Group of industrial accountants.'

J.Greenside (77.16) claimed that the time had come for the ASC to go back to square one and take a long hard look at the standards it had already issued. He said, in defence of the profession, the institute was often criticised for being dominated by the practicing side, but it was only too keen to get industry and commerce to play their part.

T. Dengel (77.17) commentated on the role of industrial accountants in the process of setting accounting standards, saying that 'it was true that industrial viewpoint, in the process of setting accounting standards, was ignored a few years ago but I don't think that it is true now. The Institute of Cost and Management Accounting has its own representatives on the ASC to make sure that our voice is heard.'

In 1978, a meeting of the Consultative Groups was held on 12 January. The following points were reported and discussed: (1) ASC Review Group, (2) SSAP 12 Accounting for Depreciation, (3) SSAP 13 Accounting for R&D. (4) SSAP 8 The Treatment of Taxation Under the Implementation System in the Accounts of Companies, (5) Inflation Accounting, (6) ED 19 Accounting for Deferred Taxation, (7) ED 21 Accounting for Foreign Currency Transactions, (8) EDs in preparation (i.e. Post Balance Sheet Events, Accounting for Leases, Accounting for Pension Costs in Company Accounts and Analysed Reporting), (9) The Future of Company Reports, and (10) International Accounting Standards. Regarding to the first point, the chairman reported that ASC had set up a Review Group and invited all members of the Consultative Group to submit their views to the Secretariat of ASC for consideration by the Review Group.

Professor Grinyer, Mr G. Lowden (Financial Director of Wm Low & Co. Ltd) and Mr Miller were the three speakers at a meeting in Dundee (78.1) about the 'Accounting Standards Controversy'. Based on the paper presented at this meeting, Professor Grinyer wrote an article (78.2) with the aim to provoke discussion about accounting

standards, arguing that 'accounting standards are necessary but the ASC has not adopted the best strategy for meeting users' needs.' He suggested that the ASC should urgently consider the role of accounting standards and its composition with the intention of slimming down the ASC to a more effective size.

In February the ASC announced (78.3) setting up a review group under the chairmanship of Tom Watts who was appointed as a new chairman of the ASC in January 1978.

A meeting was held -on Febuary 2nd- between representatives of ASC, Parlimentary & Law Committee, and British Insurance Association (BIA), at the request of the latter, to discuss problems arising from the application of accounting standards to the financial statement prepared by the insurance companies. In this meeting, one of BIA representatives argued that 'there is a need for BIA to consult ASC on matters concerning accounting standards as most of them were framed with the needs of manufacturing companies in mind and the insurance industry did not easily come within this framework.' He said: 'The BIA fully supported ASC in its work to improve the quality of financial reporting but required consultation in applying standards to financial statements prepared by insurance companies.'

It was announced (78.4) that 'April will see the launch of a series of half-day courses on 'Recent Accounting standards' to be presented throughout the country by the ICAEW in association with District Societies.' This presentation was aimed at the many busy

accountants in industry, commerce and practice who have to prepare, audit or simply understand accounts that comply with recent standards. The course was to provide clear and brief explanations of the new standards, warning of 'trouble spots' on the older standards, and a guide to current EDs.

In March meeting of the ASC, a report was received on the matters discussed at the IASC meeting. In the April meeting, the ASC agreed that the Institute of Chartered Secretaries and Administrators (ICSA) should be invited to become a member of the Consultative Group.

A survey (78.5) carried out, in March 1978, by the ICMA was sent to 150 members in Finance Director and Chief Accountant positions. Findings of the survey indicated that standards should be flexible enough to enable all producers of accounts to comply, but also indicated that there should be variations in standards to suit specific industries.

The ASC, in its June meeting, noted examples of recent status reports issued by the FASB.

K. Bishop (78.6) emphasised the importance of co-operation by the Institute's members in commerce and industry in applying rules and standards. He said: 'it seems to me that the Institute is being forced by society, if not Government, into regulating affairs, and it can only do it effectively with co-operation of the commercial and financial directors.'

The report of the working party (78.7) set up by the London Society of Chartered Accountants to examine the methods

of producing SSAPs, recommended greater openness by the ASC in its operating methods and thought processes. In particular it wanted to see the issue of discussion papers and the holding of public hearing. Commenting on this report (78.8), it was said: 'There is general agreement, both in the context of the present report and outside it, that the arbitrary imposition of standards procedures may be inappropriate in particular case.'

In a meeting held on 26th July, the Consultative Group of ASC discussed: SSAP 12 Accounting Depreciation, EEC 4th Directive, Price Level Accounting Statement of Intent, Setting Accounting Standards: A Consultative Document, ASC's Future Programs of work, and the role of the Consultative Group.

The Association of Unit Trust Managers, commenting on the EEC 4th Directive, pointed out that the 4th Directive would present problems for many companies and it would be very helpful if the ASC could arrange for a simple explanatory guide to the requirements of the 4th Directive to be provided to aid companies to understand the implications of forthcoming changes. Mr Watts said that he would discuss the matter with the ASC and see whether it would be possible for a guide to be written.

In an editorial comment (78.9) the importance of users' need in preparing accounts was discussed.

In September, the ASC (78.10) produced a Consultative document which was published as a discussion paper. The summary of and comment on the report was published in the press (78.11), (78.12) with invitation to the readers to express their views about the report through correspondence columns.

Following a recommendation by the London Society's Industrial and Commercial Working Party, a Technical (Industrial and Commercial) Sub-Committee (78.13) had been formed to consider matters of interest and concern to industrial and commercial organisations and to initiate research projects in all spheres of financial management.

The ASC, in its October meeting, agreed that an invitation to join the Consultative Group should be extended to the Royal Institution of Chartered Surveyors.

The Chairman and the Vice-Chairman of the ASC held a meeting, November 1978, with FASB in which they discussed SSAP 15 Accounting for Deferred Taxation and other matters with common interest. In the November meeting of the ASC, the Chairman and the Vice-Chairman presented a report about this meeting, and it was agreed that the committee should seek to establish closer links with the FASB and that working papers on the subjects in the course of development would be exchanged at regular intervals.

E. Sayers (78.14) told Manchester Chartered Accountants that 'There had been a most encouraging response to last year's appeal

to the District Societies to find more industrial members who were willing and available to serve on Institute Committee and working parties.' He welcomed too, the increasing member's groups within District Societies.

M.Mumford (78.15), in an article in Certified Accountant (submitted later to the ASC as a written submission), criticised Watts' Report under the following seven sub-headings: (1) the report as a public relations exercise, (2) lack of a criterion for evaluating the ASC, (3) acceptance of inadequate resources, (4) restricting the scope of the debate, (5) informal power and the ASC, (6) the authority of the ASC, (7) relations with courts. He concluded his article saying that '.... the nagging question left by the Watts' Report is whether the standard setting process in Britain are really sufficient to address the many important issues that underlie professional practice.'

The conclusion from this section is that there was a discourse during the period from 1971 to 1977 about the problems of accounting standards and the process of setting them. This discourse as shown in Figure 5.2, manifested itself in the form of published articles [see (75.3), (75.4), (75.6), (77.8) and (78.2)], meetings [for examples meeting held in 1976 between ASC and the Association of Investment Trust Companies, and with Building Societies Association; also another meeting held in 1978 between the ASC and BIA at the request of the latter); interviews by the press with officials (most of these officials are finance directors of companies [see (76.2), (76.3), (76.5), (76.9), (76.10),

(76.12), (77.2), (77.3), (77.6), (77.14), (77.15), and (77.16)); speeches by officials [see (75.2) and (78.1)]; studies carried out by other institutions [see (78.5) and (78.7)], letters to the profession [for example an accounting firm wrote to the chairman of the ASC in June 1977 about the state of the accounting standards programme and the need for reforms]. Involved in this discourse were academics, finance directors of companies, auditors, and representative groups. These groups, in some cases, utilised more than one form of interaction such as a speech followed by a published article [see (71.2), (71.3), (71.5), (71.6), (78.1), and (78.2)] or letter to the ASC followed by a meeting [see elements 1975, 1976 and 1977 in Figure 5.2].

Accompanied with this discourse, concerning the problems of accounting standards and the process of setting them, attempts by the ASC and the profession more generally utilised disciplinary techniques of power to facilitate the acceptance of accounting standards. These techniques, as illustrated in this section, were issuing guidance notes [see (71.1), (75.8) and (67.13)], issuing audio cassettes/guidebook packages about accounting standards [see (76.13)]; conducting courses by the ICAEW in association with District Societies [see (76.4) and (78.14)]; issuing discussion papers (i.e corporate Report), setting up committees to bridge the gap between industry and the professional bodies [see (77.12)]; issuing publications (such as the ICAEW's Annual Survey of Published Accounts [see (71.2), (73.10), speeches by officials [see (71.3)]; informal meetings with the interested parties (the ASC in March 1976 developed the role of plenary meeting by establishing

the Consultative Group of the ASC).

This discourse related to the problems of accounting standards and the process of setting them rendered the setting up of the Watts' review group visible in February 1978.

It should be noted that, this visible event (setting up of the Watts' review group) is not only preceded and surrounded by the interactions and power relations, discussed in this section, concerning the process of setting accounting standards more generally, but also by invisible interactions and power relations related to the specific standards, some of which are beyond the scope of this study, issued during that period (1971-1978).

In addition, it is suggested that the lack of interactions and power relations concerning the process of setting accounting standards in general, during the period 1971-1974, as shown in Figure 5.2, is because accounting standards, when they were first established, were seen primarily as technical pronouncements.

### 5.3 REVISED ORGANISATIONAL STRUCTURE OF THE ASC (September 1982), AND REVISED STANDARD SETTING PROCESS (July 1983).

In September 1982, the organisational structure of the ASC was revised. The size was reduced to twenty members, which included five users of reports who need not be accountants. The remaining fifteen are principally members from the profession and preparers

of financial reports. Efforts were made to achieve an appropriate balance as between the preparers, users and auditors of reports, as between members from large and small organisations and as between the various sectors of the community interested in financial reports. Additionally, government representatives can be co-opted, as non voting members.

In 1983, a review group was set up with the following terms of reference:

- (a) To examine the adequacy of the ASC's existing procedures for identifying topics for consideration, presenting its pronouncements, and the public consultative procedures related thereto;
- (b) To consider how the consultative procedures involving the Councils and Technical Committee of the six governing bodies prior to the submission of SSAPs for approval might be improved;
- (c) To consider whether and, if so, on what circumstances the ASC should produce discussion drafts, guidance notes, interpretations, recommendations of other documents in addition to SSAPs;
- (d) To examine the desirability of feasibility of the 'franking' route for specific pronouncements.

The conclusion of this working party were set out in a report published in July 1983: 'Review of the standard setting process'. This report formed the process by which the ASC will operate to set accounting standards and made other recommendations. Many

significant changes have been made to the process. The main points contained in the review were:

- (1) increased emphasis on effective consultation and communication;
- (2) SSAPs will only be issued on matters of major and fundamental importance affecting the generality of companies; they will be view in number and apply to all accounts intended to give a true and fair view;
- (3) a new form of consultative document, the Statement of Intent, was introduced;
- (4) a new category of pronouncement, the Statement of Recommended Practice, was also created, to cover topics which do not meet the criteria for an accounting standards;
- (5) a further category, of 'franked' SORP's, where recommendations are prepared outside the ASC on topics of limited application and that endorsed or 'franked' by the ASC, was also introduced.

The revised organisational structure of ASC in 1982 and the revised standard setting process in 1983 as visible events at that time, we argue demonstrate in this section, were preceded and surrounded by invisible interactions and power relations between the profession and UK companies' finance directors and (other directors) and other interested parties. These interactions and power relations manifested themselves in a variety of ways which are depicted in a diagrammatic form in Figure 5.3 and described as follows.

In 1979, M.Lafferty (79.1), in an article submitted later as written submission to ASC, discussed the problem of setting accounting standards, suggesting that 'the first part of a solution to the present deficiencies is greater recognition of users' needs. This could be achieved to some extent by giving equal representation on ASC to users..... In addition maybe ASC's constitution should require standards to have some regard for the public interest. But re-structuring ASC is only half the solution. An essential feature of any standards system ought to be enforcement. At present there is no enforcement, apart from a qualified audit report.'

Professor Stamp (79.2), in an article submitted later as written submission to ASC, criticised the Watts' report, saying that '.... the general tone and thrust of the Watts Report is most unsatisfactory. It is described as a 'consultative document', but this no way justifies the timorous, uncertain, and defensive approach which infuses the whole report.'

The first public hearing on the Consultative Document 'Setting Accounting Standards' was held on March 16th with the following aims: (a) explain the background to the consultative document, (b) promote thoughts and discussion about ASC procedures, and provide an opportunity for constructive comment and criticism and for expression of views about future developments. The forum was chaired by T. Watts and speakers were: C. Evans of the National Enterprise Board, D. Smith of Arthur Young McClelland Moores & co,

I. Tegner of the Bowater Corporation Ltd.

The press were in attendance and the participants represented across section of industry and commerce (22), practising firms (25), and other bodies (14).

