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Accounting as a Social and Institutional Practice: Perspectives to Enrich our Understanding of Accounting Change

In the past two decades, a body of literature has developed which depicts accounting as a social and institutional practice. Researchers adopting this perspective typically demonstrate an appreciation for the pervasive and enabling characteristics of accounting and an awareness of the importance of local, time-specific factors which shape accounting change within particular instances. This work examines this literature and classifies its content using the themes identified by Miller (1994). Drawing upon aspects of this literature, the final sections develop a broad, thematic framework to assist researchers in future studies directed at understanding the diverse and complex processes through which changes to the accounting domain can occur.

Key words: Accounting; Change; Institutional; Practices; Social.

During recent decades, organizations and governments in many countries have become subject to more frequent calls for greater efficiency and effectiveness and also for the adoption of more clearly defined lines of responsibility and accountability (Rose, 1988; Porter, 1992). As a consequence, calculative practices such as those applied within the domain of accounting have assumed a prominence beyond levels previously recognized (Power, 1994b, 1997b). Moreover, the domain of accounting has expanded significantly (Hopwood, 1992; Miller, 1994; Young, 1994).

Within this context, accounting researchers have revealed that accounting practices have pervasive and enabling characteristics which create particular 'financial' forms of visibility for abstract social and organizational phenomena that would otherwise never be 'seen' (see, e.g., Hines, 1988, 1991b; Hopwood, 1987b, 1992; Miller and O'Leary, 1990; Miller, 1992; Miller and Napier, 1993).[1] Rendering activities, processes and events in financial terms offers a means by which the

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[1] The list of references provided is not exhaustive and the 'visibilities' identified by these authors are not uniform. Rather, the central point is that researchers have begun to depict accounting practices as providing particular ways of 'representing' and 'understanding' abstract phenomena that may not otherwise be possible.

actions and achievements of individuals may be standardized and compared. By doing so, particular ways are created by which these individuals may be thought about, controlled and directed, and acted upon (Miller, 1990, 1998; McLeish, 1991; Rose, 1991; Porter, 1995; Callon, 1998). The result is that the application of accounting practices within organizations has implications not only for the functioning of individuals and organizations, but also for society as a whole. For these reasons, accounting is increasingly regarded as a *social and institutional practice* (Miller, 1994; see also Hopwood, 1992) rather than merely a technical practice.

This broader understanding of accounting and the consequences of applying or reforming accounting practices outlined above has, however, generally not informed accounting regulatory developments around the world. Rather, such perspectives have been largely confined to academic circles, frequently found in particular articles published in a collection of accounting research journals in the sociological, interpretive and critical traditions including *Abacus*; *Accounting, Auditing and Accountability Journal*; *Accounting, Organizations and Society*; and *Critical Perspectives on Accounting*. Perhaps not surprisingly, the existing literature in relation to detailed accounting pronouncements developed in most countries is, instead, dominated by 'official-type' accounts from the organized accounting profession, central rule-making agencies and their representatives. Invariably, these accounts seek to rationalize the application of accounting practices in either broad terms based on general notions of progress and improvement, or on more narrow technical/functionalist grounds such as 'usefulness for decision making' and/or 'enhanced accountability' (Miller, 1991; McGregor, 1993, 1999; Young, 1995a).

Viewing accounting as a social and institutional practice, instead of merely a technical practice, has spawned a range of studies. These works generally seek to interrogate the *actual* conditions and consequences associated with the development and application of accounting practices in particular organizational and social settings. Studies of this nature reflect an ongoing concern for understanding the processes and consequences of accounting change in specific settings, particularly where commercial accounting techniques and approaches are applied within organizations or societies for the first time. This work examines this body of literature.

There are two primary aims. First, the social and institutional paradigm of accounting is explored more fully. In particular, the distinct themes associated with viewing accounting in this way are identified and used to classify a body of literature which has primarily arisen in the past two decades and which has explored different dimensions of accounting change. Second, drawing on such perspectives, a broad, thematic framework is proposed which can be applied in future interpretive and critical case-based research studies seeking to understand the *processes* through which accounting change can occur. The proposed framework is expected to be particularly useful in supplementing existing and frequently used functionalist explanations of accounting innovation. Such an approach may, for example, shed light on instances where accounting regulations are developed and applied with little investigation of the broader implications of their application for the organizations involved or for society.

