INSTITUTIONAL LOGICS IN GLOBAL ACCOUNTING STANDARD SETTING

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ABSTRACT

Purpose – This study primarily aims to examine the changes in organizational structure of the IASB from an institutional logics approach. Specifically, we develop two ideal types of institutional logics of the IASC and the IASB, and then we identify further changes in institutional logics by investigating the revisions of the IASB Constitution after 2000 based on these two ideal types.

Methodology/approach – Institutional logics approach based on institutional theory, specifically using ideal type methods.

Findings – There are two conflicting logics in global accounting standard setting – the *representation logic* and the *expertise logic* – that cause legitimacy dilemmas between representation and expertise. The consecutive revision of the Constitution and consequent organizational changes from 2000 were implemented to absorb political pressures to enhance the IASB’s public accountability, but these changes suggest another shift in institutional logics to the *accountability logic* and further legitimacy dilemmas between expertise and accountability.

Originality/value – This study shows the reflexive mechanism of organizational changes and identifies the changes in institutional logics as causes of organizational changes, and vice versa. This study extends our knowledge to organizational-level institutional logics and the legitimacy of organizations and institutions.

Keywords: institutional logics, representation, expertise, accountability, IASB

JEL classification: G01, M40, M41, M48

1. INTRODUCTION

In 1973, the principal accountancy bodies from nine countries[1], which had been engaged in the international harmonization of accounting standards, formed the International Accounting Standards Committee (IASC). Until the late 1990s, the IASC consisted of the IASC Board, Steering Committees, Standing Interpretations Committee (SIC), and the Advisory Council. Although the initial members were limited to accountancy bodies from the nine founding countries, the members of the International Federation of Accountants (IFAC) eventually became automatic members after several revisions of the IASC Constitution and mutual agreements between the IASC and the IFAC in 1982 (Arai, 1993; Kirsch, 2006; Camfferman and Zeff, 2007; Botzem, 2012). In the 1990s, even as the committee was completing its "core" standards, the growing globalization of markets and economies was quickly rendering the structure of the IASC obsolete. In response, the IASC Board established the Strategy Working Party (SWP) in 1996 to address the IASC's future strategy and structure. Following recommendations from the SWP, the IASC restructured itself into the IASB, which has become the accepted international accounting standards setter amid the increasing acceptance of International Financial Reporting Standards (IFRS).

Historical reviews of the IASC and the IASB discuss the changes in their organizational structures. However, such studies do not necessarily clarify the fundamental causality behind the changes; rather, they provide functional and contingent explanations such as responses to environmental changes (Kirsch, 2006; Camfferman and Zeff, 2007)[2]. A closer examination using the "institutional logics" approach from institutional theory can provide a more detailed explanation. Because changes in embedded logics can help explain institutional changes at the societal, industrial, and organizational level, they are used here to examine the causes behind the emergence of the new institution. Institutional theory has established the "ideal types" approach that provides the taxonomies of institutional logics and clarifies the mechanism of changes. In this study, we examine the changes in the organizational structure of the IASB by using this approach, because the institutional logics involved in the global accounting standard setting process is still unexplored and we assume that this has potential to contribute to the accounting literature[3].

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[1] The nine founding countries consisted of Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and United States of America (alphabetical order).

[2] For instance, Botzem and Quack (2009) provides a critical review of Camfferman and Zeff (2007) and indicates two basic shortcomings: a normative bias favoring Anglo-American norms and interests, and methodological problems. They also point out its missing links with existing literature as follows: the role of experts and expertise; the dominance of global auditing firms; and imbalance of stakeholder groups.

[3] As a rare example of these studies, Guerreiro, Rodrigues, and Craig (2012) explain how institutional pressures influence decisions to adopt IFRS voluntarily, combining the strategic response model with the concept of institutional logics. They conduct empirical research on voluntary adoption of IFRS by large unlisted companies in Portugal, and find Portuguese

The purpose of this study is two-fold. First, we develop two ideal types of institutional logics of the IASC and the IASB. In particular, we focus on the IASC Constitution and the discussion papers of SWP, because the discussion of the restructuring of the IASC exposed the conflicting institutional logics and legitimacy dilemmas. Second, we investigate the constitutional review from 2000 onwards and try to identify any organizational changes and underlying shifts in institutional logics. These kinds of analyses clearly reveal the institutional significance of organizational changes caused by the revision of the constitution and allow some predictions of further changes.

The remainder of this paper proceeds as follows: the second section clarifies our methodology and explains the institutional logic approach. Then, we review prior research and show two ideal types of institutional logics for global accounting standard setting in the third and fourth sections. The fifth section investigates the constitutional review of the IASCF from 2000, and we mark some discussion points and note implications in the sixth section. The final section provides concluding remarks.

2. METHODOLOGY

By applying institutional theory, this study examines the relationship between institutional logics and changes in organizational structures.

2.1. Institutional logics

While functional theory and other institutional theories focus on the similarity of organizational structures and isomorphism in the world system, society, or organizations, the institutional logics approach can be used to analyze individual and organizational behaviors (Friedland and Alford, 1991; Thornton and Ocasio, 1999; Thornton, 2004; Thornton, Jones, and Kury, 2005; Suddaby and Greenwood, 2005).

While there has been some variety in its definitions, the institutional logics approach presupposes a broad meta-theory on how institutions, through their underlying logics of action, act to shape heterogeneity, stability, and change in individuals and organizations (Thornton and Ocasio, 2008). The core assumption of the institutional logics approach is that the interests, identities, values, and assumptions of individuals and organizations are embedded within prevailing institutional logics. In other words, institutional logics both enable and constrain these actors' means when they seek power, status, and economic advantage. This approach conceptualizes society as an inter-institutional system. Each institution has both material and cultural characteristics (Friedland and Alford, 1991), and an institutional logics perspective recognizes that institutions develop and change as a result of the interplay between

companies were willing to change from a code-law institutional logic to a common-law institutional logic if they consider such a change would have positive overall benefits to them.

both these forces (Thornton and Ocasio, 2008).

Although Friedland and Alford (1991) mainly focused on societal-level logics and their effects on individual and organizational actions and beliefs, institutional logics may also develop at a variety of other levels such as markets, industries, inter-organizational networks, geographic communities, and professional fields. Organizational behaviors, for instance, can be influenced and shaped by higher-level institutional logics from the industry or field level. While the six sectors in the inter-institutional system of western societies (markets, corporations, professionals, states, families, and religions) all influence each other, their development and importance differ over time (Thornton, 2004).

The institutional logics approach assumes three mechanisms of change in institutions: institutional entrepreneurs, structural overlap, and event sequencing (Thornton, Jones, and Kury, 2005). Institutional entrepreneurs use rhetorical strategies or “institutional vocabularies” to affirm or discredit the dominant institutional logic that defines the legitimacy of organizations (Suddaby and Greenwood, 2005). To discredit an institutional logic and bring about institutional change, entrepreneurs expose or ameliorate the contradictions by associating them with broader cultural analogies. Mergers and acquisitions are a typical case of structural overlap where individual roles and organizational structures and functions that were previously distinct are forced into association, triggering a change in existing institutional logics. Event sequencing is defined as the temporal and sequential unfolding of unique events that dislocate, rearticulate, and transform the interpretation and meaning of cultural symbols and social and economic structures (Sewell, 1996, p. 844). Thornton, Jones, and Kury (2005) also found competing institutional logics in the analysis of organizational fields. Competing logics are not, by themselves, an explanation for change in institutional logics, but an antecedent or a consequence of it (Thornton and Ocasio, 2008).