A preparer's view was presented by I. Tegner who drew attention to the dangers of excessive proliferation of legislation in all its forms. He expressed the opinion that the ASC was at present aiming at arithmetic accuracy of a figure he considered as meaningless in the absence of a consistent conceptual framework.

D. Smith presented an auditor's view argued that three issues require consideration: (a) the conceptual framework, (b) the standard setting body, and (c) enforcement.

The final view, that of a user, was presented by C. Evans in which an increased user representation was requested together with a general broadening of involvement. Adequate funding and technical resources were considered as essential even if such funding is provided by the government. Similarly, any system of enforcement is acceptable as long as it works, but if no other system is practicable, government enforcement is not unacceptable.

News about this public hearing were released, before it was held, in the press (79.3), followed by a comment (79.4) about enforcing accounting standard in which it was concluded that 'this problem and others will be discussed in the public hearing.' The discussions in the forum and the diverging views were published in the press (79.5).

In March, it was announced (79.6) that the ASC had

commissioned a preliminary study from Professor Macve of the University of Wales. 'The initial plan', Professor Macve (79.7) said 'is to see how far the American academics have got on their researches into the subject, and then decide whether there is anything that we in the UK can build on...'

A one-day conference (79.8) on 'Accounting Standards the need for reform', organised by the Institute of Chartered Secretaries & Administrators (ICSA) was held on March 5th. Speakers were, Mr Barry Barker, Secretary and Chief Executive of the ICSA, Mr D. Roberts the President of institute, Tom Watts Chairman of the ASC, Mr Ronald Bounds the Chief Executive and Senior Vice-Chairman of Fisons, and Mr Keith Percy, a partner in Phillips & Drew's equity research department. Mr Percy's view, speaking as a user rather than a producer of accounts, was that 'there was no question that the time has come for people other than accountants to take a definite hand in the setting of standards. The ASC, he claimed, 'has been too weak and indecisive recently because it serves the producer of accounts, who naturally want as much flexibility as possible.'

T.Collier (79.9) said that ' I would like major bodies of industrial accountants such as ourselves and the 100 Group to have a bigger say on the standards.'

This shows how the industry not only has a reactive role in the process of setting accounting standards but they also, are trying to have a proactive role.

The written submissions by ICAS (79.10) and by the Midlands Industry Group (79.11) to the ASC on 'the Consultative Document' were publicised. The former said 'the ASC should become a two-tier body, with a broad based supervisory panel to oversee the preparation of standards. But the accountancy bodies must retain control of standards, which should be based on a sound conceptual framework.' The latter said 'the ASC should pay more heed to accountants in industry, the preparers and users of accounts in setting standards.'

In April, the Consultative Group held a meeting in which it noted the written submissions on Consultative Document from British Insurance Association, Building Societies Association, Confederation of British Industry, Government Statistical service, Institute of Chartered Secretaries and Administrators, Royal Institute of Surveyors and The Stock Exchange. Also, the Group discussed the points raised in the Consultative Document. Brief presentations made by representatives of: Society of Investment Analysts, Confederation of British Industry, Government Statistical Services, British Institute of Management, Institute of Directors, British Insurance Association, and Building Societies Association.

The ICAEW (79.12), in its response to the ASC Consultative Document, recommended, among other things, that 'the Stock Exchange and the Coucial Securities Industry (CSI) join with the profession in playing a greater role in monitoring compliance with accounting standards, thereby strengthening the effectiveness of self regulation to the benefit of all concerned.'

Mr W.H.Smart (79.13) argued that the top body in the standard setting process should be more evenly representative of preparers and users of accounts than the present ASC. Further he personally endorsed the view expressed by others that if the Stock Exchange seriously enforced the terms of its Listing Agreement, accounting standards would be more scrupulously and widely achieved. He said: 'I believe that acceptance of these new rules by the membership is indispensable if we are to retain self-regulatory status and avoid the incursion of Government and bureaucracy into the determination of the affairs of the whole profession.'

London Young Chartered Accountants Group (79.14) called in its submission on the Consultative Document, for major improvements in the quality of SSAPs and the debate surrounding their publication. It suggested that these improvements could be achieved by, among other things, public issue of a discussion memorandum prior to publication of an exposure draft, and holding public hearings where the responses to the discussion memorandum indicate a need for these.

Mr Barker (79.15), Chartered Secretaries Chief Executive, said: '....we do not think that consultation, however assiduous, can ever be enough. For regulation by acceptance and consent, the principal interests must feel directly involved in and committed to the whole process.... the ASC would involve and consult with interested parties at all stages of preparation of drafts.'

In May, the Chairman of the ASC and Director of Research and

Technical Activities at the FASB met. The Chairman of the ASC, in the ASC May meeting, gave an oral report on the discussion of this meeting. It was agreed that every effort should be made to develop closer links with the FASB. It was, also, agreed, at this meeting that a sub-committee should be set up to undertake a preliminary study of the conceptual framework of accounting standards and to liaise with Professor Macve.

C. McClusker (79.16) commented on the Consultative Document, arguing that 'In the Watts Report, there is recognition that the ASC is frequently criticised for failing to develop an agreed conceptual framework on which a logical series of statement of standard accounting practice (SSAPs) could be based.....This is inevitably a long term idea.' He proposed a shorter term approach to the ASC's problem of retaining the credibility of existing standards. Through his argument Mr McClusker commented on the recommendations made by the Scottish Institute in its response to the Watts Report [see(79.10)], and by Professor Stamp [see (79.12)1].

The Group of Scottish Finance Directors (79.17) said, in its comment on the Watts report, that it was welcomed as an excellent example of a sound pragmatic approach. But they argued that although 'definitive standards' were necessary and welcomed the current practice of qualifying the accounts wherever there is disagreement between directors and auditors over the appropriateness of a particular standard, it often implied an easy way out for both directors and auditors.

Three of the major firms of accountants (Deloitte, Peat Marwick Mitchell and Pricewater House (79.18) all agreed, in their submissions to the ASC on Watts report, that the Stock Exchange could help enforce standards. However, a spokesman from the Stock Exchange (79.19) said that 'suspension of a company's shares is far too severe a penalty for non-compliance with standards as it penalises innocent investors.' But, Secretary of ASC Jim Carty (79.20) said that 'the number of listed companies which do not comply with standards is minimal. What the accountants want is confirmation that the Stock Exchange would be prepared to express disapproval of erring companies and possible some form of censorship.'

M. Bronwich (79.21), in an article in response to the Consultative Document, examined the difficulties facing the ASC in its search for standards applicable throughout the profession. He argued that a conceptual framework for accounting standards was unlikely to emerge in the foreseeable future.

In June, the Chairman of the ASC attended the public hearings on inflation accounting held by the FASB. He gave an oral report about this hearing in the June meeting of the ASC.

In a press comment (79.22) on the first public hearing held in March, it was argued that there are obvious lessons to be learned from this hearing for the future, showing some errors and recommending solutions.

The Stock Exchange (79.23) declared, in an official statement, that 'The ASC continues to have the strongest support from the Stock Exchange.'

In a press comment (79.24), the Scottish Institute's submission on the Consultative Document was discussed.

The responses of the National Economic Development Office, the Committee of London Clearing Bankers, and the Institute of Directors (79.25) to the Consultative Document agreed that the ASC over the period of its existence had done a commendable job with limited resources. It needed, nevertheless, stronger financial support and technical back-up; and there should be more user involvement in its deliberations at an earlier stage.

F. Neill (79.26) said that his organisation (CSI) should become involved in the enforcement of accounting of standards. 'But the members of the CSI did not all agree with him and no consensus has yet been reached.' he said.

D. Cairns (79.27) argued for the need for accounting standards, suggesting some additional steps which ASC could take to improve the content of exposure drafts and accounting standards and their likely acceptability. These are: publicising the research on a new subject and inviting views; discussing the subject at pre-exposure draft stage by practicing and non practicing members, increasing user involvement in the committee and its working parties; and encouraging closer links between practicing firms and industry and

academic accountants.

Messrs Keymer and Haslam (79.28) claimed that, of 15 SSAPs so far issued, two are 'dead', six more have aroused controversy and will have to be materially altered.'

Eric Bannerman (79.29) argued, in the public hearing held in Glasgow, that standards should be framed with the small company in mind with different and more rigorous provisions for the listed company.

In a press comment (79.30), about public hearings, it was suggested that 'There is undoubtedly a strong case for the principle of a more broadly-based standard-setting panel, not exclusively drawn from the recognised accountancy bodies and with some more specific user involvement.'

Keith Percy (79.31), a member of the ASC Consultative Group, wrote: 'As a specialist user of accounts, my main message is that the ASC seems to have lost its way in recent years. To its credit, the ASC, by its excellent consultative document and its willingness to discuss openly the subject of accounting standards, has initiated what has been a useful discussion. It is to be hoped that this can now be followed by some worthwhile improvements.'

Ian Tegner (79.32), in an article based on a paper which was originally given by him at forum to discuss the Watts Consultative Report on Setting Accounting Standards, wrote about

why he was concerned about the present trend in setting accounting standards, what he thought should be done, and how -in his opinion-, it should be done. Commenting on this article, Professor J.Shaw (79.33) stated: 'I personally share many of his concerns, but, while agreeing on the whole with his diagnosis, cannot accept his suggestions for what should be done.'

A press comment (79.34) under the the title 'Securing Effective Compliance with Standards- a Modest Proposal', argued that the Scottish Institute proposal for dealing with enforcement problem deserved consideration. The proposal was that in cases of dispute over material amounts the Stock Exchange, together with the CSI and the CCAB bodies, should form a panel, before which the auditors and the directors of the company concerned would appear to explain their reasons for -in the case of directors not following the standard- in the case of auditors views.

Commenting on the public hearing held in Glasgow, a press report (79.35) said that 'the object was not to raise new arguments, but rather to add an additional channel to improve the debate of existing arguement.' It, also, said that 'the hearings probably have a wider public value in demonstrating that accountants as a profession do not do things behind

closed doors.' In another press report (79.36), news about this hearing was revealed.

A.Morrison (79.37), who had been nominated to the ASC, argued

that the standards must be mandatory, although it might be feasible for the ASC to issue 'dispensations' to companies who can make a good case for being exempted.

D. Smith and R. Paterson (79.38), in an article which was sent to the ASC as a comment on Watts Consultative Document, recommended more radical reforms in the process of setting accounting standards such as establishing an independent Accounting Standard Board (ASB) to replace the ASC, and the ASB should create a division to investigate and report on prominent cases where standards appear to have been breached.

Commenting on the written submissions on Watts Consultative Document, a press report (79.39) said: 'Among industrial and commercial respondents there is considerable agreement of the need for specific 'industry' standards....In the short to medium-term, let us accept that we do not have an agreed conceptual framework, logically, the 'industry' standards approach is then the only worthwhile one.'

Professor J. Shaw (79.40) commented on M. Lafferty's article (79.1), saying that 'It would appear to me that he needs to give further thought to the implications of his observations. I look forward to receiving an answer.'

S. Sedgwick (79.41), commenting on K. Percy's views (79.34), stated that 'voices raised for the enforcement of single inflexible standards seem to me to come from so-called pressure groups to make

life easier for auditors and analysts, without regard to the realities facing those responsible for the preparation and presentation of financial statements.' He also commented on the Watts Consultative Document, saying that 'the enforcement suggestions in para 3.6 of the Consultative Document 'Setting Accounting Standards', advocating the use by the Stock Exchange of sanctions in cases where listed companies depart from published standards, amount to unwarrantable interference with directors in the execution of the duty put upon them by statute to produce proper accounts. I am pleased to learn that the official Stock Exchange view rejects any such proposal.'

N.Blake (79.42), in an article, made a comparison between the standard setting bodies and the method of compiling and issuing an accounting standard both in the UK and also in the US, concluding that 'the link across the Atlantic is now stronger than before as evidenced by the recent visits by the FASB Director of Research to London and members of the ASC to the FASB headquarters.'

A press report (79.43), provided a summary of the main points discussed in the ASC public hearing in London, stating that '... wider representation for all interested parties in drafting of standards was a common consideration. Various types of bodies similar to the ASC were suggested as a means of achieving this, such as: extension of the present set-up to include 'user representatives', the method by which standards can be enforced was another major taking point.'

R.Perks (79.44) reported on a major study of the effectiveness of accounting standards in practice.

In the ASC October meeting, the report on the visit to FASB by Chairman and Professor R.Macve on September to discuss the conceptual framework project and other subjects was noted.

One commentator (79.45) stated that 'standards are domestic answers, to domestic problems. There is a danger that unique national needs might be ignored and, conversely, if they were not the resulting disclosure burden would be too much.'

T.Harrington (79.46), discussing the UK and US position with regard to enforcing standards, pointed out that 'the US way of enforcing standards is not the answer in the UK', and argued that 'making standards laws means investing the standard-setting body with legislative power. This is not a situation favoured by lawyers, and there would be an immediate outcry -the ASC is not an elected legislative body.'