ACCOUNTING AS A SOCIAL AND INSTITUTIONAL PRACTICE

Research that depicts accounting as a social and institutional practice typically seeks to explore accounting from a broad perspective, probing the applications of accounting practices in the social and organizational contexts in which they occur. Such studies show accounting is more readily understood as a dynamic, socially constructed practice, even to the point where researchers have argued that there is no 'natural' or 'fixed' domain to which accounting practices are, or should be, applied, nor is there assumed to exist a static array of practices that typically fall within the accounting domain (see, e.g., Miller, 1991, 1998; Miller and Napier, 1993; Power, 1994b, 1997a). They typically attribute the application of accounting practices within particular organizational contexts, with implications for the behaviour of individuals and the functioning of organizations and societies (Burchell *et al.*, 1980; Miller and O'Leary, 1987, 1994; Hines, 1988, 1991a; Hopwood, 1992; Miller, 1994).

Many adopt the social and institutional paradigm seeking to explore accounting as a device for intervening in the functioning of organizations and societies. This perspective reinforces the notion that it is no longer appropriate to think of accounting merely as a technical practice that is applied to reveal pre-existing aspects of reality or particular truths about an organization (Gowler and Legge, 1983; Hines, 1988; Miller, 1994; Hopwood, 2000; McSweeney, 2000). Rather, according to Miller (1994, p. 1), accounting can be implicated in shaping:

> the type of world we live in, the type of social reality we inhabit, the way in which we understand the choices open to business undertakings and individuals, the way in which we manage and organize activities and processes of diverse types, and the way in which we administer the lives of others and ourselves.

Underpinning this perspective of accounting is a focus on the interplay between ways of measuring activities and processes, in financial terms, and ways of managing organizations and societies. The application of accounting practices enables the adoption of a particular 'financial' lens for 'seeing' or 'understanding' an individual's activities and organizational outcomes. Such practices can, in turn, offer a basis for governing people, processes, organizations and societies. As a consequence of its ability to create possibilities for action in organizations and societies, accounting has become an influential mode of management of organizational and social arrangements in a diverse range of settings (Burchell *et al.*, 1980; Hopwood, 1990a; Parker and Guthrie, 1993; McSweeney, 1994; Miller, 1994).

According to Miller (1994), there are at least three distinctive aspects of this view of accounting as a social and institutional practice: accounting as a *technique*; the *rationales* of accounting; and the *domain* of accounting. These distinct aspects are examined in the remainder of this section and used to classify a range of studies conducted in the past two decades that depict accounting this way.

Accounting as a Technique

According to Miller (1994, p. 2), adopting this perspective creates an emphasis on accounting as a *technique* or *technology*, as 'a way of intervening, a device for acting upon activities, individuals and objects in such a way that the world may be transformed'. With such a focus, researchers have begun to explore accounting as a device for quantifying activities, processes and events in financial terms that, in turn, creates ways in which the actions of people may be transformed. Within this capacity to transform, the application of accounting practices offers a way of making things 'real', constructing seemingly objective and neutral records for abstract and complex phenomena such as *assets*, *liabilities*, *revenues*, *expenses*, *financial performance* and *financial position* that do not exist independently of accounting representations of them and that would otherwise never be seen (Gowler and Legge, 1983; Hopwood, 1987b, 1988; Hines, 1988, 1989a, 1989b, 1991b; Miller and O'Leary, 1990; Parker and Guthrie, 1990, 1993; Miller, 1992, 1998; Miller and Napier, 1993; McSweeney, 1997).[2] Equally, things not quantified in financial terms by accounting procedures and practices remain invisible and domains of privacy are created that may not be easily penetrated (Hopwood, 1987a, 1987b, 1990a; Hines, 1988; Power, 1991, 1997b; Porter, 1992, 1995; McSweeney, 1997).

By representing activities, processes and events in financial terms, accounting creates ways in which those individuals and organizations may be thought about and acted upon (see also Miller and O'Leary, 1987, 1990; Miller and Rose, 1990; Porter, 1992; Bougen, 1994; Callon, 1998; Young, 1995b; Walker, 2004). The application of accounting practices can be a way to standardize and make comparable seemingly disparate phenomena that would otherwise bear no resemblance whatsoever (Rose, 1988, 1991; Callon, 1998). The resulting accounting calculations can then be used to 'compare individuals, departments, or divisions. And they can also be used by individuals themselves to compare where they are with where they should be, what they have achieved with what they should have achieved' (Miller, 1994, p. 3).

By enabling the portrayal of diverse phenomena in financial terms, accounting creates a particular type of intelligibility, meaning and understanding for organizational and social affairs. Accounting can influence perceptions, change language and infuse dialogue and thereby permeate the ways in which organizational and social priorities, concerns and dilemmas, and new possibilities for action are expressed and prioritized (Hopwood, 1983, 1990a). Viewing accounting in this way offers opportunity for researchers to interrogate the role of accounting in specific instances of organizational and social change. Hopwood (1990a, p. 9) outlines some of these opportunities:

> It is possible to probe into what a particular organization seeks to make visible by its accounting . . . Moreover, by making some things visible and other things not, an organization can strive to exclude particular visibilities from the official organizational agenda. What, we can ask, is treated in this way, and why? And which groups have the power to influence the patterns of visibility prevailing in the organizations? What bodies of knowledge and sets of organizational practices are involved in making some things

[2] According to Hines (1991a), social reality is reflectively constituted by *accounts* of reality, and when decisions and actions of social agents are based on these accounts the result is to construct, maintain, reproduce, and thus validate, that reality (see also Hines, 1988, 1989a, 1989b).

visible and other things not? How contested are dominant patterns of visibility? And from where have new visibilities emerged?