There are several methods of analysis for the institutional logics approach, namely, event history analysis, interpretive methods, and ideal types. Sewell (1996) defined a historical event as a ramified sequence of occurrences that is recognized as notable by contemporaries and results in a durable transformation of structures (Sewell, 1996, p. 844). Interpretive methods include genealogy, ethnography, conversation analysis, content analysis, narrative analysis, critical discourse analysis, and rhetorical analysis. Suddaby and Greenwood (2005) used rhetorical analysis of institutional vocabularies to expose contradictory institutional logics embedded in historically different understandings of professionalism. Ideal types are a method of interpretive analysis for understanding the meaning with which actors invest their actions (Thornton and Ocasio, 2008). Ideal types as formal analytical models compare the empirical observations of competing institutional logics.

2.2. Ideal types approach

The institutional logics approach explains the influence of culture on the cognition and behavior of individual and organizational actors, and it requires the development of formal typologies of institutions, each having a distinctive logic (Doty and Glick, 1994; DiMaggio, 1997; Thornton, 2004; Thornton, Jones, and Kury, 2005). These typologies are composed of two distinct kinds of constructs: the description of ideal types and the set of assertions that relate the ideal types to the dependent variable (Doty and Glick, 1994). While ideal types are complex constructs used to represent holistic configurations of multiple unidimensional logics of institutions, typologies hypothesize relationships using the similarity of an actual organization to an ideal type and the dependent variables (Doty and Glick, 1994, pp. 233-234). Many researchers promote their own typologies (Alford and Friedland, 1985; Fligstein, 1990; Friedland and Alford, 1991; Thornton, 2004), but the aforementioned six societal sectors are typical and persuasive examples that represent the character or state of societal sectors. The institutional logics of each societal sector are said to shape "an interpretation and view of archetypical organization structures and governance mechanisms used to coordinate economic activity as a part of a broader range of sector institution" (Thornton, Jones, and Kury, 2005, 128).

Thornton, Jones, and Kury (2005) developed industry specific instantiations of the societal-level institutional logics from their empirical data on accounting, architecture, and publishing. They first argue the ideal types of societal-level institutional logics for each of six sectors. The taxonomy shows the relation between the six societal sectors (columns) and the elements of the institutional logics (rows). The sector logic consists of sixteen elements: economic system, theory, natural effect of symbolic analogy, sources of identity, sources of legitimacy, sources of authority, basis of norms, basis of attention, basis of strategy, learning mechanisms, informal control mechanisms, formal control mechanisms, forms of ownership, organizational form, logic of exchange, and logic of investment. These elements "represent theoretical predictions for institutional and organizational arrangements within the influence of that particular sector" (Thornton, Jones, and Kury, 2005, p. 128)[4]. They modified these original typologies to fit the institutional logics of each industry. In the case of public accounting, while introducing the *fiduciary logic* and the *corporate logic*, they reduced 16 elements of the sector logics to eight elements (economic system, sources of identity, sources of legitimacy, sources of authority, basis of mission, basis of attention, basis of strategy, and logic of investment) and added four new elements (governance mechanism, institutional entrepreneurs, event sequencing, and structural overlap) to clarify the features of the logics more explicitly. By referring to this typology, this study develops

[4] When individual actors and organizations are influenced by the logics of multiple sectors, they have the opportunity to create "hybrid institutions" (Thornton, Jones, and Kury, 2005, p. 128).

two organizational-level logics of global accounting standard setting in the following section.

3. PRIOR RESEARCH

3.1. Restructuring of the IASC to IASB

Prior literature explains the restructuring of the IASC into the IASB as the confluence of three important changes: the enhancement of the IASC-IOSCO system in which the IASC incorporated national standards setters directly into the global standard setting process (Tokuga, 2000), the changes in the structure and membership in the IASC Constitution meant to strengthen the legitimacy of the IASC (Black, 2009), and the reformation of the IASC with the aim of the wider acceptance and more powerful enforcement of the International Accounting Standards (IAS) due to the absence of enforcement-level legitimacy of its standards (Shiosaki, 2010). Considering the worldwide influence of the IASB today, this reformation was a critical turning point in the history of IASC/IASB and marked a first step toward a global convergence of accounting standards (Tsujiyama, 2002).

Within the discussion in the SWP, “a difference of ideas” (Shiba and Sawabe, 2002 (12), p. 104) or “a philosophical chasm” (Camfferman and Zeff, 2007, p. 449) opened up between Anglo-Americans and Continental Europeans. Specifically, Anglo-Americans wanted board members to be selected for their expertise and the size of the board to be small for efficiency, while Continental Europeans thought that board members should be representatives from principal countries in the accounting field and that the size of the board should be decided by its members (Shiba and Sawabe, 2002 (12), p. 104). Sawabe (2005), examining this confrontation from the view of legitimacy, explained that the basis of the legitimacy of the standard setting body changed from *representation* to *expertise* in the reformation of the IASC (Sawabe, 2005, p.116). Sawabe (2005) also pointed out dual shifts in the participatory structure of the IASC/IASB: (1) change in the definition of standard setter’s independence (independence from national government agencies was included); (2) change in the selection criteria for board members (board members should be selected based on their expertise, not because they represent their state). Sawabe suggested that these shifts stemmed from changes in the basis of legitimacy.

3.2. Legitimacy of global accounting standard setting

Looking at global governance, Zimmermann, Werner, and Volmer (2008) analyze accounting standard setting and suggest that the current financial reporting regulation is shaped by a network of private sectors (Zimmermann, Werner, and Volmer, 2008, p. 24). After January 1, 2005, companies in EU member states were required to prepare their consolidated accounts in conformity with the IFRS, and the mixed governance model in which standard setting by the private sector and regulation and enforcements by public sectors co-exist has been adopted in the EU. They suggest two principles for explaining the legitimacy of this model: (1) participation and public debate (deliberation), (2) control and accountability (Zimmermann, Werner, and Volmer, 2008, p. 64)[5].

By highlighting the necessity of legitimacy, many studies point out an interdependent relationship between public and private sector organizations. Pelly and Nölk (2005) insist that the public authorities delegating accounting standard setting to the IASB were not consciously choosing fair value accounting; rather, they were choosing an institutional structure that left the technical decisions to the experts. Their systematic network analysis of the governance structure of the IASB and the European Financial Reporting Advisory Group (EFRAG) reveal that delegation of authority to the experts is characterized by a shift from public to private (Pelly and Nölk, 2005, 19). On the other hand, they discuss some concerns about the democratic legitimacy of private authorities. By using principle-agency theory, Mattli and Büthe (2005) suggest three reasons or motivations for a political principal (public sector) to delegate standard setting authority to agents (private sector): (1) the desire to benefit from existing expertise as a substitute for acquiring such expertise through lengthy and costly training; (2) delegating the maintenance of specialized expertise to a private agent may be more efficient and desirable than delegation to the public agent; and (3) “blame avoidance” or “shifting responsibility” (Mattli and Büthe, 2005, pp. 230-231). Richardson and Eberlein (2011) also indicate the democratic legitimacy deficit of international governance arrangements beyond national systems of law and try to develop a conceptual inventory of the mechanisms or institutional vocabularies to claim legitimacy for the operations and outcomes of the IASB. They find that the IASB, in addition to claiming credibility as a technically competent, independent standards setter, has increasingly relied on due process mechanisms drawn from domestic contests to reassure stakeholders (Richardson and Eberlein, 2011, p. 218).