O.Page (79.47) -Secretary to the Council for Securities Industry (CSI)-, commenting on the role of CSI in enforcing standards, said that 'it had been decided, after some debate at the July quarterly meeting that there was no point in taking the matter any further forward until the ASC had come up with firm suggestions in their report.'

D.Richards (79.48), commenting on the consultative document

'Setting Accounting Standards', stated that 'This (Consultative document) deals not only with the nature of accounting standards and the standards-setting process, but also with the enforcement of them. It was right for this committee to examine itself in this way.'

A press comment (79.49) on setting accounting standards argued that the user needs should be recognised by the profession. It said, quoting Professor Stamp, 'it is no exaggeration to say that if the profession is to survive as an effective private sector institution it is essential for it to pay more attention to the needs of users, and to resist the increasing pressures that are likely to come from the producers of financial statements.'

It should be noted, in addition to invisible interactions and power relations discussed above, the written submissions on the Consultative Document during 1979 were also part of the network of interactions and power relations about the process of setting accounting standards.

Also, it should be noted, these written submissions showed a connection between the interaction concerning the process of setting accounting standards (at the general level) and the interaction related to particular standard (at the specific level). The following examples from the written submissions on the Consultative Document support this.

Bristol Chamber of Commerce , Industry & Shipping stated:

'Some SSAPs are not suitable for special classes of

undertaking and specific example should be given to the SSAP. For example an inflation accounting standard cannot be applied to a life insurance company or the depreciation standard to a property investment company.'

(ASC, 1979, p. 370)

The Institute of Chartered Accountants in Ireland pointed out:

'In regard to explanatory material, the Institute agrees with the necessity for issuing additional material in many cases. For example SSAP 12 on depreciation is an unhelpful document to which such concepts as the 'recoverable amount' have been introduced without any explanation at all as to what is intended ...'

(ASC, 1979, p. 265)

Arthur Young criticised ASC for:

'Introduction of complex topics in some standards without adequate discussion of their implications (such as fair values on SSAP14, or revaluations in SSAP12.'

(ASC, 1979, P. 87)

D.Cairns stated:

,....All too often ASC is criticised for being too academic, in reality the fault is that existing methods may be inadequate to meet current

requirements. A perfect example is SSAP12 insofar as it requires the depreciation of buildings. Nobody would deny that building have a finite useful life and eventually wear out. The problem is that the existing 'rule of thumb' used by accountants -the straight line method- is theoretically unsound for dealing with assets with long lives There is, however, an understandable reluctance on the part of practitioners and industrial accountants to switch to more realistic but less familiar methods. That reluctance would be lessened if ASC published guidance at the same time as the standard.'

(ASC, 1979, p. 512)

Furthermore, it should be noted that these written submissions, in some cases, were based on other ways of interaction such as published articles, and speech. For example, M.Lafferty's article (79.1), Professor Stamp's article(79.2), M.Mumford's article (78.15), and D.Smith's article (79.38) were submitted to the ASC as comments on the Watts Consultative Document. A speech by the Chairman of Crown House Ltd was utilised as a written submission to the ASC as he stated:

'These comments formed the basis of a talk which I gave to the Institute's Top Financial Briefing at the Oxford Centre for Management Studies on 28th November 1979.'

(ASC, 1979, p. 22)

In 1980, at an informal meeting (80.1), the ASC, the Stock Exchange, and the Council for the securities industry discussed the formation of a Joint Panel to review non-compliance with accounting standards. Tom Watts (80.2) commented on this meeting saying that 'it was clear that the stock Exchange and the ASC are talking about the same sort of animal.' But the CSI failed to reach a decision on its involvement in a joint review panel.'

Sir Henry Benson (80.3), under the title 'Setting and Enforcing Standards', wrote about the problems of enforcing standards and the amount of time the professions devote to their development and enforcement.

A.Pakenham (80.4), the President of the Association of Certified Accountants (ACA), speaking at a dinner in Yorkshire, claimed that 'the profession will firmly and openly resist any movement to enforce standards.' He said: 'standards are one thing. Rules are another. If standards were to become rules through enforceability, professional judgment would be put at risk.' This provoked comment from the press (80.5) in which it was argued that 'the whole accounting standards programme is likely to become more bogged down if the Association of Certified Accountants takes the line that standards should not be enforced in any way, whether the enforcement, authority be internal, external or mixed.'

During February, March, April, the ASC in association with District Societies (80.6) had launched a half-day accounting standards update courses aimed to refresh the accountants'

Knowledge of existing standards and exposure drafts, help them to understand their disclosure implications, and guide them on the presentation of accounts to comply with their company requirements.

The ASC Chairman Tom Watts (80.7) told the English ICA's conference that 'Future subjects will go through a three stage process of public discussion papers, exposure draft, and standard. Goodwill, pension costs and accounting for leasing are the topics which will be immediately affected by the change.'

This shows connection and interaction between the changes in the standard setting process (at the general level) and particular standards (at the specific level).

The Chairman of the ASC (80.8) said that 'standard setting not our job alone.' 'The degree of compliance by non accountants so far had been remarkable, but the time was coming for some of them to join the Accounting Standard Committee' he said.

Commenting on public hearing as a method of communication, the press (80.9) pointed out that 'So far as the ASC is concerned, its main objects, we were told, were to obtain elaboration or explanation of written submissions and to convey alternative viewpoints or elucidation. But this could have been done, probably more effectively and certainly much more cheaply, by asking commentators willing to do so to go and talk to ASC representatives privately.'

Under the title 'Secret draft signals shift in balace of

power', the press (80.10) revealed that 'The latest move to get the secret Watts report on setting accounting standards agreed unofficially by the English ICA Council before it goes in final form to the ASC takes place next Wednesday.....' 'If next Wednesday's meeting of the full Institute Council gives an unofficial green light to the proposals the draft may soon go before the ASC for approval in its next meeting' It said.

The ASC, in its October meeting, discussed a third draft report on 'Setting Accounting Standards'. It was acknowledged in this draft report that the ASC had begun to move quickly towards open consultation through the following ways: public hearings, press coverage of the progress of exposure drafts and standards, technical releases issued with each exposure draft and standard, publishing discussion papers prior to the issue of an exposure draft, involving the Consultative Group more closely in the debates on accounting standards, and much increased consultation with FASB and other international bodies.

A press report (80.11) revealed that 'the ASC met on 29 October to consider for the first time in formal session the draft report on the standards process.....But the final report is likely to be a long time coming. The two principal obstacles it faces are the unwillingness of some of the accountancy bodies to give up their hold on standard setting, and financing.'

In a letter (80.12) to the Financial Times, published in the Accountancy Age, Ian Tegner called for the inclusion of more

industrial accountants on the ASC. He argued that 'it will be regrettable if the opportunity is not taken to increase the involvement of those responsible for preparing and presenting accounts.'

A press report (80.13) on the November ASC meeting, said that 'publication of the controversial Watts report on setting accounting standards receded further this week at a poorly attended meeting of the ASC.'

In 1981, it was reported (81.1) that 'Watts' Long-awaited paper had been circulated for ballot to the ASC members, pending discussion by the CCAB bodies: Contained in the paper are: wider consultation, ties with the Stock Exchange, the CSI and the DTI, discussion papers prior to the preparation of EDs and public hearing.'

M. Bromwich (81.2), in an interview, talked about, among other things, his views on accounting standards and the problems which face the profession at that time.

Kate Moore (81.3), who visited the FASB in December 1980, wrote about how much the UK can learn from the American standard-setters.

In a press report (81.4), it was revealed that '..... if the Watts report on standard setting is published the four opposing accountancy bodies will insist that it be accompanied by a covering

letter. This letter, to be written by Professor D.Tweedie, technical director at the Scots ICA, will state that the report is published for comment only and that it does not have the support of the majority of the accountancy bodies.' The report said: 'The Association of Certified Accountants, in particular, wants a drastic cutback on the production of accounting standards -except for those made essential by any changes in company law legislation.'

B.Hyde (81.5), President of the ICMA, pointed out that 'the majority of accountants in industry are against increasing the number of accounting standards.' Hyde confirmed that he was worried by suggestions in the report that the power of the various bodies' councils to veto standards would be weakened. He argued that 'the report envisages a more extended consultative process and as a result it urges councils to refrain from using the veto at the final stages of a draft standard, as for example the Scots and Irish institutes did over the depreciation standard two years ago.' Commenting on this, ASC Chairman T.Watts (81.6) said: 'if those bodies who are talking about tighter control mean that they are unwilling to write the ASC a blank cheque, that is fair enough.' 'If they mean they should be given power to veto which standards should be in our programme, then I would oppose this -it would simply turn them into the ASC', he said.

The ASC, in its April meeting, considered a request from the British Property Federation for membership of the Consultative Group.

D.Tonkin (81.7) commented on Professor Solomon's Lecture at the University of Glasgow in October 1980 in which he put up a vigorous defence of FASB's work on a conceptual Framework and appealed to the ASC to adopt the following major proposal:(a) to develop its own conceptual framework; (b) to obtain delegated power to issue accounting standards without necessity for the approval of the Councils of the six CCAB accountancy bodies; and (c) to remove the part-time basis of membership. Tonkin argued that 'Solomons proposals are not right for the ASC, and further that they are probably not even right for the FASB.' 'For any accountancy profession to attempt to detach itself from the demand of society at large is highly questionable', he said.

A press report (81.8) revealed that 'the CCAB has not demanded the full support of its member bodies for Watts report as strong opposition persists.....the CCAB has asked the five to agree that the ASC should, in carrying out its proposals, give further consideration to its size and plans for monitoring non-compliance.' It said: 'Even this call for only partial backing has not met with complete success. The ACA is still unwilling to receive the report and the Scots ICA met again today to discuss whether it should also accept the plans.'

In a press comment (81.9) on the Watts report, it was argued that 'it is unfortunate that the long-awaited report of the ASC dealing with the important subject of the setting and enforcement of accounting standards has been dogged by interal and external disagreements. Internally, the six accountancy bodies all seem to

have had reservations on the fundamental point of standardization and how far accountants can go towards achieving this while externally the Stock Exchange, the Council for the Securities Industry and other bodies involved in self-regulation have been unwilling to add their authority to another regulatory body without being absolutely clear about what they were letting themselves in for.' The comment concluded that 'So in some ways the ASC report poses more questions than answers.'

In May, the Watts report was published followed by the comments below.

A press report (81.10) said: 'The Watts report has not satisfied four of the six accountancy bodies, who have let it be known that they do not share its assumptions about the amount of work-still to be done on accounting standards.' E. Gibbs (81.11) pointed out that 'We do not want standards upon standards.' 'We had serious reservations on the original draft of the report and we are not very happy about the escalation of costs it still envisages', he said. But Gibbs welcomed the publication of the report as 'a contribution to the debate and a stimulus to discussion'. ASC Chairman T. Watts (81,12) said that 'Those who don't like the idea of more standards have my sympathy, but our only choice really is not whether we will have more but only whether we or the government will set them.' An English ICA spokesman (81.13) said: 'There has been a delay over getting the financial clearance from the six accountancy bodies on an agreed version for the accompanying press release.'

In the May meeting of the ASC, it was noted that the Vice-Chairman had been asked to prepare proposals for consideration by the Committee concerning the size and composition of the standard setting body.

The ASC, in its June meeting, discussed a report on 'The Possibilities for Developing an Agreed Conceptual Framework for Financial Accounting and Reporting' (presenter: Professor R. Macve). It was agreed that after approval by the Technical and Research Committee of the English Institute, the Report should be published as soon as possible and comments on its conclusions should be invited from the general public. After the comments received and reviewed the committee would consider a course of action.

A press comment (81.14) on the Watts report, after providing a summary and recommendation of the report, said: 'the CCAB seem to be at variance on the report. Whereas it has the approval of the Institute, it is understood that the ICAS, the ICMA, and the ACA are all reluctant to accept the proposals.'

Professor Stamp (81.15), under the title 'The Watts Report and the enforcement problem', welcomed the main proposal of the report, but he was critical of its approach to the enforcement question and put forward some suggestions of his own. Following this article, he (81.16) said: 'I hope that the professional bodies will settle their difference quickly, and they present a united front in support of the ASC.' Professor Stamp added: 'if the profession is to retain control over the evolution of accounting standards.....'

it will be necessary to develop a quasi-judicial structure for the administration of standards.'

A press report (81.17) said that 'a new City-backed body to enforce accounting standards, the corner stone of the Watts report proposals for the future of UK accounting standards is beginning to look less and less of a possibility. It is one of the two areas which the CCAB has thrown back to the ASC for reappraisal. The CCAB has also demanded that the ASC should take a second look at plans to alter its size constitution.' In another press report (81.18) it was pointed out that evidence of a deepening rift between the ACA and the CCAB was revealed with publication of an attack by the Association on the Watts report on setting accounting standards. In a formal statement, a CCAB spokesman (81.19) rejected the implied criticism of the Association. But Association Under Secretary, A.Sansom (81.20), said that 'the Association objected to informal talks among the CCAB presidents being considered final.' Sansom said: 'the matter should have been decided by the CCAB as a whole and not by an informal meeting.'