Portraying accounting as a *technique*, provides means by which researchers can explore the intended and unintended consequences of applying particular accounting practices for the functioning of specific organizations as well as for societies as a whole. The nature and extent of these impacts and how they arise in specific instances are yet to be fully understood, let alone evaluated.

The Rationales of Accounting

According to Miller (1994, p. 3), viewing accounting as a social and institutional practice invites a focus on the complex language and set of meanings that are intrinsic to accounting. This language and these meanings are referred to by Miller (1994, p. 3) as *rationales*. Within this perspective, accounting is associated with a specialized vocabulary or terminology that, in turn, makes possible a particular set of discursive representations about the organizational activity under account. According to Miller, these representations and vocabularies:

> are assembled at various collective levels, articulated in diverse locales, and in relation to disparate concerns. It is these rationales, often borrowed from other bodies of expertise, that mobilize the calculative technologies of accounting. It is through such meanings, that accounting practices are endowed with a significance that extends beyond the task to which they are applied, yet without determining the consequences of their deployment in any particular setting.

Such rationales, for example, become evident when the preparation of financial statements that incorporate revenues, expenses and profits or losses, are inextricably linked with notions of 'accountability', 'responsibility', 'transparency' and 'efficiency' (Potter, 1999). According to Miller (1994, p. 3), these rationales enable financial statements to be portrayed as the vehicle for applying notions of accountability and performance in a variety of specific organizational and social settings (Hopwood, 1990b; Miller, 1991; Power, 1997b; Young, 2003). Viewing accounting as a social and institutional practice suggests a need to understand such rationales since 'it is these rationales, rather than ones specific to the activities and processes in question, that come to articulate ways of knowing and managing organizations' (Miller, 1994, p. 3). An appreciation of how these rationales are developed and the consequences of their application in specific settings can assist in enhancing an understanding of how accounting practices can become embedded, and almost unchallengeable, in many modern forms of organizations and governments (Miller and Rose, 1990; Miller, 1991; Rose and Miller, 1992; Miller and O'Leary, 1994). Such studies are not only within the purview of accounting researchers, but are also of interest to scholars of business management, as well as those in other fields.

An awareness of the *rationales* of accounting has given rise to research which may be classified under two key themes: *accounting as a legitimating device*, and *accounting as a linguistic device*.

Accounting as a Legitimating Device Many theorists have concerned themselves with the legitimating capabilities of accounting. These authors typically depict the accounting craft as influential in the development of rationalized societies, identifying accounting as an important means by which organizations respond to environmental pressures to enhance their legitimacy. Researchers in this area argue that organizational management is driven to incorporate practices and procedures defined by prevailing concepts of what is 'rational' without demonstrating the efficacy of the new practices. Within this context, it is argued that much accounting innovation, particularly at the organizational level, can be understood (Meyer and Rowan, 1977; Boland and Pondy, 1983; Hines, 1989a; Thompson, 1994; Carruthers, 1995; Carpenter and Feroz, 2001). Accounting, and its associated discursive representations, can be seen as a means by which organizations incorporate, or are seen to incorporate, rational ways of organizing and monitoring their activities (Power, 1994a). To the extent that organizations incorporate such practices and procedures, they are perceived to increase their legitimacy and enhance their prospects for survival (Montagna, 1990; DiMaggio and Powell, 1991; Takatera and Sawabe, 2000). In many respects, these works suggest that *how* the accounting is done is less important than *that* it is done (Power, 1994a, 1995, 1997b; McSweeney, 1997).[3]

In such instances, specific accounting practices become institutionalized in particular organizational settings (Hopwood, 1983, p. 291; Covaleski and Dirsmith, 1988a, 1988b; Power, 1994a). As a consequence of unquestioningly accepting and applying accounting as a *legitimating device*, opportunities to evaluate the application of accounting practices in specific instances may be lost. Further, the possibility that such practices may also have adverse or unforeseen consequences for the organizations involved, or for society as a whole, may not be considered. Accordingly, a further challenge remains for researchers to explore the *process* through which new accounting practices become entrenched in particular settings as well as to consider the implications that may exist for organizational and social functioning.