The financial crisis from 2007 to 2009, along with related political pressures on the IASB, intensified the debates regarding the legitimacy of the IASB (Bengtsson, 2011; Burlaud and Colasse, 2011; Danjou and Walton, 2012). Although the IASB had been able to set standards with relatively little political influence in its governance or

[5] The basic idea of participation and public debate is that constituents are more likely to accept the resulting standards as they participate in the standard setting process. The principle of participation of interested parties in that process seems to be a necessary condition for a private sector that initially lacks democratic legitimacy,; and the principle of debate requires a due process through which accounting standards can be debated, revised, and rejected. By contrast, the principles of control and accountability refer to the legitimacy of policy and/or procedure. In Europe, member states have delegated decision-making powers to the Council, which means that the Council members have dual responsibilities, one to the Commission and another to their own countries. As a result, particular policy decisions and implementation procedures are disconnected from democratic control of member states. In this context, control and accountability are important for the legitimacy of policy and/or procedure.

standard setting process, Bengtsson (2011) notices a rebalancing of power in that political actors have gained influence at the expense of the IASB, the accounting profession, and the users of financial information. He explains, "no longer are political actors limited in their influence by being confined to commenting on accounting draft proposals late in the process" (Bengtsson, 2011, p. 577). Burlaud and Colasse (2011) also suggest that the IASB lacks political legitimacy and instead has procedural and substantial legitimacy. The IASB has achieved procedural legitimacy owing to its due process and substantial legitimacy owing to its conceptual framework; however, since these two sources of legitimacy are very fragile, the IASB needs to mask the limits of these legitimacy deficits with "a skilful rhetoric of neutrality, fidelity, objectivity and even justice" (Burlaud and Colasse, 2011, p. 43). In addition, they assert that the outbreak of the crisis itself undermined the legitimacy of the IASB and led governments and inter-governmental organizations to undertake important steps in matters of accounting standardization. In a contrasting analysis, Danjou and Walton (2012) argue that it is not at all obvious that the IASB lacks legitimacy and there is substantial political and commercial support for the IASB as the world's standards setter for the financial markets.

Further, from a legal point of view, Bratton (2006) examines the structure and legitimacy of the FASB as a private standards setter. Although the FASB is "an independent, expert, and neutral body" (Bratton, 2006, p. 2), its accounting rules are inevitably controversial, because a different accounting rule may lead to different resource allocation decisions and it could create a conflict between the preparers and users of financial statements. Therefore, the FASB has been repeatedly criticized since its foundation in 1973. As an analytical framework that explains the factors of institutional success, Bratton (2006) suggests the "New Deal model" of an independent expert and "the post-war pluralist model" of a politically responsive regulator, and addresses the question of how a private standards setter can maintain its independence and achieve institutional stability simultaneously.

3.3. Implications from prior research

Prior studies show that the IASC was restructured into the IASB with the aim of enhancing the endorsement system of the IOSCO and/or strengthening the IASC's legitimacy. Moreover, with this restructuring, the basis of the legitimacy of the IASC was changed from "representation" to "expertise."

In the process of global accounting standard setting wherein standard setting by the private sector and enforcement by the public sector coexist, the legitimacy conferred by both participation and control/accountability is very important. Especially for the criterion of participation, there is a fundamental question of "which is more important, expertise or democratic legitimacy"?

4. IDEAL TYPES OF INSTITUTIONAL LOGICS

In this section, we develop two ideal types of institutional logics of global accounting standard setting: the *representation logic* and the *expertise logic*. Specifically, since the IASC/IASB underwent a significant reorganization in 2000, we determine the differences in institutional logics by comparing the constitutions and other documents. In this regard, we refer to Thornton, Jones, and Kury (2005), who documented institutional logics in the accounting industry, and Suddaby and Greenwood (2005), who discussed the organizational changes using rhetoric and institutional vocabularies.

Further, as variables, this study employs the attributes of logic used by Thornton, Jones, and Kury (2005): economic system, sources of identity, sources of legitimacy, sources of authority, basis of mission, basis of attention, basis of strategy, and governance mechanism. Besides these, we include membership in the variables and use financing mechanism instead of logic of investment. As attributes contributing to change, we adopt institutional entrepreneurs, event sequencing, and structural overlap and add institutional vocabularies. Moreover, we add institutional vocabularies to the changing attributes and the pure model of organizational structure. The basic assumption for developing ideal types of institutional logics is that global accounting standard setters essentially lack legitimacy as private bodies. *Table 1* shows our reference documents.

[Insert Table 1]

4.1. Representation logic

The history of the IASC before 2000 is generally divided into two periods: its foundation in 1973 to 1987 and 1987 to its reorganization into the IASB (Kirsch, 2006; Camfferman and Zeff, 2007). The major difference between these two periods was the change in basic attitude and agenda to the standard-setting. The main concern of the IASC before 1987 was to keep close connections with the accountancy profession, but after building relations with the IOSCO in 1987, the IASC began to seek support from national financial regulatory authorities, which increased visibility, although the IASC was still not widely known outside the accountancy profession before 1987. In that sense, the IASC before 1987 was not a global accounting standard setting body. Therefore, we compare the institutional logics of the IASC before its reorganization with that in 2000.

Economic system: The main economic reasons for the formation of the IASC were rapid growth in international trade and investment and an urgent need for accounting harmonization, because accounting practices differed considerably across countries[6].

[6] Kirsch (2006) also explained “during these years, multinational corporations were expanding

The formation of the IASC in 1973 was “the most important and enduring response to the growing internationalization of capital markets following the Second World War” (Camfferman and Zeff, 2007, p. 1)

Sources of identity: The members of the IASC would “consist of all professional accountancy bodies that are members of the International Federation of Accountants (IFAC)” (IASC, 1992, para. 3) and “up to thirteen countries as nominated and appointed by the Council of IFAC and up to four co-opted organizations having an interest in financial reporting” (IASC, 1992, para. 4). However, in the 1990s, the IASC Board came to include an enlarged component of financial executives and members of national standard setting bodies. In addition, observer delegations from IOSCO, the US FASB, and the European Commission began to attend board meetings. Two other non-accountant delegations were also added.

Sources of legitimacy[7]: The IASC consisted of a group of delegates from several different countries and backgrounds, and in that sense, the input legitimacy of the IASC was based on the democratic participation of representatives of professional accountancy bodies and other stakeholders. The IASC had its own due process providing it procedural legitimacy. The IASC standards refer to accounting standards in the public interest, and this discourse confers output legitimacy.

Sources of authority: The IASC’s source of authority had always been a professional association (e.g., IFAC), but since 1987, the international regulatory body (IOSCO) assumed has increased importance.

Basis of mission: The objective of the IASC was to formulate and publish accounting standards in the public interest; to promote their worldwide acceptance and observance; and to work for the improvement and harmonization of regulations, accounting standards, and procedures relating to the presentation of financial statements (IASC, 1992, para. 2). These objectives are the basis of their mission.

Basis of attention: the IASC seeks to establish its position as an international accounting standards setter because there were competing regulatory initiatives and accounting standard among the IASC, the United Nations (UN), the Organisation for Economic Co-operation and Development (OECD), and the European Community (EC) (Kirsch, 2006; Camfferman and Zeff, 2007; Botzem, 2012). In the 1990s, the IASC’s most important agenda was to gain recognition by capital market regulators,

their operations throughout the Free World and were becoming increasingly aware of the difficulties of conducting international business in an environment of multiple accounting practices and reporting standards”(Kirsch, 2006, p. 12).

[7] Some researchers introduced the concepts of input, procedural (or through-put), and output legitimacy to distinguish among various legitimacy bases: Input legitimacy refers to the participation of affected parties in standard setting and aspects such as balanced representation of stakeholders and the inclusion of expertise. Procedural legitimacy denotes the fairness of the process and concerns such aspects as transparency, accountability, and decision-making procedures. Output legitimacy refers to problem-solving capacity, effectiveness, and market impact (Richardson and Eberlein, 2010; Tamm Hallström and Boström, 2010).

especially the IOSCO.