In a press article (81.21) about the conceptual framework for accounting standards, the views of R.Storie (a project manager at FASB), Professor R.Macve (who presented a paper on the conceptual framework), and Tom Watts (Chairman of the ASC) were presented. R.Storie said: 'On projects such as the conceptual framework, it's important they should be specific. We have focused on investors and creditors to make it specific, but we're also concerned with other users.' But Professor Macve did think the distinction

between the needs of investors and others was unnecessary. 'There's no difference wherever you start', he said, 'every one has a common interest in accounting information, the important thing is 'what question do I need to ask when preparing accounting information?' While Tom Watts said: 'The American approach is that accounts are for investors and creditors, and we must look at this work and decide if it is right for us.'

A press report (81.22) pointed out that 'an extended period of instability and uncertainty lies ahead for the ASC as a result of the certified accountants push to double its representation on the powerful ASC. The move by the Association of Certified Accountants has been prompted by demands that representation should reflect the relative size of each of the six member bodies of the CCAB.' A. Sansom (81.23), Association Under Secretary, said that representation along these lines was an important part of the user's submission on the Watts report and was the original basis of ASC representation on 1970 when the committee was set up.' That's the way ASC is paid for', said Sansom.

Professor Stamp (81.24), under the title 'Accounting Standards and the Conceptual framework: a plan for their evolution, called for a conceptual framework and an approach oriented towards users' needs.

In August 1981, Professor Macve's Research on Conceptual Framework was issued as a discussion paper.

H. Gold (81.25), in an interview, warned that the business of setting accounting standards could fall to the government by default as a result of internal bickering over ASC matters within the CCAB.

A report from Professor Stamp on the results of the survey of ASC members, which he had undertaken as part of his research into accounting standards and a conceptual framework, was considered in the ASC meeting on 16 September. Attention was focused on the ranking and the criteria which could be used in the assessment of standards. It was argued that the Committee would not object if material collected so far were published. Professor Stamp was asked to keep the committee informed about his research as it developed.

In its meeting on 30 September, the ASC considered a request from The Committee of London Clearing Bankers for separate representation on the Consultative Group.

In its meeting on 16 October, the ASC considered a draft paper setting out the plans for the work of the ASC. This paper argued that 'the work of ASC and its secretariat in the next few years will be strongly influenced by: (1) the effect of legislation, notably in Company Law and Taxation, (2) pressure for International harmonisation, (3) the monitoring and development of CCA, (4) the need to overhaul existing standards in the light of experience and changed circumstances, (5) consideration of the proposals in the research study undertaken by Professor Macve and commissioned by the ICAEW, and (7) various needs for non-mandatory guidance in

accounting matters.

This shows how the setting of accounting standards since 1981 has been much more complicated and interactive process in which many contextual factors were involved.

A press comment (81.26) on Professor Macve's report said: 'what he (Professor Macve) has done is produce a very lucid report on what a conceptual framework is, why it is necessary, what other agencies have done about it and which areas of research and thought are the most likely to be productive in the future. Professor B.Carsberg (81.27), commenting on Professor Macve's report, said: 'Once the profession can get itself out of this unfortunate blind alley and think clearly about the issues that Macve's report points to then the accounting world will be a simpler world to live in.'

C.Swinson (81.28) pointed out that standards 'have been attracting considerable criticism.' He argued that 'the ASC has failed to adopt a consistent approach to problems of accounting measurement', citing deferred taxation and leasing as the most obvious cases of this difficulty. Swinson said: 'some of the standards and some of the problems result from practical men trying to find practical solutions without guidance from theory. You have to be clear on the objectives and principles you are going to follow and that requires the advice of academics even if you don't leave it to them entirely.'

H.Volten (81.29), commenting on Watts report, said that he was 'worried by the signs of rejection, of proposals for wider

involvement, contained in the report. He told the press (81.30) that 'this impression was a general one, based on the fact that the report had not been acted upon with any vigour at all.'

A report of the visit by the Chairman and Secretary of the ASC to the FASB was noted in the ASC December meeting. The object of this visit was to communicate with both staff and FASB board members on the current matters being considered by the ASC and FASB. These were Leasing, Foreign Currency Translation, Accounting for Changing Prices and Pension Accounting.

In addition, the ASC, in this meeting, approved the addition of the Accepting Houses Committee and the British Overseas and Commonwealth Banks Association to the Consultative Group.

A press report (81.31) said: 'New company legislation, much of it generated by the European Commission in Brussels, has prompted the ASC to dust off and revive two lots of the old work which it has tussled with for years. Before June next year the ASC plans to issue two new exposure drafts -one on merger accounting and the other on goodwill, which the Committee sees as a related topic.'

In 1982, the second 'accounting and auditing research symposium' (82.1) was held in January, with the aim of bridging the gap between practitioners and academics. The topic under discussion was standard setting. Professors from both UK and overseas universities together with partners from the major accounting firms presented a series of informative and challenging

papers which approached standard setting from different angles. Each paper was followed by a discussion allowing different views to be expressed.

A press report (82.2) said that 'the CCAB mean while will shortly take a decision on plans to enlarge the ASC, reconstitute the membership and cement ties with city bodies in a bid to police standard setting.'

Professor Stamp (82.3), in an article based on a Questionnaire to members of the ASC, argued that 'the conceptual approach cannot provide all the answers. Nor will it supplant the normal processes of debate and discussions within the Standards Committee. But it represents potentially a very useful supplementation of these processes because it helps to focus attention on the areas where consensus exists within the committee and on the areas where consensus needs to be sought. It thereby provides a structured approach for helping to solve accounting standard setting problems.' On the other hand, Professor Baxter (82.4) pointed out that the notion of a conceptual framework was both alluring and dangerous. 'No body should decide matters of high principle', he said.

In its May meeting, the ASC considered a draft discussion paper together with proposed amendments to the Committee's constitution concerning membership. These changes originated from proposals set out in the 'Watts Report'. Subject to some minor wording amendments which were reported to the meeting, the paper

and amended constitution were approved for submission to the CCAB bodies with a recommendation that they be implemented.

S. Turly (82.5) argued that 'accounting standards may have economic consequences and this in turn implied a two fold departure from an approach to setting standards which focuses simply on the information users need to make decisions: (1) it requires standard setters to look beyond the decisions of users to ask what is the effect of the decisions made; (2) it recognises that the existence of standards may influence, and have possible consequences through, the decisions of the suppliers of accounting information as well as the users.'

A press report (82.6), under the title 'Revamp for ASC aims to strengthen standards', said that 'the ASC has accepted proposals by Chairman-elect Ian Hay Davison to bring four or five representatives from outside bodies -the users of accounts- on to the ASC. The proposals will now need to be approved by the Councils of the six main accountancy bodies. The new members will come from 27 bodies represented on the ASC's Consultative Group.' Davison (82.7) said ' the new proposals would be released on 18 June. Another press report (82.8) stated that 'In a short time four or five representatives from outside bodies will be sitting on a streamlined, 'senatorial' ASC under the new Chairman, Ian Hay Davison.'

Ian Davison (82.9), commenting on the members to be represented in the ASC, said that 'I would like people from

industry, probably company chairmen, people from the City as well -bankers, stockbrokers and the investing institutions.' 'I hope we will have two government representatives, who will be needed in two areas; first to comment on forthcoming legislation and secondly to comment on the implication to the legal framework of any new accounting standards we may come up with' he said.

In an article (82.10), it was pointed out that 'radical alterations to the structure and function of the ASC are likely to be agreed by the six main accountancy bodies in the coming weeks.....the reformed committee would be made up of five users, who might or might not themselves have an accountancy background and 15 members from the accountancy bodies plus two non-voting but participating members from Whitehall.'

A press report (82.11) said that 'the all-clear has been sounded for the long-awaited reorganisation of the ASC. The English ICA Council has voted unanimously to accept proposals put forward by new Chairman Ian Davison.'

In a press comment (82.12), it was pointed out that 'to coincide with taking up office as Chairman, Ian Davison has set in motion a major programme for re-organisation of the ASC. Already accepted by the ASC, the proposals, are now going before the six CCAB member body councils for approval.' Davison, according to the comment, had talked extensively with senior members of all the CCAB bodies prior to formulating his proposals.

It was announced (82.13), (82,14) that the new ASC had 20 members including five seats made available to users of financial statements. Included in its membership were the finance directors of Allied Lyons, Perkins, Imperial, Fords, and British Rail, the chief executives of the Stock Exchange, Bass, and Barclays, the group chief investment manager of the Prudential, and the chairman of the 100 Group of Chartered Accountants. There were also four members of council of the CBI. The two non-accountants were R. Artus of the Prudential and J. Quinton of Barclays. The other three designated accounts users were accountants. Chairman Ian Davison (82.15) described the new committee as 'very distinguished and representing a much broader base.' 'It encompasses preparers, auditors, and users of financial statements together with an academic and representatives from the public sector.' he said.

The first meeting of the reconstituted ASC was held on 29 September. In this meeting the Chairman reported that 'the DTI had agreed to provide an observer to the committee and discussions are taking place with the Department on this matter. Also, discussions are to be held with the Treasury regarding the possibility of their providing observer to the committee in a year's time.'

In this meeting, in addition, the terms of reference and details of membership of the new Planning, International, and Inflation Accounting Sub-Committees were approved. These terms of references were as follows.

Planning Sub-Committee

1. To review and monitor ASC's future work programme and advise on priorities relating thereto.
2. To keep under review the status of ASC's current projects.
3. To advise on the need for, and composition of new working parties and sub-committees.
4. To oversee, in conjunction with the secretariat, the operations of ASC and its sub-committees and working parties, including their dealing with the press and other media, the ASC Consultative Group, industrial and business groups and other users and customers and to make recommendations to ASC in relation thereto.

International Sub-Committee

1. To be concerned with relations between ASC and all bodies involved in accounting standards in the international domain with a view to promoting British and Irish interests.
2. To liaise with other committees so as to co-ordinate and direct their work in areas which have accounting implications and in particular those which touch upon the sovereignty of ASC.
3. To monitor on behalf of ASC, worldwide developments in accounting and related areas.

The formation of a task force to review the procedures by which standards are set, was approved by the ASC in its September meeting.

Also, in September meeting, the ASC noted a secretarial paper on the ASC and the press, in which it was stated that 'the most common situations in which the press and ASC came into contact are: (1) formal press conference, (2) through a press releases, (3) by telephone, (4) meeting with Journalists for lunch (5) articles (members of the secretariat write articles in the press).'

In a press report (82.16), it was revealed that 'the planning sub-committee will propose priorities and a revamped framework for the full committee at its first meeting at the end of the month.' J.Mckinnon (82.17), finance director at Imperial Group and a member of the planning committee, said -before the meeting-: 'I regard the discussion as a blank sheet of paper to develop ideas on. It will structure the first full meeting in a meaningful way.'

Another press report (82.18), announcing the members of the newly constituted ASC, said: 'It is expected that the new ASC, with its more widely representatative membership, will be more 'political', i.e more involved with policy-making than technical matters, although its members will serve on at least one sub-committee or working party concerned with the more detailed aspects of standards.'

In a press article (82.19), Ian Davison's speech at the annual general meeting of the Chartered Institute of Public Finance and Accountancy, was analysed. In this speech Davison gave some important indications of his plans for the future of standard setting.

The ASC, in its October meeting, reviewed a secretarial paper setting out the instances on which ASC come into contact with the press. It was agreed that in principle an 'open' policy with the press should be maintained.

In a press comment (82.20) on reviewing the process of setting accounting standards it was suggested that the ASC must surely give some attention to the basic question of what a standard is or should be.' Only, it was argued, 'when ASC's task force has considered differing views (preparers, auditors, and government) of what standards actually are or should be, and has decided on which alternative to adopt, can it realistically get down to the practical task of how to set them.'

The Chairman of the ASC over five months (July-November) had embarked on a series of informal consultative meetings with influential and representative groups that have an interest in the work of ASC. The groups with whom he had met were as follows: The 1944 group, the National Industries Finance Panel, The Scottish Group of Finance Directors, The Senior Partners of the Top 24 Practising Firms (in two separate meetings), The ASC Consultative Group, the Accounting Standards Working Party of the CBI, The 100 Group, The Midlands Industry Group of Finance Directors, The Small Practitioners Advisory Committee of the ICAEW, The Central London Small Practitioners Group, The Society of Investment Analysts and the Technical Advisory Committee of the ICAEW, Professor B.Carsberg, E.Stamp and R.Macve, Gover, The Office holders and secretaries of the six CCAB bodies.

At each meeting seven questions were asked. The questions, together with a summary of the main comments made in response to them are set below.