Accounting as a Linguistic Device Accounting theorists have also concerned themselves with accounting as a *linguistic device*, exploring how this language has developed and is applied in specific instances. Researchers in this area have considered accounting for its rhetorical dimensions, identifying a number of rhetorical images that appear to underpin accounting regulation and practice (see, e.g., Boland, 1989; Boland and Greenberg, 1992; Davis *et al*., 1982; Morgan, 1983, 1986, 1988; Meyer, 1984; Tinker, 1985; Heath, 1987; Thornton, 1988; Walters-York, 1996; Potter, 1999; Young, 2003). One such image that has been identified by researchers depicts accounting reports and practices as the means of measuring pre-existing 'economic reality'. Such an image, frequently inherent in accounting standards and theoretical guidance statements, portrays accounting practices as objective, faithful and unbiased reflections of organizational reality (see, e.g., Solomons,

3 Power (1994a) discusses this point further in the context of financial statement audit. According to Power (p. 304), such a conclusion is warranted since 'considerable symbolic and financial capital is invested in the activity of audit without a corresponding publicity of process and results' (see also McSweeney, 1997).

1978, 1991; Tinker, 1985; Lavoie, 1987; Morgan, 1988; Sterling, 1988; McSweeney, 1997). Therein, only the phenomena that are represented in financial terms in such reports are perceived to be objective while the array of allocations, classifications and other human interpretations evident in many accounting practices are either not fully understood, or are ignored (Chambers, 1966; Churchman, 1971; Hines, 1991b, 1992; McSweeney, 1997).

Portraying accounting as the objective, unbiased means of measuring pre-existing economic reality has enabled specific accounting practices to be advocated and introduced in particular settings by accounting regulators and by other advocates of reform (see, e.g., Nahapiet, 1988; Hopwood, 1990a; Hines, 1991a; Miller, 1991; Young, 1996, 2003; Carnegie and West, 1997; McSweeney, 1997; Power, 1997a). At the same time, such images can tend to 'rationalize' or 'over-intellectualize' generally accepted accounting practices, making their application appear to be more effective and, therefore, more appropriate than otherwise may be the case. Such images can also restrict the scope of accounting standards that might be developed when specific accounting issues emerge (Hines, 1991a; Young, 1996; Potter, 2002). Specifically, detailed accounting pronouncements may be developed which are more likely to emphasize existing and familiar accounting tasks, such as the disclosure and measurement of financial statement elements. According to Young (1996), the resulting regulations are less likely to embrace the essence of the issue at hand and any opportunity to re-examine the appropriateness of applying accounting practices to the particular organizational or social setting may be lost (see also Hopwood, 1990b; Hines, 1991a; Bougen, 1994; Young, 1995b; Power, 1997a, 1997b; Potter, 2002).

An examination of the rationales associated with accounting provides researchers with an opportunity to enhance an understanding of the discursive forces behind specific instances of accounting innovation (McSweeney, 1997). This greater understanding is particularly possible since a range of rationales can be associated with recent major accounting reforms such as the decision to adopt (in various forms) International Financial Reporting Standards (IFRS) in many locations including in Australia, Malta, New Zealand, South America and within the European Union. Such studies can assist in developing a more comprehensive understanding of the processes through which particular reforms to accounting can occur within specific settings, highlighting the discursive influences which shape the domain in which accounting practices and procedures are routinely applied.

The Domain of Accounting

Finally, viewing accounting as a social and institutional practice also creates the need to understand how the domain in which accounting practices are applied is constituted and reconstituted (Miller, 1994, p. 4). Works undertaken from within this perspective may also inform our understanding of professionalizing activities in the field. Typically, accounting transforms physical flows of organizations into financial flows. By doing so, 'accounting creates a particular realm of economic calculation of which judgements can be made, actions taken or justified policies devised and disputes generated and adjudicated' (Miller, 1994, p. 4).

Studying the constitution and reconstitution of the accounting domain embraces a consideration of the link between accounting and economic reason (Callon and Latour, 1981; Callon, 1986; Latour, 1986, 1987; Gorz, 1989; Hopwood, 1992). An appreciation of the accounting domain has also given rise to research which may be classified into two categories, namely: studies which focus on the *implications* of changing the accounting domain, and those which examine the *processes* through which the domain may alter in particular settings.