Basis of strategy: In order to achieve their objectives, the IASC relied on the voluntary adoption of IAS to encourage the improvement and harmonization of regulations, accounting standards, and procedures.

Financing mechanism: Before the 1990s, members' fees were the main financial resource. However, the percentage declined sharply in the 1990s, and publications became the main resource of revenue in 1999 (please refer to *Table 2*).

[Insert Table 2]

Governance mechanism: As a self-regulatory private sector organization, the Council of the IFAC appointed 13 country members of the IASC Board, and these board members had explicit accountability only for the IFAC. Co-opted members represented the interests of their own organizations and had accountability only for those organizations.

Membership: The members of the IASC consist of all professional accountancy bodies that are members of the IFAC (IASC, 1992, para. 3). The board members consist of up to 13 countries as nominated and appointed by the Council of IFAC and up to four co-opted organizations having an interest in financial reporting (IASC, 1992, para. 4). In the 1990s, the IASC Board included an enlarged component of financial executives and members of national standard setting bodies. They even considered geographical representation in the selection of board members. The most important point is that these members were all organizations, not individuals (meta-organization).

Institutional entrepreneurs: Some notable institutional entrepreneurs were Sir H. Benson, D. Cairns, and Sir B. Carsberg. Benson played a crucial role in the foundation of the IASC and became its first chairman (1973-76). Further, as Secretaries-General, Cairns (1985-94) and Carsberg (1995-01) also played important roles in setting technical agendas and IASC strategies.

Structural overlap: There was structural overlapping between accounting professionals and other interested parties. The board members appointed by the IFAC were representatives of the accountancy bodies of specific countries and their accountabilities were clear. However, other board members (Financial Analysts and Federation of Swiss Industrial Holding Companies), observer members, and member organizations of the Consultative Group and Executive Committee had different interests and their own accountability.

Institutional vocabularies: The constitutions shared some common vocabularies such as "accounting standards in the public interest" and "improvement and harmonization."

Pure model of organization: Before 2000, SWP papers suggested the "constituency model," in which an organization involves "broadly-based groups from a larger number of countries and backgrounds," as a pure model of organization (IASC, 1998, para. 166).

4.2. Expertise logic

The highest priorities of the IASC during the 1990s were to secure companies' compliance with IASC standards, to meet a specified set of core standards[8], and to receive IOSCO endorsement for its standards. Simultaneously, the debate on the restructuring of the IASC heated up because the existing structure was not well matched to these tasks. Consequently, in 1996, the IASC Board decided to establish the Strategy Working Party (SWP) in order to discuss the IASC's future strategy and structure. Acting on the recommendations from the SWP, the IASC restructured itself into the IASC Foundation, with the IASB becoming the standard setting body of the IASCF.

Economic system: The most distinctive change in the economic system in the 1990s stemmed from the growing globalization of capital markets and the world economy. For instance, the IASC (1998) specified 8 topics of changes in the IASC's environment: (1) rapid growth in international capital markets; (2) efforts of global organizations and regional bodies to dismantle the barriers to international world trade; (3) the internationalization of business regulation; (4) the increasing influence of IAS on national accounting requirements and practice; (5) accelerating innovation in business transactions; (6) increasing demand for financial and other performance information; (7) new developments in electronic technology; and (8) a growing need for relevant, reliable information in transitional and developing countries (IASC, 1998, para. 3).

Sources of identity: The foremost qualification for the IASB Board members would be technical expertise and their selection would not be based on their geographic representation (IASC, 1999, para. 54). The board would comprise a group of people representing the best available combination of technical skills and background experience, in other words, a group of individual and independent experts on accounting, and not organizations and accountancy bodies.

Sources of legitimacy: The input legitimacy of the IASB stems from technical expertise that contributes to the development of high quality, understandable, and enforceable accounting standards in the public interests. This kind of high quality standard also builds output legitimacy. The IASB has its own due process, which is distinct from that of the IASC. Its procedural legitimacy is documented in the due process handbook that was issued in 2006.

[8] In the agreement with IOSCO announced in July 1995, the IASC committed itself to complete a specified set of 'core' standards to cover all the major topics in financial accounting. These standards were to be completed by 1999.

Sources of authority: Instead of support from a professional association, the IASB strengthens its authority through cooperation with reference organizations such as capital market regulators (IOSCO, EC, and SEC), national accounting standard setters (FASB), and national stock exchanges. Especially, the EC's decision to require the EU listed companies to apply IAS/IFRS was "a major factor in encouraging many other countries, apart from the United States, to take similar measures in the following years, leading to the present position of the IASB as an acknowledged leader, together with the FASB, in the field of financial reporting" (Camfferman and Zeff, 2007, p. 16).

Basis of mission: The objectives of the IASB were to develop, in the public interest, a single set of high quality, understandable, and enforceable global accounting standards; to promote the use and rigorous application of those standards; and to bring about the convergence of national accounting standards with IAS/IFRS to apply high quality solutions (IASC, 2000, Part A, para. 2).

Basis of attention: After 2000, the IASB established an exclusive position in global accounting standard setting, having almost no other competitors. Its basic mission was changed to the expansion of IAS/IFRS and its attention was directed to establishing status in the global regulatory network (Tamm Hallström, 2004; Perryand Nölk, 2005; Richardson, 2009).

Basis of strategy: Instead of a "best practices" strategy, the IASB takes the more effective but indirect approach of taking advantage of the power of other organizations to accomplish its mission. For instance, the FASB and the IASB held a joint meeting on September 18, 2002, and acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting (FASB, 2002). On the other hand, in Europe, based on the IAS Regulation (EC, 2002), which required the EU listed companies including non-EU countries to apply IAS/IFRS for their consolidated accounts, the CESR (predecessor of ESMA) assessed the equivalence of certain third country GAAPs (US, Canada, Japan, and then China), in accordance with IFRS.

Financing mechanism: As shown in Table 3, donations are the main source of the IASB resources except in the year 2000. Because the IASB is not financed with state funds and the income from publications does not necessarily cover the costs of its activities, due process and transparency in the agenda-setting and standard setting processes is crucial; otherwise, financiers or contributors might have "the possibility to influence decisions about what should be standardized, who should participate and how the work should be done" (Tamm Hallström, 2004, p. 151).

[Insert Table 3]

Governance mechanism: As a self-regulatory private sector organization, the governance of the IASC Foundation rests with the Trustees and other similar governing organizations as may be appointed by the Trustees in accordance with the provisions of the constitution (IASCF, 2000, para. 3). As the Trustees appoint the board members, the board members are accountable only to the Trustees. Besides governance mechanisms, "public-private collaborations" (Zimmerman, Werner, and Volmer, 2008) with regulatory authorities became more important for the IASB.

Membership: There is no stipulation for the membership of IASB/IASCF in the constitution, although IASC (1999) stated that a new form of membership would be open to any individual or organization interested in supporting the activities of the IASC (IASB). Meanwhile, the Trustees consist of 19 individuals from diverse geographic and functional backgrounds, and the board comprises 14 members: 12 full-time members and two part-time members. All board members are independent and should act in the public interest. The foremost qualification for board membership is technical expertise.

Institutional entrepreneurs: Sir B. Carsberg established the SWP, and together with Enevoldsen (chairman: 1998-2000), played an important role in reorganization of the IASC. Sir D. Tweedie, as the first Chairman of the IASB, led the IASB to be recognized as a global accounting standard setting body by his outstanding leadership.

Structural overlap: There is structural overlapping between the Trustees, representing a diversity of geographic and professional backgrounds, and board members, selected on the basis of their professional competency and practical experiences. The board members are appointed by the Trustees and are accountable to the Trustees. However, the accountability of the Trustees is only stipulated as "a commitment made by each Trustee to act in the public interest" (IASC, 2000, para. 17) and remains vague and ambiguous.