1. Is there a continuing need for accounting standards designed at least to narrow the areas of difference in accounting practice?
2. Should SSAPs be confined to dealing with definition and measurement?
3. Should opportunities for flexibility in the application of SSAPs be provided within them, or should they be more rigid?
4. Should the application of some or all SSAPs be confined to listed companies?
5. Should SSAPs be developed for particular industries? If so, which ones and in what manner ?

The comments on these questions are summarized as follows.

- There was a widespread view that accounting standards are necessary.
- The general opinion was that accounting standards should be confined to definition and measurement but that there might need to be certain extrastatutory disclosures within a standard to support its measurement/definition requirements.
- Whilst some were insistent that standards should be rigid, the majority view was that there should be some flexibility built into standards.
- Most of those consulted favoured measurement and definition standards which applied to companies of all sizes.

- There were diverse views about the desirability of special industry standards.
- Consultative procedures: there were five recurring views on the consultative procedures of ASC:
  - (a) These procedures are inadequate.
  - (b) it generally takes too long to issue an accounting standard.
  - (c) Perhaps ASC has not properly weighted the responses to its exposure drafts/discussion papers.
  - (d) Consultation with industry has not been as extensive as it should be or as it has been with large accounting firms.
  - (e) Active consultation by ASC would be welcomed.

These comments were discussed in the ASC November meeting of the ASC. A detailed record of this discussion was referred to the Task Force for reviewing the standards setting.

The Chairman of ASC met, in November, Mr Mallinson (legal adviser of ASC to discuss the way in which the new arrangement would work. During the discussions it was agreed that: (1) liaison with the Law Society was best left on an informal basis. At various times following the meeting the Chairman and Mr Mallinson met appropriate members of the Law Society Company Law for lunch; (2) the CCAB Company Law Sub-Committee and of ASC agreed to liaise by exchanging agendas and ensuring that matters of mutual interest are followed up; (3) with the increasing link between the law and accounting standards, it was inevitable that ASC should have direct contact with relevant Government bodies, informing CCAB

Parliamentary and Law Sub-Committee about such contact. The ASC approved these arrangements in its November meeting.

The International Sub-Committee in its meeting held on 17 November, discussed the relationship between the ASC and various international accounting bodies -in particular it had reviewed the material under consideration by IASC. A report about this meeting was received in the November meeting of the ASC.

T. Boyd (82.21), calling for a drastic cutback in accounting standards said that 'I would like to see standards being the exception rather than the rule, and I believe in greater flexibility in the standards which are necessary not only permitting but encouraging professional judgement.' Agreeing with T. Boyd, D. Cains (82.22) would like the ASC to review all its standards and specify many more of those standards which need not apply to all companies. But Ian Davison (82.23) said that an end to standard setting was not realistic. He pointed out that the new ASC programme incorporated a reduction in its work load. Davison said 'We have a number of Scots on the ASC who fully reflect the views of the council of their institute and they have expressed no reservations'. In another meeting (82.24) Davison said: 'We have no intention of putting the profession in a straight jacket.' But he claimed that accounting standards were essential in a changing world. In a press comment (82.25) on T. Boyd's call, it was argued that, in its new look the ASC had already gone a long way towards meeting that call of reducing the number of accounting standards.

Professor John Small (82.26), the Certified Accountants' president, supported the call for a halt to all but the most essential standards. But D.Comie (82.27) accused members of the profession of bending accounting standards in a similar way to tax laws.

Ian Davison (82.28) called for the introduction of two tier reporting, with 'simple, straightforward' standards for small proprietary companies; and standards setting with certain sectors with 'unique' problems to be carried out by those sectors and 'franked' by the ASC.

R.Laughlin and T.Puxty (82.29), commenting on the reconstitution of the ASC, argued that 'such moves are good and healthy in a democratic society where people should have a say in things which affect them.' However, they argued with particular reference to R & D standard that this move may well have a very marked effect on regulatory standards, recommending that 'Only by grasping the purpose underlying standards, the new look body can succeed.'

V.McDougall (82.30) argued for the need for the profession to recognise where certain topics, such as SSAPs, call for outside participation.

In a press report (82.31), the questions together with a summary of the main comments made in the informal consultative and representative groups, indicated above, was provided.

In 1983, in a press article (83.1), it was pointed out that 'the composition of the task force bears all the marks of being high powered and balanced, a task force representative of those most closely involved in setting accounting standards and applying them. Mackinnon (83.2), a member of this task force, said: ' we are examining all aspects: what kind of topics we should be reviewing, the methodology and how standards are developed?'

The ASC Chairman held a consultative meeting, on 31 January, with Small Business in which 50 people gave their view on the universal application of standards to all sizes of companies and whether CCA should be applied to small companies and also to map out a way for future consultation. It was agreed, in this meeting that small business will write in with their thoughts on the imminent standard on accounting for leases. News about this meeting was revealed in the press (83.3).

In a press report (83.4), it was announced that 'a two-tier system of accounting standards split between large and small companies comes a step nearer next Monday when the accounting standards holds a special meeting to sound out opinions on the questions.' An ASC spokesman (83.5) said 'We are obviously limited by company law so any attempt to simplify things on a vast scale for the small company by exempting them from all standards would probably be a non-starter.' The CBI (83.6) called for simpler legislation and regulation from Brussels for smaller companies to mark the 'European year of the small and medium sized enterprises.'

Professor Perks (83.7), announcing the results of a study into the implementation of SSAPs with particular reference to SAAP15 on deferred taxation, said that 'the ASC is not very effective in promulgating and enforcing SSAPs which would generally reduce profits and which meet resistance'. He suggested that the law should require implementation. Following this, Professor Perks wrote an article (83.8) in which he called again for legal backing of SSAPs.

In a press comment (83.9), it was revealed that 'following the ASC consultative meeting with small businesses representative on January 31 which indicated that the major problems lay not with compliance with accounting standards themselves but with the Companies Act 1981, the ASC asked Professor B.Carsberg to investigate the burden on small companies and the Companies Acts conflicts(83.10).

B.Boreham and D.Heady (83.11) argued that there was no need for dual accounting standards for large and small firms.

R.Laughlin and T.Puxty (83.12), in an article, examined the relationship between Academics and standard setters, and suggested some alternative possibilities for future relationships.

In the May meeting of the ASC, the Chairman reported that there remained a difference of view among the Presidents of CCAB over whether statements of Recommended Practice should be issued by the ASC in its own right or approved by the Councils of the CCAB and

issued by them. The committee discussed this matter and concluded strongly that SORPs should be issued by the ASC, mainly because of the need to distinguish them from accounting standards, thereby emphasising their non-mandatory status.

The ASC Chairman held, in May, meetings with institutional investors, the Midland Group, The 100 Group and the Group of Scottish Finance Directors. Also two meetings with the senior partners of the top 20 accounting firms were held in July.

In a press report (83.13) about the new process of setting accounting standards, it was announced that the most important change to the actual standard setting procedure was the introduction of a new consultative document, the statement of intent (SOI). This, according the report, would provide a broad outline of the intended contents of a SSAP or SORP, but would not give every detail of the proposed text. Also, Ian Davison (83.14), commenting on this new process, said: 'The ED process suffered from the fact that they were epitomes of future standards', 'comments tended to concentrate of details rather than the issues at stake' he said. In addition, a press comment (83.15) discussed the main advantages of the new process.

In its July meeting, the ASC noted that, as a result of correspondence between the Chairman of CCAB and the President of the Scottish Institute a compromise had been reached regarding the manner in which SORPs would be issued.

The conclusion from this section is that during the period from 1978 to 1983 there was a discourse about the need for reforms in the organisational structure of the ASC and the process of setting accounting standards. This discourse called specifically for greater involvement of companies in the process of setting accounting standards. This call was expressed by finance directors and directors of companies in the form of speeches [see (79.9), published written submissions [see (79.11)], letters to the press [see (80.12)]. Also, there was a call for greater recognition of users' needs. This was expressed in the form of published articles [see (79.1), (79.31) and (81.24)], press comments [see (79.30), (79.49)], and published written submissions [see (79.25)]. In addition there was a call for issuing discussion papers prior to issuing exposure drafts [see for example (79.14), (79.26) and (79.16)].

These calls were incorporated later in the reorganisational structure of the ASC in September 1982 where efforts were made to achieve an appropriate balance as between the preparers, users and others in the new structure of the ASC. Also, these calls were incorporated in the new process of setting accounting standards in July 1983 where there was emphasis on effective consultation and communication. This was expressed, among other things, in and through the creation of a new form of consultative document (i.e the Statement of Intent).

5.4 SETTING UP DEARING'S REVIEW COMMITTEE IN NOVEMBER 1987

In July 1987, the CCAB appointed a committee under the Chairmanship of Sir Ronald Dearing to review and make recommendations on the standards setting process, with the following terms of reference.

- '1. To review the development of the standard setting process in Great Britain and Ireland and in other major industrial countries during the past fifteen years, including the role of the International Accounting Standards Committee.
2. To have regard to the purpose of accounting standards in the future in the light of (a) major changes in the financial reporting and (b) the attitude of Government and the public towards the regulation of the corporate sector.
3. In the light of the above to consider:
  - the most appropriate form which accounting standards take;
  - the status of standards in relations to company law;
  - procedures for the monitoring of compliance with standards and the enforcement of standards;
  - the identification of topics for consideration.
  - the need for, and nature of, public consultation about draft standards;
  - the funding of the cost of standard setting; and
  - the appropriate composition and powers of any body responsible for standard setting and the manner in which appointment to that body should be made, taking into account the interests of users, preparers and auditors

in the standard setting process.

4. To report and to make recommendations to the Consultative Committee of Accountancy Bodies (CCAB) in the course of 1988.'

In November 1988, the recommendation of the working party published its report 'The Making of Accounting Standards'. These recommendations were : (1) A broader base for the umbrella body (the Financial Reporting Council), not dominated by accountants; (2) a streamlined system (the Accounting Standards Board) to be more decisive in getting SSAPs out, with less delay for successive stages of approval or veto; (3) three times the funding, to pay senior accountants for their part-time work and to hire more full-time support staff; (4) a separate Review Panel to monitor and enforce compliance, with legal sanctions as a last resort.

This visible event, in July 1987, of reviewing the standards setting process, we argue and illustrate in this section, was preceded and surrounded with interactions and power relations in a number of different forms. These forms are presented diagrammatically in Figure 5.4 and described as follows.

In 1984, Ian Davison (84.1), talking about the new process of setting accounting standards, rejected the idea of legal backing for accounting standards suggested in Professor Jim Gover's review of investor protection. He said: 'While there seems to be harm on the form of legal backing by Professor Gover, I can see no necessity for it in relation to the majority of our standards. In

a press article (84.2) Davison's speech was analysed and it was argued that 'another change in the thrust of the standard setting process will only add to the ASC's problems. And in the end this may lead to standards working only where users, preparers and auditors want them to work.'

C.Nobes (84.3), in an article, explained the difference in practice and regulation in the UK and US with particular reference to R&D, Leasing, Deferred Taxation, and Inventories Standards.

In the May meeting, the ASC noted that Mr Peter Godfrey had been appointed Chairman-elect of the ASC after the Committee's July meeting. A press report -about this appointment- (84.4), said: 'Godfrey's approach is likely to be that of a conciliator rather than the abrasive autocratic style adopted by Davison.' Godfrey (84.5) said: 'It is not the easiest of times in which to be doing the job', 'the credibility problem that the ASC has faced centres on inflation accounting. I hope to regain that credibility by producing a standard which will be workable good' he said. A press comment (84.6) on Godfrey's appointment, said that 'what Peter Godfrey must ensure when he takes his place in the chair at September meeting is that he must stick to his belief in conciliation and persuasion but he must not allow the Davison initiatives in making the standard setting process an open one to wither away.' In a press article (84.7), it was argued that 'His (P.Godfrey) appointment will mark a change in style for the ASC and a new slant to the analysis of its problem.' Godfrey (84.8) said: 'I do not see myself as the super-technician', 'I am more a