The Implications of Changing the Accounting Domain The need to examine the implications of changing the accounting domain typically arises where accounting is viewed as a key mechanism for operationalizing certain models of economic citizenship. Within this perspective, the actions of free-thinking individuals are, via the application of certain accounting practices and procedures, brought into line with detailed and quantified objectives, enclosing them within a specific calculative regime (Miller and Rose, 1990; Miller, 1992, 1994; Miller and O'Leary, 1994). In this way, accounting may be implicated in the creation of *calculable selves* and *calculable spaces*,[4] whereby the application of accounting practices introduces an apparent level of certainty into organizational and social life that might not have otherwise existed (Gowler and Legge, 1983; Loft, 1986; Miller and O'Leary, 1987; Rose, 1991; Porter, 1992; Callon, 1998). Hoskin and Macve (1994, p. 70) explain the common themes that appear to exist in much of the research conducted using this perspective:

> accounting has discovered a new power to be more than just a technology measuring and recording transactions and flows of goods and money—more indeed than just the double entry form of bookkeeping. It has become one particularly privileged way of measuring and restructuring man as the 'calculable person' (Miller and O'Leary, 1987; Miller, 1992); it has also come to play a strategic role in the development of a new, grammatocentric kind of 'managing by numbers', exemplified in the emergence of what Alfred Chandler (1977) has called 'the modern business enterprise'.

Given this perspective, the introduction of certain accounting practices within organizations and governments is associated with shifting the forms of discussion and debate that commonly accompany organizational and social action (Gowler and Legge, 1983; Hopwood, 1983, 1990a; Miller and Rose, 1990; McSweeney, 1994; Miller and O'Leary, 1994).[5] Instead of continually discussing and debating

[4] The terms *calculable selves* and *calculable spaces* refer to the quantification of activities, processes and events and the associated implications for creating ways in which individuals and organizations may be transformed and managed. For further discussion of the nature and implications of *calculable selves* and *calculable spaces*, refer to Miller (1992) and Miller and Rose (1990).

[5] The ways in which various forms of accounting can influence the actions of others has been considered in relation to the notion of 'action at a distance', articulated in the writings of Callon and Latour (Callon and Latour, 1981; Callon, 1986; Latour, 1986, 1987) and recently applied by several others (see, e.g., Miller and Rose, 1990; Rose and Miller, 1992; Miller, 1994). According to these authors, 'action at a distance' becomes possible when people, processes and events are rendered visible and linked to 'centres of calculation' through a range of possible calculative technologies. With this particular type of information at hand, people, processes and events can be governed, even when located in far-off places.

difficult organizational and social issues, we tend to look to those with accounting expertise for guidance in dealing with those issues (Power, 1991; Rose, 1991; Rose and Miller, 1992). Complex political and social problems are identified and resolved through the application of accounting techniques and approaches, which are valued largely for their apparent or asserted neutrality and objectivity. Any resulting decisions acquire an image of procedural fairness, objectivity and neutrality, and thus become seemingly difficult to critique (Rose, 1991; Porter, 1992, 1995; Miller and O'Leary, 1994; Callon, 1998; Miller, 1998). According to Hines (1989a, p. 67), within such an environment:

> [c]ounter-arguments to such decisions, perhaps based on ethics or social/environmental prudence, will often appear idealistic and impractical because they have not taken account of the economic aspects of the situation and because they rely on information which compared to accounting appears 'soft' or 'subjective' because it is not quantified.

Despite the broader organizational and social consequences of applying or altering accounting practices, researchers in this area generally portray the accounting domain as constantly changing, suggesting that the boundaries within which accounting is applied are constantly being drawn and redrawn. Indeed, history is rich with examples of accounting applications 'failing' in specific contexts, only to be replaced by alternative accounting applications that construct different financial images of organizational and social affairs (Hopwood, 1983; Cooper and Kaplan, 1987; Cooper, 1988; Miller, 1992, 1994; McSweeney, 1994; Power, 1994a, 1997b). According to Hoskin and Macve (1994, p. 92), in such instances, rather than abandon accounting practices altogether, 'we find ourselves bound up in a continual process of trying to reduce their inadequacies and arbitrary effects, yet always, in so doing, extending their power and scope'.

An appreciation of the pervasive and enabling characteristics of accounting and an understanding of the changing nature of the accounting domain appears to have also prompted a collection of studies that examine the *processes* through which the accounting domain is changed, or transformed in specific instances. This research has considered both the transformation of the accounting domain at the margins, whereby 'new' calculative practices are added to the repertoire of accounting (Miller, 1998), as well as the application of the existing body of accounting practices to particular settings where they were previously absent (Young, 1994). Aspects of this research are now discussed.

The Processes of Changing the Accounting Domain Researchers exploring this subject are increasingly depicting the processes through which changes to the accounting domain normally occur as dynamic and ongoing and not the result of the actions of any single individual or group. Instead, the transformation of the accounting domain is argued to occur in a largely discursive fashion, within and through historically contingent circumstances and processes (Hopwood, 1983; Rose, 1991; Miller, 1998). Hence, researchers depict changes in the accounting domain to be a function of the manner in which particular accounting 'problems' are identified and defined. In many instances, the resolution of these problems through the application of existing accounting concepts and practices is made to appear appropriate, if not self-evident (Miller, 1991; Power, 1991, 1996, 1997a; Young, 1996; Potter, 1999; Kent, 2000; Roberts *et al.*, 2003). In such instances, the domain of accounting may expand to new organizational and social settings, without any demonstration of the technical efficacy of the new practices (DiMaggio and Powell, 1991).