Institutional vocabularies: Compared with the former constitutions, there are some noticeable new vocabularies in the 2000 Constitution: expertise, high quality, transparent, comparable, convergence, and efficiency.

Pure model of organization: After 2000, SWP papers suggested an "independent expert model" that would be "an autonomous body of independent full-time and highly skilled experts, with a relatively small number of members for the sake of efficiency," (IASC, 1998, para. 166) as a pure model of organization. In this regard, this organization is not a meta-organization, but an individual organization functioning as a regulatory.

Table 4 illustrates the comparison between the *representation logic* and the *expertise logic*.

[Insert Table 4]

5. CHANGES IN THE ORGANIZATIONAL STRUCTURE OF THE IASB

Several international political studies have noted the changes in the circumstances surrounding global accounting standard setting following the IOSCO's endorsement of IAS in 2000 (Eaton, 2005; Véron, 2007; Posner, 2010). Especially after the EU's adoption of IAS/IFRS, most listed companies worldwide were affected by the IASB standards, including those that reported under Japanese or even US GAAP through the convergence process. Accordingly, the IASB now faces political pressure from various constituencies[9] and is aware of their interests. In other words, the IASB faces the need to ensure its accountability to the new stakeholders.

In this section, by examining revisions of the IASC Foundation Constitution, we describe another change in the organizational structure of the IASB.

5.1. Constitution review in 2003-2005

As the Trustees are required to review the constitution every five years, they conducted the first constitutional review from 2003 to 2005 and then a comprehensive review from 2008 to 2010.

In November 2003, IASCF published the consultation paper *Identifying Issues for the IASC Foundation Constitution Review* (IASCF, 2003) suggesting a list of issues: whether the objectives of the IASCF should expressly refer to the challenges facing small and medium-sized entities (SMEs); the role and oversight function of the Trustees; the composition of the IASB membership; the consultative procedures of the IASB; and the role, effectiveness, and composition of the SAC (IASCF, 2003; IASCF CC, 2004a). At the same time, the Constitutional Committee of seven members was established to manage the review on behalf of the Trustees. Through the discussions, the Committee again identified ten main issues[10], based on which the IASCF again published a consulting paper *Review of the Constitution – Proposal for Change* (IASCF 2004) in November 2004.

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[9] Véron (2007) enumerated such constituencies as multinational corporations, audit firms, investment banks, fund-management companies, various public authorities in the EU, China, the US and elsewhere, international organizations, central banks, and others; and suggested that the IASB needed "to strike the right balance between these interests, to fulfill its mandate and to ensure its own survival" (Véron, 2007, p. 34).

[10] Ten main issues are as follows (IASCF CC, 2004b):

1. Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small- and medium-sized entities (SMEs)
2. Number of Trustees and their geographical and professional distribution
3. The oversight role of the Trustees
4. Funding of the IASC Foundation
5. The composition of the IASB
6. The appropriateness of the IASB's existing formal liaison relationships
7. Consultative arrangements of the IASB
8. Voting procedures of the IASB
9. Resources and effectiveness of the International Financial Reporting Interpretation Committee (IFRIC)
10. The composition, role, and effectiveness of the SAC

Typical responses to this paper from European countries were expressed in the comment of the European Financial Reporting Advisory Group (EFRAG). EFRAG (2005) expressed disappointment with the proposals for change, because the proposals seemed to be more in the direction of diluting the European involvement, and identified the key issues requiring attention (EFRAG, 2005, pp. 2-3). The first was the issue of the accountability and public oversight of the Trustees and the IASC Board. EFRAG pointed out that the Trustees were independent and only responsible to the "public interest," so it was of utmost importance to ensure that the Trustees were in some way accountable to other organizations and that a proper election system was established. Second, EFRAG suggested that the oversight role of the Trustees should be strengthened as part of an improved governance structure for the IASCF. While agreeing that decisions on technical matters should be left to the IASB, EFRAG pointed out that a closer involvement of the Trustees in the general direction of standard setting, including the prioritization of agenda and ensuring proper due process, should be crucial. The third key issue was the composition of the Trustees and the IASC Board. EFRAG insisted that more weight should be given to countries and regions committed to applying IFRS/IAS, and especially to Europe, in the appointments of both Trustees and members of the board.

In July 2005, the revised constitution was issued by the IASCF (IASCF, 2005). Regarding the three key issues proposed by EFRAG (2005), although the constitution stipulated Trustees' duties in detail, distinctive changes in the duties were not apparent. Regarding the composition of the Trustees, the most remarkable difference between the 2000 and 2005 constitution was "the almost complete removal of format quotas for specific interest groups" (Botzem, 2012, p. 103). Instead of stipulating that "five of the nineteen Trustees shall be nominated by the International Federation of Accountants (IFAC)" (IASC, 2000, para. 10), the 2005 Constitution mentioned that "the Trustees shall comprise individuals that as a group provide an appropriate balance of professional background, including auditors, preparers, users, academics, and other officials serving the public interest" (IASCF, 2005, para. 7). Moreover, the revised constitution stipulated that the main qualification for membership in the IASB should be professional competence and practical experience and that the IASB should comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience to contribute to the development of high-quality, global accounting standards (IASCF, 2005, para. 19). In the selection of both the Trustees and board members, geographical representation was not considered; therefore, European countries were not fully content to the review.

5. 2. Comprehensive Constitution Review in 2008-2010

The Trustees formally initiated their second five-year review of the constitution in

February 2008. The first part of that review focused on public accountability and the composition and size of the IASB, and the revised constitution was approved on January 15, 2009, and came into effect from February 1, 2009. The second part of the review focused on other related issues such as enhanced IASB agenda-setting processes, enhanced oversight and due process procedures, accelerated fast-track due process, clarification and protection of the IFRS brand, a secure funding base to ensure independence, geographical balance among the Trustees. The revised constitution was approved on January 26, 2010, and came into effect from March 1, 2010.

The revised constitution of 2005 proved inadequate in terms of accountability and faced criticism especially from Europe[11]. To adapt to a changing world, the IASCF Trustees recognized "the need to demonstrate the organization's public accountability" (IASCF, 2008, para. 4) and clarified that the objectives of the review starting in 2008 would be "to begin considering enhanced ways to strengthen public accountability and to fulfill their commitment to the public interest" (IASCF, 2007, p. 1). In July 2008, the Trustees issued *Proposals for Change – Review of the Constitution* (IASCF, 2008) to propose amendments and address two important issues: governance and public accountability; the composition of the IASB was to be dealt with separately in an accelerated time frame. The proposals on public accountability and IASB composition in IASCF (2008) included enhancing public accountability, establishing a formal link with public institutions, and expanding the membership of the IASB with an explicit geographical component.

Enhancing public accountability: The proposal noted that the Trustees are accountable not to a single group, but to a wide range of international stakeholders who have an interest in the IASCF's efforts. To ensure the transparency of their work and public accountability to these broad interests, it is necessary that the Trustees identify stakeholder groups with which they maintain regular contact and establish mechanisms to receive input outside formal consultations (IASCF, 2008, para. 10).

Establishing a formal link with public institutions: As mechanisms for this purpose, the Trustees proposed constitutional amendments to create a link between the Trustees and a Monitoring Group whose members would primarily be representatives of public authorities and international organizations that have requirements for accountability to public authorities[12].

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[11] For instance, the report to the European Parliament (Radwan, 2008) points out the IASCF/IASB's lack of transparency, legitimacy, and accountability. Especially, it suggests that the Board of Trustees has particular shortcomings because the Trustees are selected mainly on the basis of a criterion designed to ensure proportionate representation for the regions and no account was taken of other key interests: different sectors of the economy, forms of undertaking, the interests of employees, and employers and, in particular, of political leaders (Radwan, 2008, p. 14). It also insists that all Trustees should come from nations that have signed up, or intend to sign up to IFRS (European countries, except the US and Japan?).