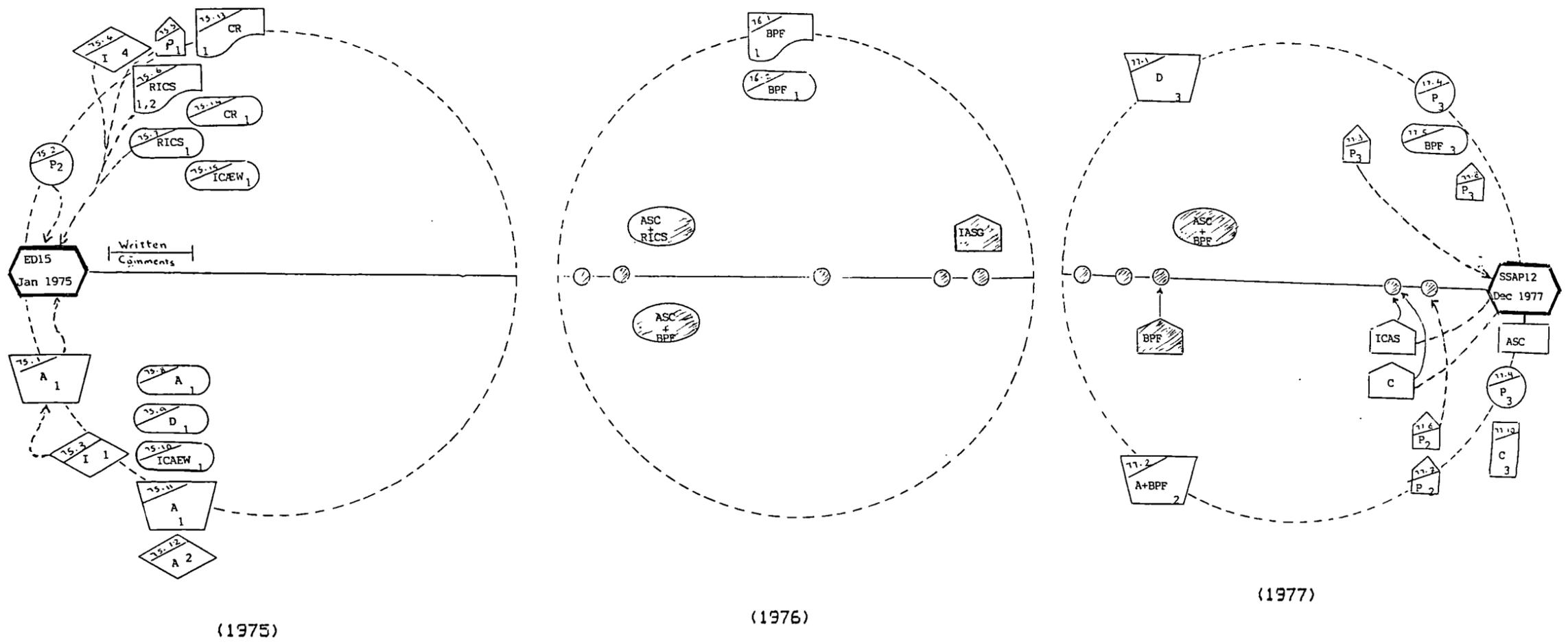
chairman who will persuade, both within the committee and within the business community.' In addition, a press comment (84.9) argued that 'the pragmatic approach is likely to be a theme of his stay there.'

Also, in the May meeting, the ASC approved the publication of an invitation to comment on the ASC's work programme. It was argued that there are several advantages on inviting comments publicly. These are: (1) it is more systematic than inviting comments orally at consultative meetings or receiving unsolicited comments, and therefore enables a more reliable assessment to be made of the demand for work on a particular topic, (2) ASC's constitution emphasises that its work is intended to be in the public interest, and inviting public comment on its programme demonstrates the importance that the ASC attaches to this aspect of its work, (3) as a by-product, the 'invitation' adds to the effective communication of information on the ASC's existing work programme.

This invitation published in the press (84.10) with the following comment: 'It is the first time in its 15 year history that it has exposed itself willingly to public criticism. This move was made following a review last year of the standard setting process. The review revealed the 'critical importance of the choice of topics in the programme and the need for effective consultation and communication'.

In a letter (84.11) to The Trade and Industry Secretary Norman

FIGURE 6.2  
INTERACTIONS AND POWER RELATIONS  
RELATED TO ISSUING SSAP 12 IN DECEMBER 1977



need for them.'

In 1985, the ASC, in its March meeting, approved a press release about the review of accounting standards in the light of the Companies Legislation . The press release stated: 'As a result of responses to the Accounting Standards Committee's Invitation to Comment on the Work Programme, the Committee has added to its agenda a new project 'Review of all accounting standards in the light of the Companies Acts 1980 and 1981.'

Professor M.Bromwich (85.1) called for all standards to get legal backing. This followed calls for legislative backing for an inflation accounting.

P.Godfrey (85.2), in an interview, said that 'the process of enforcement and standard setting should be separate. This is because professional bodies can discipline only their own members, and for enforcement to be across the board it needs a broader basis'.

The technical directorate of the English Institute (85.3) in October 1985 launched a pilot survey to examine compliance with company law, accounting standards and audit standards. Its aim was to discover whether there was sufficient evidence to justify further research and possible action to improve compliance. This study, it was reported in the press (85.4), had come down heavily in favour of assigning the policing of standards to the Secretary of State for Trade and Industry. Also, it was reported (85.5) that 'the

ASC will begin an intensive monitoring campaign of company accounts next week and the results of the survey should be available in time for its meeting with the DTI in October. The question of state backing for accounting is likely to be raised since there is a growing belief that present enforcement powers are inadequate. 'In this meeting (85.6) the DTI said that 'it liked the idea (enforcement) but didn't have the facilities to take on the job.'

Professor M. Bromwich (85.7) called again for statutory backing for accounting standards, saying: 'Unless enforced by law, standards setting will go down the drain.' 'People found they could ignore a standard with impunity, and this has spread' he said.

In 1986, the ASC, in its January meeting, approved the second invitation to comment on its work programme.

P. Godfrey (86.1) met with the six bodies' presidents to discuss the ASC's request for an approach to government on establishing a possible statutory request to disclose the effects of inflation in company accounts. This request was rejected by the six bodies' presidents. B. Jenkins (86.2), Chairman of CCAB, said -three weeks before the meeting- that 'I wouldn't be at all surprised if on balance we decided we wouldn't want to put it to government'. In reply to this, one of the ASC members (86.3) said: 'rejection of the request would be 'a very serious matter for the committee which would expect support from the bodies.'

In its March meeting, the ASC considered a report which contained details of a pilot study into compliance and which made various recommendations. The report and recommendations were approved for submission to the ASC's governing bodies, subject to an amendment to the recommendation to the effect that the governing bodies should be encouraged to act jointly in monitoring companies' compliance and following up non-compliance. This report was revealed in the press (86.4). G.Mitchell (86.5), commenting on the ASC's recommendations, said that it would have to be looked at in the context of self regulation . But, 'we have to take it a step at a time', he said. P.Rutteman (86.6) was in favour of the scheme. But he too, was considering self regulation as the central issue.

The ASC, in its July meeting, noted that Michael Renshall had been appointed Chairman-elect of the ASC from September.

In the November meeting, the ASC considered a programme for discussing strategic issues affecting the ASC. Also, it considered a proposal for a quick response mechanism. It was agreed to defer a decision on the need for, and form of, such a mechanism until the committee was able to consider related, but wider, strategic issues.

In a press report (86.7), under the title 'CCAB rethinks accounting standards enforcement', it was revealed that 'the CCAB is away from the idea of monitoring companies' accounts to uncover non-compliance. Instead, it plans to put more pressure on auditors to make sure accounting standards are followed. G.Mitchell (86.8)

said: 'The profession has much greater control over these auditors' than over the actions of company directors, most of whom are outside the profession'. 'It is an auditors' job to point out when not following accounting standards detracts from a true and fair view', he said. M.Renshall's comment (86.9) was that 'I remain hopeful, and certain, that they will come up with a solution'

In December, it was reported (86.10) that the 'CCAB's rejection of a call from the ASC for monitoring of company accounts has prompted considerable back pedalling in Moorgate Place, and the ASC chairman is convinced that the topic will eventually be revisited next year.'

Commenting on enforcement of standards, a press report (86.11) said: 'The position over accounting standards and their enforcement is becoming increasingly untenable'. It argued that the old ASC concept is no longer enough and there is a need for an ad hoc body which can respond as fast as possible to rumours of the latest coup on accounting principles. It should be drawn, the report said, from members of the ASC, the Stock Exchange, the Takeover Panel and the Department of Trade and Industry.

In a press report (86.12), it was announced that 'An investigation is to be launched by the ASC into whether all standards should apply to smaller companies- after a Scots ICA working party concluded that the rules should apply to both. M.Renshall (86.13) said: 'We are setting up a working party to look at the question of big SSAP and little SSAP. We want to look at

possible accounting standards for larger companies and some different set of standards for smaller companies'. He said 'the ASC had an open mind on the subject'

In 1987, a press comment (87.1) said that 'the ASC has already recognised that it has little jurisdiction over company directors. Those non-accountants among them fall outside the ethical jurisdiction of the accounting profession, while accountant directors fall uncomfortably between the stools of corporate loyalty and ethical rectitude.

Jef Knight (87.2) suggested, in an attempt to restore the credibility of accounting standards, that 'a joint operation between the Stock Exchange and the CCAB to monitor compliance with standards in the wake of criticism from both within and outside the profession that standards are losing their credibility.'

A press report (87.3), said that the 'ASC is actively considering setting up a panel with the Stock Exchange to monitor compliance with accounting standards. This followed CCAB's decision, not to monitor accounts -despite an earlier recommendation that it should. John Warne (87.4) described the move as 'a promising development'. He said: 'D.Boothman is proposing to meet J.Knight to see what the Stock Exchange had in mind. It is encouraging that the Stock Exchange is ready to play a' part in this as the profession cannot do it on their own.'

In interviews with technical partners of all the major firms

(87.5) they expressed their fears about non-compliance with accounting standards. A majority of them feel that the functioning of the ASC requires a fundamental review.

In a press report (87.6), it was revealed that 'the Government has decided to leave audit regulation to the profession. The Government wants to give the profession a firm push in the direction of sorting out its own problems'. At the same time, intentionally or otherwise, Ann Wilks (87.8) said that 'the Profession plays a vital role in government.' The satisfactory working of our partnership with the profession is, and will remain, vital to the government' she said.

Don Hanson (87.8) argued that 'It is clear that the ASC, as presently constituted, is unable to resolve the problems and issues which face the profession. It has got tied up in the political process within the profession and its final standards are often compromises between opposing points of view.'

In July, a press report (87.9) said that 'the stock Exchange and ASC initiative to monitor public companies' compliance with accounting standards has collapsed. The Stock Exchange/ASC plan was believed to have enjoyed the support of J.Knight, the Stock Exchange chief executive and himself a member of the ASC. M.Renshall (87.10) said: 'There are discussions but they were not able to develop a workable system.'

In a press report (87.11), it was announced that 'the CCAB

launched a review of how standards are set, and how compliance is monitored and enforced.' It was argued that the moves came after mounting worries about the lack of compliance, fierce attacks on the standards on acquisition and merger accounting and the failure to find a solution to the problem of inflation accounting. Renshall (87.12) immediately welcomed the review, setting four points which should be emphasised. These were: (1) recognition by the CCAB of rapid changes in financial research resources, (3) support for the monitoring of compliance with accounting standards, and (4) allowing the ASC to set standards in its own name.

R. Munson (87.13), a member of the ASC, said: 'There has to be a delegated power from the bodies at least allowing the ASC to recommend punishment such as exclusion'.

In a press comment (87.14) on the review of the standard setting process, it was argued that 'The review should conclude that standard setting is vital. It should be an independent function of the main accounting bodies. It should be recognised plank in a publicly avowed policy of both Stock Exchange and Department of Trade and Industry to ensure that companies are not allowed to get away with what, though fashionable at the time, can be described as accounting murder'.

A press article (87.15) argued that 'the CCAB decided to review the whole standard setting process partly because it fits in well with the current work on regulation in the financial services

and audit areas, and partly because the ASC has been attracting increasing criticism both from inside and outside the profession in recent years.'

F.Maude (87.16) welcomed the initiative by the CCAB to review the process. He said: 'It is very valuable that, every three or four years, the profession does look at it.'

Professor A.Hopwood and M.Page (87.17), in an article which is a summary of the view expressed during a six hour meeting of the ICAEW's study group, analysed the present state of standard setting with a view to considering its likely future development.

A press report (87.18) said that 'the CCAB was looking for an experienced senior industrialist and non-accountant who could give the review credibility both with and outside the profession.' It pointed out that since the ASC was set up in 1970 there had been many reviews but this was the first to be chaired externally. Sir Ronald Dearing, Chairman of the Post Office had accepted the position.

Commenting on the Dearing Committee, a press report (87.19), said: 'there are three basic options to be faced by the review group in the way to restore power authority and respect to accounting standards.' T.Smith (87.20) said that 'Dearing's review committee will want to give careful consideration to the question of inflation accounting.' H.Conon (87.21) pointed out that 'Sir Ronald Dearing settled in to his task of reviewing the process of

setting accounting standards, it is likely that his eyes will be drawn across the Atlantic to see whether the US system provides a good role model.' R.Adams (87.22) argued that 'the future of the ASC itself is in doubt. Something has to be found to replace it which must have stronger power sanctions, suggesting a combined public sector/private sector standard setting body as the possible best answer.' Professor Zeff (87.23), as a member of an informal academic advisory group, welcomed the new review of standard setting, pointing out that 'if we do not get our house in order on these issues, legislation is bound to follow'. He argued that 'legislation is undesirable in that it stifles creativity, is slow to respond to change and, over time, denudes the professional of his judgment.' In another article (87.24), Zeff, as the CCAB review of the UK's accounting standards was proceeding, explained how the present system of setting accounting standards had evolved in US and drew some lessons also from Canada, Australia, and New Zealand.