Several prior studies have documented significant transformations of the accounting domain whereby new calculative practices are added to accounting. For example, Miller (1991) examined the development of discounted cash flow analysis, Burchell *et al.* (1985) explored the rise and decline of valued-added accounting, while Hopwood (1987a) and Miller and O'Leary (1987) have respectively examined the production of product costs and standard costing and budgeting. According to Miller (1998, p. 605), in such studies, a key focus of researchers is to 'attend to the ways in which these calculative practices and their related rationales have, in certain countries, initially permeated accounting at its boundaries, and gradually come to occupy a dominant position'.

However, according to Young (1994), most changes to the accounting domain occur incrementally, whereby accounting practices are applied to new areas, where they were previously absent. Young maintains that most recent instances of accounting innovation have involved the re-configuration and re-application of *existing* definitions of financial statement elements to capture organizations, activities and processes that were hitherto excluded from the accounting domain. The result is the recognition, within general purpose financial reports, of many items as assets, liabilities, revenues and expenses for the first time. Such changes to the accounting domain have occurred, for example, where existing commercial accounting practices have been introduced for virtually unmodified application to a diverse range of public sector organizations in many countries, including Australia and New Zealand from the mid-1980s.

Examining the incremental manner in which the accounting domain changes can occur in specific instances, Young (1994) used the theoretical perspective of *regulatory space* to examine how and why changes to financial accounting regulation and practice occur or fail to occur.[6] According to Young (1994, 1995b), accounting standards are produced within *regulatory space*, a highly abstract and contested conceptual area within which various participants, including accounting regulators and central rule-making agencies, both operate and interact. It is within this space that changes in the regulations relating to the recognition and measurement practices of financial accounting are generally discussed, analysed and developed (see also Latour, 1987; Young, 1994; MacDonald and Richardson, 2004). Young (1994) argued that such changes to accounting regulations are made possible once particular 'issues' are constructed as accounting 'problems'. According to Young (1994), such 'problems' can then become part of the regulatory agenda and

[6] For a detailed explication of *regulatory space* in the context of economic regulation in capitalist societies, refer Hancher and Moran (1989). For further applications of this construct in specific instances of accounting change, refer Kent (2000) and MacDonald and Richardson (2004).

remain so, while other competing 'issues' may not become constructed as accounting problems and thus may never warrant regulatory attention.

The actions of participants within *regulatory space* may be shaped by an array of influencing factors (Young, 1994). For example, such actions may be understood, at least in part, by reference to the theoretical perspective of *institutional thinking* developed by Mary Douglas (1986). Young (1996) applied this construct in studying specific accounting reforms relating to financial instruments in the U.S.A. Young's study is the first known published attempt at applying *institutional thinking* in investigating the development of recent accounting standards, while this perspective has since also been applied by Potter (2002) in examining public sector accounting reform in Australia.

According to Young (1996), in identifying and defining the accounting 'problem' relating to financial instruments, only certain types of questions were asked and certain types of issues considered, while many important issues were not addressed at all. As a consequence, rather than developing detailed accounting regulations that enabled accounting reports to capture the essence of these 'new' financial instruments, the FASB developed an accounting standard that emphasized existing and, therefore, familiar accounting tasks of disclosure, recognition and measurement. Young consequently concluded that *institutional thinking* could assist our understanding of how these events unfolded by enabling an explanation of how certain accounting 'problems' may be resolved in a programmed and limited manner. In doing so, Young maintained that *institutional thinking*, as a key driver of regulatory outcomes, can assist an enhanced understanding of the nature and limits of accounting innovation in particular settings.

The studies by Young (1994, 1996) and Potter (2002) provide insights into how accounting 'issues' may become defined as accounting 'problems' that can be addressed by regulators through the application of existing and familiar accounting definitions and concepts. What is less clear from this work is how such accounting issues can initially arise in specific instances, although some preliminary insights in this respect are available from the existing literature on *problematization* and *epistemic communities*. In the next section, research applying those perspectives is examined. They are then utilized to develop a broad, thematic framework which may be applied in future studies which seek to explore the processes through which accounting change may occur in particular settings.

PROPOSING A FRAMEWORK FOR FUTURE STUDIES ON EXPLORING ACCOUNTING CHANGE

A small number of contributions exist which have explored problematization in the context of accounting, while accounting researchers have generally not applied the notion of epistemic communities. Accordingly, this section explains these constructs more fully and demonstrates how they may be applied, along with the perspective of institutional thinking, to develop a broad theoretical framework which may be used in the future by researchers for examining accounting change.