[12] The membership of the Monitoring Board finally agreed to include the relevant leaders from the IOSCO Emerging Markets and Technical Committees, the European Commission, the Japan FSA,

Expanding the IASB and making the geographical component explicit: The Trustees proposed to expand the IASB to include 16 members[13]. The main reason given for this proposed expansion was that the diversity of IASB members' professional and geographical backgrounds provides legitimacy in the eyes of many who must adopt the standards, while expertise (professional competence and practical experience) are the foremost criteria for IASB selection (IASCF, 2008, para. 25).

In February 2009, the revised constitution was issued by the IASCF (IASCF, 2009b). The main changes in this Constitution were the creation of the Monitoring Board, the expansion of the IASB from 14 to 16 members by 2012, and enhanced liaison with investors by strengthening investor membership in the SAC[14].

The Trustees issued *Report on Part 1 of the Review* in April 2009. Although this report explains the rationale for the constitutional changes agreed to in the first part of the review, it sends a clear signal of the dilemma between the *expertise logic* that emphasizes the independence of accounting standard setting and the *representation logic* that emphasizes the relationship with constituencies and public accountability. On the one hand, the report suggests that investors and others have provided strong and consistent support to the need to maintain, within agreed due process, the independence of the IASB's decision-making. On the other hand, it indicates that stakeholders have understood the need to establish a formal linkage with public authorities where none was previously defined and have strongly encouraged the Trustees' efforts to enhance the organization's public accountability (IASCF, 2009c, Section A, para. 6).

The Trustees initiated the second part of their review of the IASCF Constitution at their meeting in October 2008, because the proposed amendments to the constitution in the first part of the review only focused on limited topics. As the first step of the second part of the review, the Trustees issued *Review of the Constitution – Identifying issues for Part 2 of the Review* (IASCF, 2008b) in December 2008. The second part of the review addressed the following: enhanced oversight and due process procedures,

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and the US SEC. The Basel Committee on Banking Supervision will sit as a formal observer at Monitoring Board meetings.

[13] These 16 members are composed of four members from Asia/Oceania; four members from Europe; four members from North America; one member from Africa; one member from South America; and two members appointed from any area, subject to maintaining overall geographical balance (IASCF, 2008, para. 26).

[14] In the press release, IASCF explained two important points of the first part of the constitutional review (IASCF, 2009a). First, the governance mechanism was changed to the new three-layer one: an independent and geographically diverse body of Trustees oversees the IASB; and the Trustees themselves would be publically accountable to the Monitoring Board of public authorities. Second, the constitutional changes directly address the recommendations made by the G20 on public accountability and membership of the standard setting board in November 2008. Bengtsson (2011) also indicates that "judging by the outcome of the IASB's constitutional review, the changes directly address the recommendations on public accountability and membership issued by the G20" (Bengtsson, 2011, p. 576).

caution regarding the use of accelerated fast-track due process, clarification and protection of the IFRS brand, the need for a secure funding base to ensure independence, and geographical balance among the Trustees (IASCF, 2009d).

In response to the received comments, they issued *Proposals for Enhanced Public Accountability – Part 2 of the Constitution Review* (IASCF, 2009d) in September 2009; the Trustees approved the remaining changes in the 2009 Constitution on January 26, 2010, and it came into effect from March 1, 2010.

To sum up, in the Comprehensive Constitution Review, the most relevant amendments were made to improve overall accountability by introducing the Monitoring Board, enlarging the IASB Board from 14 to 16 members, and increasing geographical diversity by introducing a fixed quota for members by geographical origin (part 1). Among other measures, the introduction of public consultations on the IASB's technical agenda, emphasis on the adoption of IFRS, a commitment to the principles-based approach, and the introduction of an emergency procedure were introduced (part 2).

6. DISCUSSIONS

While investigating the earlier versions of the constitution and SWP discussion papers, we developed two ideal types of institutional logics in global accounting standard setting: the *representation logic* and the *expertise logic*. We assume that the restructuring of the IASC into the IASB was caused by these changes in institutional logics. The shift in institutional logics from the *representation logic* to the *expertise logic* promoted changes in the organizational structure of the IASC. These modifications in the organizational structure inevitably brought about transitions in relationships of the IASB with other constituencies, changes in its environment; these developments in turn promoted another changes in institutional logics.

In this section, by examining changes in the organizational structure of the IASB between 2000 and 2010, we describe another possible change in the organizational-level institutional logics of global accounting standard setting, the *accountability logic*, and discuss its theoretical implications.

6.1. Another change in institutional logics

Several studies have suggested both the changing environment surrounding the IASB in 2002 and the financial crisis in 2007–2008 as critical turning points (Eaton, 2005; Posner, 2010; Botzem, 2012). From 2000 onwards, the diffusion of IFRS necessarily caused the expansion of the IASB's constituencies, including national and transnational organizations, regulators, and users and preparers of financial reports. Specific environmental changes since 2002 include the adoption of IFRS in Europe, the continued progress of the convergence project between the IASB and the FASB, and the ensuing expansion of the diffusion of IFRS. The IAS Regulation (EC, 2002), which required EU listed companies to apply IAS/IFRS for their consolidated accounts, had a significant effect on the accounting strategy of IFRS in EU as well as non-EU countries such as the U. S. and Japan. The convergence of US GAAP and IFRS (the Norwalk Agreement) and of Japanese GAAP and IFRS (the Tokyo Agreement) were aligned with the equivalence assessments completed by the EU. In these circumstances, the fact that many countries expressed their intention to require and permit application of IFRS led to the global expansion of IFRS.

The most remarkable difference between the 2000 and 2005 constitutions is “the almost complete removal of format quotas for specific interest groups” (Botzem, 2012, p. 103). The relaxation of recruitment requirements for the Trustees and complete abolishment of those for the IASB members enhanced the significance of “technical” expertise as a recruitment criterion, thus paving the way for the enhancement of the *expertise logic*. In the 2005 Constitution, the division of labor between the Trustees and the board was maintained; however, Trustees’ accountability remains unclear:

> The mix of Trustees shall broadly reflect the world’s capital markets and a diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters (IASCF, 2005, para. 6).

Despite the demands for enhanced public accountability, the first constitution review from 2003-2005 did not satisfy all the constituencies, especially in Europe[15]. In this sense, the organizational structures resulting from the first constitution review were based on the *expertise logic* while the *accountability logic* had not yet come to the fore.

The Comprehensive Constitution Review from 2008-2010 was directly and indirectly influenced by the financial crisis of 2007-2008. During the crisis, the IASB faced severe criticism regarding the change in accounting standards permitting the reclassification of financial assets without regular due process. Because the IASB had allowed this change in reclassification rules under political pressure from the EU, there was concern about the IASB’s governance and independence. In these circumstances, the Declaration and Action Plan at the G20 Washington Summit sought to ensure the transparency, accountability, and independence of the IASB:

> With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency, accountability, and an appropriate relationship between this independent body and the relevant authorities (G20, 2008).

[15] Bengtsson (2011) suggests that “EU once more had failed to increase its influence” (Bengtsson, 2011, p. 574) in the 2005 Constitution.

In the background, fair value accounting, a main feature of IFRS, was alleged to play a substantial role in the financial crisis because of its pro-cyclicality, so promoting financial stability was requested as another objective of the IASB.