According to M.Renshall (87.25), the ASC decided in principle to: speed up giving guidance, improve the consultation process, reduce the time taken to produce standards, use the research facilities of the Accountancy Bodies. He said 'The problems are not as simple as they were 20 years ago when the ASC was set up'.

The constitution of the Dearing Review Committee was announced in a press report (87.26). It included G.Dunlop, finance director of the British Airways and N.Fitzgerald, Unilever's finance director, representing the companies side. D.Boothman, English ICA

past president and B.Gough, senior partner at Coopers and Lybrand, representing the practicing side. The public sector was represented by N.Palk, chief executive of the London Borough of Bromley. Professor B.Carsberg, director general of OFTEL, and A.Beeror, director general-designate of the City's Takeover Panel, representing the regulators along with representatives from the Bank of England and the Department of Trade.

In 1988, Professor Zeff (88.1) argued that 'by giving standards the formal imprimatur of the accounting bodies' national councils, many members, both in practice and industry would be more inclined to obey.' He suggested that a government agency was in a much better position to enforce compliance with accounting standards than was the council of a professional accounting body.

N.Macdonald (88.2) argued that increased business competition in the 1980s, and the introduction of some accounting rules into company law had allowed the application of standards to come under pressure that might otherwise have been avoided, and the system was dangerously close to losing credibility. Credibility was particularly vital in a self-regulatory environment. He pointed out that Sir Ronald had a challenging task ahead of him, for he had to come up with a structure that would ensure that standards are well enough drafted in the first place to command widespread acceptance. He also maintained that it was hard to see how this can be achieved without some monitoring activity.

In a submission to the Dearing Committee, Arthur Young (88.3)

urged that the ASC be replaced by an independent board under the control of either the Stock Exchange or the Bank of England. The board would have the power to issue standards in its own name but would be overseen by an accounting standards panel made up of representatives of the financial business community operating like the City Takeover Panel. G. Anderson (88.4), Arthur Young's senior partner, said: 'The process of setting standards and maintaining compliance should be brought into a central position within the business community'. He said: 'complaints about non-compliance of policy disputes would be referred to the panel which would have the power to make publicly quoted companies restate or reissue results'.

In a press comment (88.5) on the Dearing Committee, it was pointed out that 'A distinct pattern appears to be emerging from the submissions sent in so far to the Dearing review on the standard setting process'. The comment stated that 'Deloitte Haskins and Sells and Arther Anderson joined Arther Young in telling Sir Ronald and his committee what to do, and the key is the need for greater authority.'

A press comment (88.6) suggested that an 'accounting standards board must be set up. It has to be independent. Enforcement should be achieved through shame, fines and loss of listing rather than law and should be the responsibility of the Stock Exchange working in close cooperation with the board'.

In another press comment (88.7), it was pointed out that 'the

Big Eight firms have made hard hitting submissions to the ASC. The firms condemn the dependence of the ASC on consensus, its lack of authority and its chronic under-funding. They agree that an independent standard setting body should be set up, although they vary on how it should be constituted.' But Touche Ross (88.8) took a different view from almost every view expressed by the big firms and professional bodies. It insisted that accounting standards should be seen simply as standards of best practice. K.Wild (88.9), Touche's technical partner, said: 'it would be wrong to penalise automatically those who do not follow the standards.' He also saw no reason why companies should not be given an element of choice.

It was reported (88.10) that 'Top of the agenda when the Dearing Committee reviewing the accounting standards setting process meets tomorrow will be a serious debate on whether there should be a legal requirement for companies to state whether standards have been complied with.' According to the report, 'the idea has already been discussed with DTI by Sir Ronald Dearing.'

M.Craig (88.11) said: ' Most agree that the standard setting body should be independent, able to issue standards in its own name and better funded. But there is no consensus on who should monitor compliance and who should enforce standards'.

The ICAEW (88.12), in its submission to the Dearing Committee, proposed that the ASC should be allowed to issue standards in its own right and have increased funding. M.Chamberlain (88.13)

pointed out that the ICAEW has tried to ensure that the standard setting process is not fundamentally changed. 'Some of the other proposals (to the Dearing Committee) are so radical that we would be going into completely uncharted territory' he said. The submission to the Dearing Committee by the ICAS (88.14) was similarly cautious in tone, calling for 'evolution not revolution'. The ICAS also proposed an independent review board with increased funding.

It was reported (88.15) that 'the Dearing committee meets tomorrow in the latest step to come up with recommendation to restore the flagging credibility of accounting standards'. 'It is clear that the key problems are monitoring and enforcement' the report said.

A survey (88.16), published in May, revealed that financial managers thought the accounting profession was in danger of losing credibility if it continued to tighten standards in a commercially senseless manner. Commenting on this survey, the press (88.17) said: 'the publication of the findings comes at a highly sensitive time for the accountancy profession with the Dearing review of setting accounting standards reaching its preliminary conclusions'. In other comments on this survey (88.18), (88.19), it was pointed out that this study may be seen as a message to Sir Ronald Dearing.

R. Adams (88.20), commenting on the Dearing Committee, said 'I believe a conflict will necessarily arise whenever accounting standards are perceived by management to impinge on their personal

freedom. In short the only workable answer may lie in the US model with its fearsome SEC apparatus for insuring compliance.'

In a press report (88.21), it was revealed that the Dearing Committee made its report in which it was proposed a new structure for standard setting with three new official bodies, additional statutory powers to compel preparers of accounts to comply with standards and extra sources of finance for the standard setting process.

Following the issue of the Dearing Report, a press article (88.22) assessed whether the report had solved the problems, concluding the argument by short comments on the report by P.Rutteman of Arther Young, K.Wilde of Touche Ross, C.Svinson of Binder Hamlyn, E.Woolf of Kingston Smith, J.Carty of Robson Rhodes and K.Sherwood of Hodgson Impey. A press comment (88.23) said that 'the most significant departure from present practice recommended by the report (Dearing Report) is the recognition of the need for government and other internal parties to bear some share of the responsibility for both the standard setting process and ensuring compliance with standards.' P.Ebling (88.24), commenting on the Dearing Report, said: 'These are sensible suggestions, and the proposed new enforcement regime will also help. There are, however, no miracle cures. Those who argue that the goodwill and mergers SSAPs are examples of poor quality work, ignore the fact that standard setting is and will always remain, the art of the possible. However tough the enforcement regime, SSAPs will not succeed unless they are generally accepted.' J.Worsley (88.25),

ICAEW president, welcomed the report as a 'major contribution to the continuing debate about the enforcement of accounting standards and the best ways of securing more precise, timely standards which have the support of preparers and users of accounts.' An Institute spokesman pointed out that 'This particular system produces far too many cooks in the kitchen with no body really responsible for anything.' He also thought that the call for tighter standards heralded the arrival of 'the cook book approach to standard setting.' On the other hand, B.Jenkins (88.26), head of audit at Coopers & Lybrand, wanted to see the recommendations implemented as soon as possible, saying: 'The debate should now switch from what should be done to how it can most quickly be implemented'.

The conclusion from this section is that during the period from 1984 to 1988 there was a discourse about the credibility problem facing the ASC and the urgent need for monitoring compliance with accounting standards. This discourse manifested itself in a number of different forms. These were: talks to the press by the professional bodies [see (84.5), (86.2), (86.5), (86.6), (86.7), (87.2), and (87.13)]; published articles by academics, professional bodies, and financial journalists [see (84.12) (85.1), (87.15), (87.17), (87.22), (87.23), and (88.1)]; interviews with the professional bodies, auditors, Government representatives [ see (85.2), (87.5) and (87.16)]; press reports [see (85.3), (86.7), (86.10), (86.17), (87.3) (87.18) and (87.19)]; meetings (see (86.1)); surveys carried out by profession [see (85.3), (88.16)]; speeches [see (87.8)]; press comments [see (87.14), (87.20), (87.22), (88.2) and (88.6)].

In addition to these interactions and power relations the Dearing Committee received some 45 written submissions and other evidence from the accountancy bodies, firms of accountants, academic accountants, individuals and other representative bodies. Members of the Committee had informal discussions with a wide range of interested parties, including professional accountants, the Stock Exchange, the DTI, the Bank of England and others. Members of the Committee also visited the USA and had discussions with FASB, the American Institute of Certified Public Accountants (AICPA) and the Securities and Exchange Commission (SEC).

The call for monitoring compliance with accounting standards, as it was expressed in the above mentioned forms of interactions and power relations, rendered the setting up of Dearing's Review Committee and its following report visible in 1987 and 1988 respectively. In this report it was recommended, among other things, to establish a separate Review Panel to monitor and enforce compliance of accounting standards.

#### 5.5 THE NATURE OF POWER EXERCISED IN THE PROCESS OF SETTING ACCOUNTING STANDARDS IN THE UK.

The analysis introduced in the previous sections, shows the manner by which interactions and power relations are exercised in the process of setting accounting standards. It shows the concrete mechanisms and practices through which power is exercised in this process. The nature of this power will be examined more clearly in this section, arguing that it has disciplinary, relational, and

positive aspects. These characteristics will be addressed, respectively, in the following sub-sections.

5.5.1 The Disciplinary Nature Of Power Exercised In The Process Of Setting Accounting Standards.

Given the absence of specific legislation in UK accounting standards, its operations can be characterised by the exercise of disciplinary apparatuses/techniques. These techniques, as we have seen in the previous sections, were: published articles in the financial press, letters to the press, press conferences, talks to the press by officials, interviews by the press to officials, formal and informal meetings between the ASC and finance directors and other persons concerned with financial reporting, speeches by officials, press comments, press news about the work of the ASC, public hearings, conferences, studies conducted by academics for the profession, issuing discussion papers (Corporate report and Watts report), issuing audio cassette/ guidebook packages about accounting standards, courses carried out by the ICAEW in association with District Societies about the new accounting standards, giving oral guidance by the ASC, issuing publications about accounting standards (the most obvious examples are 'Survey of Published Accounts', and 'Accountants Digest', written submissions to the ASC and publication of some of them in the financial press, formation of new representative groups (such as The 100 Group, The Midland Group, the Scottish Group of Finance Directors), and joining the ASC Consultative Group by representative bodies on the request of these bodies.

Disciplinary power, as Foucault suggested (see Chapter 3, Section 3.5) is exercised through its invisibility, at the same time imposes on its objects -and its subjects as we suggest as a modification to Foucault's Model- a compulsory visibility. Accordingly, it can be argued that the above ways of interactions are techniques/ apparatuses of disciplinary power in terms of their ability to crystallise, even without their knowing, the minds, about accounting standards and the process of setting them, of both the standard setters (regulators) and finance directors of companies (and other directors) and other interested groups (regulated persons and groups). These techniques, at the same time, render the thoughts and actions about accounting standards and the process of setting them, of both the standard setters and the interested groups visible, and, in turn, governable. To put it another way, These practices/ techniques (such as meetings, public hearings, courses, published articles.....etc) may be seen as a facilitative technology which brings the standard setters (ASC) under the finance directors' and other interested parties' gaze. At the same time it brings the finance directors and other interested parties -regarding their views and actions about accounting standards- under the ASC's gaze.

Looking at the history of ASC in the last twenty years (1970 - 1988), it can be argued that this visibility has been increased since the ASC has moved towards a more open policy about its work. This was apparent in March 1976 when the ASC developed the role of its Consultative Committee. Following this, it issued the Watta Consultative Document for public discussion in September 1978. In

July 1983, the ASC decided to put more emphasis on consultation in the revised standard setting process. In May 1984, again moving towards more openness, the ASC issued invitations for the public to comment on its work programme.

This visibility, also, was magnified, it can be argued, by the professional and financial press in the UK context. As seen in Sections 5.1 to 5.4, most of the ways of interactions and power relations were mediated through the professional and financial press. It was through such mediation, the visibility of the ASC work and the visibility of thought and actions of companies' finance directors and other interested parties (about accounting standards and the process of setting them) were made possible.

By a way of summary, it can be said that the ASC (as a subject of power, by adopting and developing an open policy -mediated through the professional and financial press, constructed a field of visibility about companies' finance directors and other interested parties (as object of power) as the Foucauldian model suggested. However, it also -as a modification to the Foucauldian model- constructed a field of visibility about itself, and in turn, made itself an object of power. For example, a meeting between the ASC and some finance directors (or other interested groups), as a technique of power, renders the views of both ASC and finance directors visible to each other, and in turn, constructs a field of power relations in which each side is a subject and object of power at the same time.

In the light of the above, disciplinary power is exercised through its invisibility, but at the same time imposes a compulsory visibility on both the subject and object of power (not only on the object of power as the Foucauldian Model suggested). This is because disciplinary power, as Foucault suggested, is relational in a sense that both the subject and object of power are involved. This relational nature of power will be examined, in the following sub-section, in the context of the UK standard setting process.