Problematization

According to Rose and Miller (1992), problems involving public policy choice can first arise through a process of *problematization* which can begin when existing practices are criticized as not 'ideal'. These practices may, as a result, be seen to be deficient in some way or ways, leading to the identification of a 'problem' for which an appropriate solution is required. In such instances, practices are put forward that are claimed to not only address the perceived defects, but extend substantially beyond them, offering something new and better than hitherto possible (Miller, 1991, 1998). Not all such instances result in policy change occurring. Likewise, the problematization process may be shaped by a multitude of factors in specific settings and should not be viewed in isolation from the political, professional and social agendas of the actors involved. This is particularly the case where those concerned may stand to gain in some way from the problematization of existing practices and the implementation of 'new' and 'better' alternatives. Notwithstanding, when the problem is made visible, the perception is created that something needs to be done and where the suggested solution is seen to be the means of achieving the desired end, specific accounting change is made likely and possible (Miller, 1998).

Occasionally, the notion of problematization has been applied in examining specific instances of accounting change. Power (1997a), for example, explored the problematization of existing practices in the case of environmental audit in the U.S.A., while Miller (1991) offered an example in the case of discounted cash flow analysis in the U.K. According to Power (1997a), professional accountants have recently begun to compete for the opportunity to conduct environmental audits, primarily by representing themselves as experts in this field, even though no specific, purpose-driven auditing or accounting techniques had been developed. Power (1997a) maintained that in areas such as environmental audit no 'natural' case can be made for or against the role of accountants and that claims to expertise in measuring environmental accountability and performance do not simply reside in the knowledge of accounting practices. Instead, according to Power (1997a), the success of the organized accounting profession in embracing new tasks, such as environmental audit, depends on its ability to implement successfully a range of discursive strategies based primarily on integrity and independence, re-defining both itself and the task at hand in particular ways. As a consequence of such strategies, existing accounting definitions and techniques are made to appear appropriate and relevant for presenting and assessing environmental accountability and performance (Power, 1997a). Existing definitions and approaches are promoted as superior to others that are based on non-financial quantitative techniques or qualitative approaches. This, in turn, places accountants in a position of superiority in the modern calculative era compared to experts in other fields (Power, 1996, 1997a). The result is the narrow financial conceptualization of complex and abstract terms such as environmental accountability, even though the appropriateness of applying traditional audit practices in this area is not fully understood or accepted (Power, 1991, 1997b; Pentland, 2000; Gray and Collison, 2002; Everett, 2003).

Exploring broadly similar issues, Miller's (1991) study, set in the U.K., examined the process of problematization in the case of discounted cash flow analysis. According to Miller (1991, pp. 737–8), problematization of investment decisions occurred in the U.K. during the 1950s and 1960s in such a way that made such decisions appear to be intrinsic to the application of discounted cash flow techniques. Miller found that it was not simply that such techniques enabled a demonstrably better way of making and appraising investment decisions. According to Miller, what was decisive for the widespread adoption of discounted cash flow techniques was the manner in which the pre-existing investment appraisal approaches were criticized. Discounted cash flow techniques were, consequently, promoted as a solution in line with broader, widely desirable economic goals and objectives for the relevant organizations and for the economy as a whole.

The problematization of *emerging* practices can also occur to stop or impede changes to the existing accounting domain. Young's (1995a) study embraced this perspective, in focusing on cash flow accounting approaches developed in the U.S. According to Young, the U.S. accounting profession set out to discredit emerging cash-based approaches to the measurement of income as a means of defending existing accrual-based measures. Cash-based measures of income were depicted by the accounting profession as 'dangerous' and 'misleading' and also as a poor substitute for existing accrual-based measures. A key finding of Young's case study was that 'success' in the regulation of accounting was less dependant on developing technically 'correct' rules and more reliant on establishing the efficacy of particular techniques and approaches and encouraging others to build on them.

Works such as those by Young (1994, 1995a, 1996), Miller (1991) and Power (1991, 1997a, 1997b) illustrate the discursive nature of the domain of accounting and how that domain can be shaped through the process of problematization. Yet how, and by whom, this problematization occurs in specific instances is complex and represents an aspect of accounting innovation about which researchers know relatively little. Research which applies the notion of problematization typically alludes to small groups of technical accounting experts with shared normative and principled beliefs as being particularly influential in identifying and defining accounting problems and solutions in certain, almost rehearsed, ways. However, these studies are less clear in explaining two aspects of the problematization process. First, little is generally known about who these technical experts are, how these small groups typically function in specific settings or what binds their members together to produce a common commitment to the nature and direction of a particular accounting reform (West, 2003).[7] Second, how these accounting 'problems' and the associated accounting solutions are diffused across time and space is not clear. It is maintained that the notion of epistemic communities can be used to

[7] West (2003) considers important questions of this nature as they apply to the accounting profession as a whole. According to West (p. 60), attempts to justify the professional status of accounting based on the existence of a coherent and unique body of accounting knowledge are 'lame'. He argues that, notwithstanding, accountants have become unduly focused on the development of detailed accounting rules and that this has undermined the authority and independence of accountants and the value of their services.

gain further insight into the problematization process. Research which examines epistemic communities is discussed next.