Along with the financial crisis, the second constitutional review and the governance reforms of the IASB/IASCF were discussed. Inoue, Hara, and Saito (2009) saw that the financial regulatory bodies became much more involved in accounting standards during the crisis[16]. Previously, these bodies had expressed their opinions through international financial regulatory bodies such as IOSCO, BCBS, and the International Association of Insurance Supervisors (IAIS). However, in the turmoil of the crisis, the IASB took part in discussions on the issues of financial stability and accounting inside the G20 working group and the working group of the Financial Stability Board, leading the IASB and regulatory bodies to establish multifaceted relationships with each other[17]. In addition, the SEC and the Financial Service Agency of Japan (FSA) directly participated in the Financial Crisis Advisory Group (FCAG) established by the IASB and the FASB and in the Monitoring Board. In other words, their indirect involvement changed to “high-level and multifaceted approach” (Inoue, Hara, and Saito, 2009, p. 47). Considering these kinds of changes in environment, the governance reform of the IASB is regarded as “the efforts of the International Accounting Standards Committee Foundation Trustees to enhance their, and the IASB’s, accountability, legitimacy and independence” (IOSCO, 2008).

In the second constitutional review, another important change was the revision of the composition of IASB members. There are two views on this change. Street (2011) suggests that this change is the apparent demotion of technical expertise and the promotion of geographic representation as the main criteria for IASB membership and indicates the appointment of the new chairman as a notable result of the de-emphasis of technical expertise[18]. On the contrary, Botzem (2012) suggests that technical expertise as the main criteria for IASB membership is still untouched[19].

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[16] Mr. Inoue, Mr. Hara, and Mr. Saito were all members of the Financial Service Agency of Japan and in charge of the related matters of international accounting standards (at the time of writing their article).

[17] For instance, in the G20 Pittsburg submit, the leaders’ statement made a request to the IASB to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, to complete their convergence project by June 2011, and to enhance the involvement of various stakeholders in their institutional framework (G20, 2009, para. 14)

[18] The appointment of Hans Hoogervorst as the new chairman of the IASB is at least partly a symbolic gesture. In the press release, although the new chairman is said to have “a strong understanding of, and an ability to navigate through, the challenges facing the IASB on the path to global IFRS adoption” (IFRSF, 2010a, p.1), he is originally from the regulatory side, and not selected for his technical knowledge of accounting standards. Rather, we can interpret that he is expected to play a coordinating role between the IASB and other regulatory authorities.

[19] Botzem (2012) suggests as follows:

> In the view of the dominant actors, this current high level of functionality is the mainstay of the IASB’s legitimacy. ‘Technical’ experts make the best ‘technical’ standards. Instead of

In either event, under this change in organizational structure, we can expect the emergence of a renewed organizational-level institutional logic emphasizing public accountability, although it will be based on the *expertise logic*. We indicate some of the changes in the variables of the *accountability logic* below:

Sources of legitimacy: The foundation of input legitimacy involves expertise as well as public accountability to the Monitoring Board consisting of the relevant authorities.

Basis of mission: Instead of convergence, the 2010 Constitution emphasizes the adoption of IFRS as its objective. This means that the ultimate goal of the IASB is adoption, not convergence, because convergence is merely a step towards adoption.

Basis of strategy: To accomplish its mission of the adoption of IAS/IFRS, the IASB often tried to take advantage of the power of other organizations such as IOSCO and the EC. However, this indirect approach gives way to a high-level and multifaceted approach and the IASB succeeded to involve national government bodies to its governance mechanisms.

Governance mechanism: Under the revised constitution, the Monitoring Board has oversight responsibilities in relation to the Trustees. In other words, the Trustees establish and enhance a formal public accountability link to the Monitoring Board of public authorities while balancing private self-regulation and public accountability.

Membership: The Trustees expand the IASB to 16 members with the specification of geographic quota, because the diversity of IASB members' professional and geographical background enhances the legitimacy of the IASB in the eyes of many who adopt the standards.

Institutional entrepreneurs: The revision of the constitution had been accomplished by the IASCF Constitution Committee. Moreover, the newly appointed chairman, H. Hoogervorst, is the symbolic icon of the change in institutional logics, because he is originally from a regulatory authority and was not selected for his expertise in accounting.

Structural overlap: There already was structural overlapping between the Monitoring Board of public authorities, the Trustees representing a diversity of geographic and professional backgrounds, and the Board members selected on the basis of their expertise and geographic representation. In other words, there is a three-layered structural overlap in the IASB/IASCF under the revised constitution.

Institutional vocabularies: Adoption, public accountability, public confidence, and financial stability are the institutional vocabularies in the *accountability logic*.

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representation and democratic participation, the IASB relies on the widespread recognition and use of IAS/IFRS as testimony to the quality of its standardization efforts, thus extending output-driven legitimacy to its work. […] In this regard, the Monitoring Board is an attempt to square to its critics without making any substantial changes to its structure and by leaving 'technical' decision making untouched (Botzem, 2012, p. 109).

Pure model of organization: There is no pure model in the accountability logic. However, considering the rise of emerging economies and the relative decline of developed countries, we can expect that an organization that was changed from a constituency model (IASC) to an independent expert model (IASB) would change again to a “consensus-oriented model”—a hybrid of the former two models.

[Insert Table 5]

6.2. Legitimacy dilemmas

In the study of politics and international relations, there are interesting studies on the legitimacy of international organizations that can provide insights into the legitimacy of the IASB as a private sector international organization (Christiansen, 1998; Bodansky, 1999; Hurd, 1999; Scharpf, 1999; Barnett and Finnemore, 2004; Best, 2004). For instance, Christiansen (1998), discussing the legitimacy of the European Commission, explains that international organizations with complex institutional structures cannot rely on one-dimensional domestic analogies (Christiansen, 1998, p. 99) and suggests that legitimacy dilemmas are caused by a “democratic deficit.” Best (2007) also notes legitimacy dilemmas between democratic legitimacy and expert-based legitimacy in international organizations such as the International Monetary Fund (IMF) and states that:

> …democratic legitimacy can only be granted by the demos – the members of a particular, self-identified political community. It is their consent to the general legitimacy of a government that makes its actions legitimate – even if a substantial minority opposes specific policies. Expert-based legitimacy, on the other hand, is generally granted by a much smaller circle of individuals (Best, 2007, p. 472).

In other words, there is always tension between output-oriented legitimacy based on problem solving effectiveness and input-oriented legitimacy based on democratic accountability (Scharpf, 1999).

The IASB/IASCF, as a not-for-profit private sector organization, essentially lacks democratic legitimacy (democratic deficit), and there are always basic dilemmas in its organizational legitimacy. While the IASB must consist of members selected on the basis of their professional competence and practical experience and must be independent from special interests to develop high-quality accounting standards, it must still consider the interests of various constituencies as well as geographic balance and ensure accountability in order to develop international consensus and increase the acceptability of IFRS.

> The IASB should be appropriately protected from particular national, sectoral or special interest pleading. At the same time, the Trustees have recognized, and continue to recognize, the need to demonstrate the organization’s public

accountability and to be open to dialogue with all stakeholders (IASCF, 2009d, p. 4).

These kinds of legitimacy dilemmas were clearly discussed in the debate on the restructuring of the IASC in the late 1990s. In the 2000 Constitution, the IASC, of which IFAC members had automatically become members (meta-organization), was changed to the IASB/IASCF, consisting of the Trustees and the IASB (a non-profit individual organization). In the proceedings of the SWP, two pure models of organizational structure were presented: an independent expert model in which the basis of legitimacy was the expertise of its members and a constituency model in which the basis of legitimacy was the organizational and geographic representativeness of its members. The restructuring of the IASC to the IASB/IASCF was a consequence of the choice of the former. Here, a change in institutional logics from the *representation logic* to the *expertise logic* is observed. Of course, the legitimacy dilemmas between representativeness and expertise are also evident.