#### 5.5.2 The Relational Nature of Power Exercised in the Process of Setting Accounting Standards

Power exercised in the process of setting accounting standards, it can be argued, building on the Foucauldian model (see Chapter 3. Section 3.3) are relational. Two points can be advanced to support this.

Firstly, given the absence of specific legislation in the accounting standards in the UK context, power exercised in the process of setting accounting standards is the effect of the interactions (relations) between the standard setters (ASC) and finance directors of companies and other interested groups. This power is immanent in, and intrinsic to these interactions (relations). The ASC/Finance directors interaction (relation) is defined by a supposed common goal which is the production of acceptable accounting standards. This common goal is inseparable from relations of power, founded on the presumption that the ASC

wants the accounting standards to be accepted by the finance directors of companies and other interested groups, for its survival in a self regulation system in the UK context. On the other hand, the finance directors of companies and other interested groups want the ASC to produce accounting standards which do not harm them. The relation of power is integral to this common goal, but it cannot be conceived on the traditional model of power as the previous studies, discussed in Chapter 4, suggested. Accordingly, power exercised in the process of setting accounting standards is relational since either standard setters (ASC) or finance directors of companies (and other interested groups) can react to the actions of the other. As we have illustrated in Sections 5.1 to 5.4, both sides (ASC and finance directors and other interested groups) utilised disciplinary techniques in exercising power in the process of setting accounting standards such as published articles in the press, talks to the press..etc.

Secondly, power exercised in the process of setting accounting standards is relational in the sense that it is exercised from a variety of points of views rather than, as the previous studies suggested, something that the companies or the other interested groups have and the ASC lacks, or what the ASC has and companies or other interested group lack. Power in the process of setting accounting standards is a complex strategy spread throughout the network of interactions. Involved in this network, as demonstrated in Sections 5.1 to 5.4, professional bodies, finance directors and their representative bodies, accountants-auditors and their representative bodies, financial journalists, other representative

bodies (such as The Stock Exchange, DIT, SCI), and other standards setters bodies (such as FASB and IASC); exercised power through a variety of disciplinary techniques (such as published articles in the press, speeches by officials, talks to the press,.....etc.) from a variety of locations (London, Glasgow, Cambridge, Manchester,.....etc.). Many of these techniques were connected with each other and all of them were related to the visible events, as depicted diagrammatically in Figures 5.1 to 5.4, without giving one or more of them the status of causality.

This emphasis on the relational aspect of power helps to explain the rejection of reducing all power to class dominations in the process of setting accounting standards (see chapter 4). The presentation of power, exercised in the process of setting accounting standards can be likened to a machine in which everyone intended in the process is caught -those who exercise power just as much as those over whom it is exercised. This does not mean that to deny that particular group(s) of companies presented themselves as a 'class' in the interactions concerning some particular standards, as we will see in the two following chapters. Rather the point is that these classes, to exercise power on others (the ASC) required first and foremost a dynamic of exercising power on the members of the defined 'class'. For example in order for the companies to establish their position of class domination in the process of setting accounting standards -and other matters- they had to form themselves as a class. The formation of representative groups -as we indicated in the previous sections- of Finance Directors (such as The 100 Group, The Midland

Group, The Scottish Group) and the formation of the representative bodies of companies (such as CBI, Building Societies Association, British Insurance Association, British Property Federation, Equipment Leasing Association....etc) lend support to this point. Within these groups and associations the technologies of power exercised in the process of setting accounting standards were initially applied on individual companies by these groups and associations (issuing guidance notes, written submissions, meetings ....etc.). Therefore, it can be argued, if the technologies of power had not already been successfully applied on the individual (company) members of the class, there would have been no domination. It is in this sense that power exercised in the process of setting accounting standards is operating throughout as network of relations.

It should be emphasised that the analysis of power as a network of relations in which the ASC, finance directors of companies and other interested groups are caught, does not mean that the ASC or the Companies and the other interested groups have been completely governed and controlled by these techniques of power, mentioned in the previous sections. Both the ASC and Finance directors of companies have escaped total subjection and subordination through forms of resistance to the exercise of power. This is because the network of power relations in the process of setting accounting standards was paralled by a multiplicity of forms of resistances as well. For example there were points of resistances by the ASC through its history to the idea of legal backing for accounting standards [see (77.1), (79.49), (80.5),

(84.1), (88.6)].

Also, implicit in the conception of power as a network of relations is the presumption that it is intentional without a subject. It is arguably intentional at the tactical level, but the set of power relations, the strategic connections, the deep function of power in the process of setting accounting standards has no subject and is the product of no one's plan. What is being emphasised here is that, aside from the particular conscious purpose of each group involved in the process of setting accounting standards (finance directors, accountants, auditors, users of accounts, representative bodies, other standards setters bodies) there is a discernible strategic logic of context in the process, but this cannot be attributed to anyone as their plan, as their conscious purpose. As indicated in the previous sections, each visible event discussed cannot be attributed to the views of certain persons or groups involved in the process or to a certain technique of interaction (such as written submission, meeting, ...etc). Of course each person or group involved in the process of setting accounting standards (by writing articles, submitting written comments to the ASC.....etc), more or less, knows what he or she is doing when he or she does it and can often be quite clear in articulating it, but it does not follow that he or she knows the broader consequences of these local actions on the outcome (visible event). This is simply because each visible event, as we can see from Figures 5.1 to 5.4, was connected, in one way or another, with a network of power relations in which a variety of persons and groups, utilising a variety of techniques, were involved.

**5.5.3 The Positive Nature of Power Exercised in the Process of Setting Accounting Standards.**

The argument for the positive nature of power in the process of setting accounting standards is built on two Foucauldian notions. These are: the notion of discourse as a loci of power and the notion of power/knowledge.

The discourses about the process of setting accounting standards, presented in Sections 5.1 to 5.4, in the written form (such as articles, letters, ....etc) or in the spoken formate (such as speeches, talks to the press.... etc), were the tactical elements or blocks operating in the field of power relations. To put it another way, these written and spoken discourses, about accounting standards and the process of setting them, were the loci of power exercised in this process.

These discourses which are offered in this Chapter and in Chapters 6 and 7, are from those closest to the dynamic and complex reality of the process and use of setting accounting standards. These discourses are from those preparing, auditing, using or regulating accounts. These discourses manifested themselves in a variety of formal and informal ways, on the local level (such as discussions, meetings, courses carried out in the district societies..etc) and at the national level (such as public hearings, meetings between the ASC and some finance directors..etc). In these locations, as seen in Sections 5.1 to 5.4, the interactions and power relations -about the process of

setting accounting standards- were exercised.

Given the understanding of discourses as a loci of power, the argument is that power in the process of setting accounting standards is positive in a sense that through these discourses, which flourished in the period from 1976 to 1988 as never before (see Figures 5.1 to 5.4 ), there was a learning process for all involved in these interactions and power relations.

Through these discourses the changes which have been occurred in the ASC and the process of setting accounting standards since its creation in 1970 to 1988 have emerged. These started in February 1978 when the ASC set up the Watts' Review Group. This change, discussed in Section 5.2, was the effect of all the written and spoken discourses which preceded and surrounded such an event from 1971 to 1978. The second attempt by the ASC to change itself was in September 1982 and July 1983 in which the organisational structure of the ASC, and the process of setting accounting standards were revised. This change, discussed in Section 5.3, was the effect of all the written and spoken discourses about accounting standards and the process of setting them from 1979 to 1983. The third Change was in November 1987 when the CCAB set up Dearing's Review Committee. Such a change, as argued in Section 5.4, was the effect of all written and spoken discourses about accounting standards and the process of setting them from 1984 to 1988.

Building on Foucault's notion of power/knowledge discussed in

Section 2.3, it can be argued that power relations, discussed in Sections 5.1 to 5.4, were positive in a sense that they produced knowledge for the ASC (about what is going on in the minds of companies' finance directors (preparers of accounts) and others concerned with financial reporting) through which the changes of the ASC and the process of setting accounting standards were made possible. Through this knowledge, the ASC became able to control the companies' finance directors and other interested groups in terms of their application and use of accounting standards. In other words, this knowledge created docile finance directors and other interested groups in terms of applying accounting standards. On the other hand, power relations produced knowledge for the companies' finance directors and other interested groups about the thought and actions of the standard setters (ASC), and, in turn, enabled them to control the ASC to produce acceptable standards. To put it another way, this knowledge also created docile standard setters in terms of producing acceptable standards to the companies.

The concern with the positive aspect of power as indicated above does not mean to deny the fact of more negative aspects of power in the process of setting accounting standards. However, the view of power exercised in the process of setting standards as merely repressive is rejected. Repression, it can be argued, is one effect among others in a complex set of mechanisms of exercising power in this process. The message of this chapter -and the two following-, is that, if we are to understand how power actually operates in the process of setting accounting standards in

the UK, we must look at its positive, productive effects.

Accordingly, it can be suggested that calling for legal backing of accounting standards in the UK context is not acceptable. Such a call assumes, implicitly, that compliance is only possible through legally enforceable processes. This is quite inadequate, as demonstrated in this sub-section, for capturing what is precisely the productive aspect of power exercised in the process of setting of, and willingness to comply with, resulting accounting standards. Also, to call for legal backing of accounting standards, means to continue posing power in terms of law and the State apparatus. This does not mean that the state isn't important, rather relations of power (as discussed in this Chapter and depicted digrammatically in Figures 5.1 to 5.4) necessarily extend beyond the limits of the State. This is because the State, for all the omnipotence of its apparatuses, is far from able to occupy the whole field of actual power relations, and further because the State can only operate on the basis of other already existing power relations. This is what is the actual situation in the UK context where the Government relies on the accounting profession in regulating the accounts of companies. As a Government official said: 'the satisfactory working of our partnership with the profession is, and will remain, vital to the government.' [see (87.8)]

## 5.6 CONCLUSION

In this chapter we have tried -using a Foucauldian genealogical analysis, along with the material available in the professional and financial press and the ASC documents- to trace and chart micro-powers (techniques of power) exercised in the process of setting accounting standards -at the general level- during the last twenty years (1969 - 1988).

These micro-powers, as we have demonstrated in Sections 5.1 to 5.4, were: published articles in the financial press, letters to the press, press conferences, talks to the press by officials, interviews by the press to officials, formal and informal meetings between the ASC and finance directors and other persons concerned with financial reporting, speeches by officials, press comments, press news about the work of the ASC, public hearings, conferences, studies conducted by academics for the profession, issuing discussion papers (Corporate Report and Watts Report), issuing audio cassette/guidebook packages about accounting standards, courses carried out by the ICAEW in association with District Societies about the new accounting standards, giving oral guidance by the ASC, issuing publications about accounting standards, formation of new representative groups (such as The 100 Group, The Midland Group, The Scottish Group of Finance Directors), and joining the ASC Consultative Group by representative bodies on the request of these bodies.

The charting of these micro-powers enabled us, as illustrated

in Section 5.5, to clarify the disciplinary nature of power exercised in the process of setting accounting standards and, in turn, to reveal its positive, productive effects for this process. Also, they enabled the relational nature of this power to be demonstrated and, in turn to reveal its intentionality without a subject. The power exercised in the process of setting accounting standards had and has a disciplinary nature because it is exercised through disciplinary techniques/apparatuses. These techniques rendered the views (related to standard setting) of companies and other interested groups and the standard setters visible and governable. This visibility increased, it was argued, as the result of the ASC's movement towards an open policy about its work. This visibility was magnified through the professional and financial press. Power was relational because it was immanent in the interactions (relations) between the the ASC and the finance directors of companies and other interested groups, and because it was exercised from a variety of locations. Power -exercised in the process of setting accounting standards- was positive in the sense that it produced knowledge through which much more understanding about the standards and the process of setting them, were gained.

The analysis provided in this chapter has two main purposes. First, it illustrates and lends support to the claim in the beginning of the Chapter (Section 5.0) that: (1) the creation of the ASC in 1970 and the changes which followed to 1988, as visible events during this period, were preceded and surrounded with invisible interactions and power relations between the ASC and

finance directors of companies -and other interested groups, (2) the role of UK companies' finance directors and other interested groups in the process of setting accounting standards was not just a reactive role in terms of written submissions to the ASC, but also, and may be more importantly, it was an interactive role in which different forms of interactions were involved; (3) this role of UK companies' finance directors in the process of setting accounting standards can only be fully understood within the wider context of interaction and power relations between the ASC and all persons and groups involved in this process; (4) the interactions and power relations between the ASC and UK companies' finance directors and others were not only about specific standards, but they were, also, concerned with the process of setting accounting standards more generally.

Second, it formed an important prelude and basis for the analysis of the two following chapters in the sense that to fully understand the interactions and power relations concerned with particular standards [i.e the Depreciation Standard -in Chapter 6-, and the Leasing standard -in Chapter 7-], need to be located within the wider context of interactions and power relations about the process of setting accounting standards at the more general level. This is because, as is apparent throughout this Chapter -and will be seen in the two following Chapters-, there are interactions between the general and specific levels of power relations in the process of setting accounting standards.