The IASB has made steady progress towards its objective of developing a single set of high quality accounting standards, and currently, more than 100 countries throughout the world have adopted, are committed to adopting, or are intending to convergence with IFRS. On the other hand, the financial crisis made the Trustees recognize “the need to ensure public confidence in the international standard setting process and the governance supporting it” (IASCF, 2009d, p. 4). In other words, the financial crisis shed light on the fundamental dilemma in the legitimacy of the IASB. The creation of the Monitoring Board and the change in the composition of the IASB were countermeasures meant to absorb political pressures demanding to improve the IASB’s public accountability. In these changes, we can deduce another possible change in institutional logics to the *accountability logic*, and this change suggests yet other legitimacy dilemmas between organizational independence based on expertise and accountability to stakeholders as a factor of instability in institutions.

7. CONCLUSION

The purpose of this study is to examine the changes in the organizational structure of the IASB by using the institutional logics approach. First, we develop the ideal types of the institutional logics of the IASC and the IASB by analyzing the IASC Constitution and the discussion papers of SWP. Then, based on these two ideal types, we identify further changes in institutional logics by examining the revisions of the IASB Constitution after 2000.

Our findings show that there are two conflicting logics in global accounting standard setting: the *representation logic* and the *expertise logic*, and they suggest legitimacy dilemmas between representation and expertise. Moreover, we find that the consecutive revision of the constitution and ensuing organizational changes from 2000 onwards were instituted to deflect political pressures demanding the enhancement of the IASB's public accountability. These pressures stemmed from changes in the environment surrounding the IASB. These changes might lead to another possible shift in institutional logics to the *accountability logic* and more legitimacy dilemmas between expertise and accountability.

This study primarily contributes to the literature on accounting and accounting regulation. Especially, by suggesting taxonomies of institutional logics, this study focuses on the intricate web of ties in global accounting standard setting. Second, this study expands our knowledge of organizational-level institutional logics. In particular, it analyzes an interesting case in global accounting standard setting and shows a complicated and recursive mechanism of the changes. It demonstrates that changes in institutional logics lead to changes in organizational structures. Then these changes in organizational structures bring about changes in relation with other constituencies and environments and are often accompanied by another legitimacy dilemma, and thus, cause other changes in institutional logics. Lastly, this study contributes to the discussion on the legitimacy of organizations and institutions. In particular, it shows legitimacy dilemmas between democratic legitimacy and expert-based legitimacy that international organizations may face.

Despite the useful insights this study provides, it has several limitations. We deduce the institutional logics of global accounting standard setting based on the changes in the organizational structure of the IASC and the IASB. However, more empirical evidence is needed to give this kind of analysis more applicability and acceptance. Specifically, we need to accumulate testable hypotheses that can explain the relationships between the independent and dependent variables of the ideal types.

Since we point out the legitimacy dilemma as a factor of instability in the current organizational structure of the IASB/IFRSF, we should continue to investigate any further changes in both organizational structures and institutional logics.

The institutional logics approach provides a useful analysis of changes in organizational structures; however, their effect on the changes in accounting standards and accounting standard setting are still unexplored.

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Table 1 List of documents

Date	*Document*
June 1973	An Agreement to establish an International Accounting Standards Committee (including the first constitution)
October 1977	Revised Agreement and Constitution
October 1982	Constitutional documents including International Accountancy Profession Agreement (1982), International Accounting Standards Committee Constitution, and IASC/IFAC Mutual Commitments
October 1992	Revised Constitution
December 1998	SWP discussion paper *Shaping IASC for the Future*
November 1999	SWP final report *Recommendations on Shaping IASC for the Future*
May 2000	The final version of IASC Constitution

Source: Author

Table 2 IASC Revenue before 2000 (% sources)

	Members' fees	*Donations*	*Publications*	*Other*
1974	88	11	-	1
1979	86	9	-	5
1984	94	-	-	6
1989	91	1	3	5
1994	54	27	18	1
1999	29	26	39	6

Source: Kirsch, 2007, Table 11.8, p. 378.

Table 3 IASB Revenue (% sources)

	Contributions/donations	*Publications*	*Others*
2000	45.1	53.9	1.0
2001	90.5	9.1	0.0
2002	92.0	8.0	0.0
2003	86.0	14.0	0.0
2004	84.0	11.0	5.0
2005	80.1	15.0	4.9
2006	79.2	16.3	4.6
2007	78.8	16.6	4.6
2008	76.4	20.0	3.6
2009	85.5	12.3	2.1

Source: modified by author from Botzem, 2012, Table 5.2, p. 113.

Table 4 Ideal types of institutional logics in global accounting standard setting

Characteristic	*Representation logic*	*Expertise logic*

Economic system	International capitalism	Global capitalism
Sources of identity	Standard setting body consisting of representatives of accounting profession and other constituencies	Standard setting body consisting of individual and independent experts on accounting
Sources of legitimacy	Representation (input) Due process (procedural) Accounting standards in the public interest (output)	Expertise (input) Due process (procedural) A single set of high quality, understandable and enforceable global accounting standards, in the public interest (output)
Sources of authority	Professional accountancy bodies Capital market regulators National accounting standard setters	Capital market regulators National accounting standard setters European Commission
Basis of mission	To formulate and publish accounting standards in the public interest To promote their worldwide acceptance and observance To work generally for the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements	To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards To promote the use and rigorous application of those standards To bring about convergence of national accounting standards and IAS/IFRS to high quality solutions
Basis of attention	Status position in competing regulatory initiative or accounting standard setting	Status position in global regulatory network
Basis of strategy	To use best endeavors for harmonization of national accounting standards	To take advantage of the power of other organizations for convergence and of adoption of IAS/IFRS
Financing mechanism	Members' fees Contributions (IFAC and others) Publications	Contributions Publications
Governance mechanism	IFAC Council Private self-regulation	IASCF (Trustees) Private self-regulation
Membership	National accountancy body	Individuals (only for the Board)
Institutional entrepreneurs	Sir H. Benson D. Cairns Sir B. Carsberg	Sir B. Carsberg S. Enevoldsen Sir D. Tweedie
Event sequencing	1973 Foundation of IASC 1977 Foundation of IFAC 1982 Mutual commitments between IASC and IFAC 1987 Establish contact with IOSCO 1991 Comparability/Improvement project 1995 Core standards project	1996 Establishment of SWP 1998 SWP discussion paper 1999 SWP final report 2000 IASCF Constitution

Structural overlap	Accounting professions and other interested parties	IASC Foundation (Trustees) and IASB Board
Institutional vocabularies	Accounting standards in the public interest Improvement and Harmonization	High quality, understandable and enforceable global accounting standards in the public interest Rigorous application and convergence Transparency Comparability Convergence Efficiency
Pure model of organizational structure	Meta-organization Constituency model	Individual organization in the regulatory network Independent expert model

Source: Author.

Table 5 Main differences in Accountability logic

Characteristic	*Accountability logic*
Sources of legitimacy	Expertise and accountability (input) Due process (procedural) A single set of high quality, understandable, and enforceable global accounting standards in the public interest (output)
Basis of mission	To bring about adoption, instead of convergence
Governance mechanism	The three-layer mechanism: an independent and geographically diverse body of Trustees oversees the IASB; the Trustees themselves are publically accountable to the Monitoring Board
Membership	Trustees: geographical and professional representation IASB members: expertise and geographical quota
Institutional entrepreneurs	Constitution Committee H. Hoogervorst
Event sequencing	2003-2005 the first Constitution Review 2008-2010 the Comprehensive Constitution Review
Structural overlap	Monitoring Board Trustees Board
Institutional vocabularies	Adoption Public accountability Public confidence Financial stability
Pure model of organizational structure	Consensus-oriented Hybrid model

Source: Author.