Epistemic Communities

According to researchers in this area, where certain individuals are given power to administer, regulate or govern in certain areas of the community, what they think, the perceptions and beliefs they form, and also the way in which they embrace new ideas are of central importance for understanding the policy decisions they make (Adler and Haas, 1992; Haas, 1992). In most instances, it is inevitable that individuals occupying such positions seek advice from certain technical experts, referred to as *epistemic communities* (Haas, 1992). Consistent with the notion of *policy entrepreneurs* used by Ryan (1995, 1998), epistemic communities can be influential in translating[8] the ideas, perceptions and beliefs of those with legislative or non-legislative regulatory power to operationalize accounting change. Such communities can also exert significant influence on both the development and diffusion of specific accounting policies (Ryan, 1998; Young, 1995a). Epistemic communities have a number of characteristics which can be described in the following way:

> An epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area. Although an epistemic community may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs which provide a value-based rationale for the social action of community members; (2) shared causal beliefs which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity—that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise, and (4) a common policy enterprise—that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence. (Haas, 1992, p. 4)

The roles that can be attributed to epistemic communities in the identification and resolution of accounting problems can vary according to the dynamics of the situation. Such communities can occupy a unique and influential position due to their ability to convince policymakers that a ‘problem’ exists and their ability to put forward a seemingly appropriate solution (Adler and Haas, 1992; Laughlin and Pallot, 1998). Epistemic communities may be small in size but due to the strategic location of their members, in both national and international organizations,

[8] According to Miller (1991, p. 738), for problematization to occur, *translation* is needed whereby particular accounting problems and practices are re-stated or reinterpreted in specific ways to engender support for the notion that the asserted problem exists and can be rectified by the accounting solution advanced. According to Miller, translation can occur when particular accounting practices become tied to broader, widely desirable goals such as enhanced accountability and a more efficient resource allocation. Where this occurs, particularly across an array of diverse forums, the proposed innovation becomes more difficult to argue against.

and their sharing of common values and beliefs, the influence of such communities can be disproportionate to their size (Adler and Haas, 1992; Carnegie and Napier, 2002, p. 694). Such communities can also influence the diffusion of policies developed by means of diverse forums, including communication with colleagues at national and international bodies during conferences, via publications in academic texts and journals as well as various other methods of exchanging lessons and information (Adler and Haas, 1992, p. 378; Miller, 1991, p. 738). The result is the diffusion of particular accounting solutions across jurisdictional boundaries on a national, and even international, level (Kingdon, 1984, p. 147; Ryan, 1998, p. 526).

The perspective of epistemic communities may be applied to further elucidate the problematization process and to augment an understanding of the processes through which the accounting domain may be constituted and reconstituted. The resulting explanations, written from within the institutional paradigm, can provide insight into how specific institutions in accounting are initially constituted, how they gain support and continue to exert their influence on individual thought, or how they operate to reform accounting practices in specific settings. Notwithstanding the explanatory potential of such approaches, detailed studies encompassing these perspectives that explore particular instances of accounting innovation are indeed sparse, thus offering scholars a range of 'fascinating issues for research' (Laughlin and Pallot, 1998, p. 396). Some opportunities for applying these perspectives in future studies which focus on the processes of accounting change are discussed in the next section.

EXAMINING THE PROCESSES OF ACCOUNTING CHANGE

The thematic framework outlined in the previous section is most appropriately applied in interpretive and critical case-based research. Case-based research offers a high degree of relevance for presenting, explaining and understanding complex historical situations as they actually occurred (Previts *et al.*, 1990, p. 149). Such an approach can facilitate a qualitative, holistic analysis by allowing the researcher to look at problems in their entirety, taking into account a multiplicity of variables from which the significance of specific factors, events or processes only become apparent in light of the wider situation (Previts *et al.*, 1990, p. 149). More specifically, the approach enables researchers to proceed in a manner unconstrained by conventional assumptions which typically envelop accounting changes within broader explanations of progress from the 'primitive' past to the 'more sophisticated' present (Carnegie and Napier, 1996; Bedian, 1998; Carson and Carson, 1998; Parker, 1999).[9]

It is maintained here that the framework developed in the previous section can encourage future research into the processes through which accounting changes

[9] Such arguments, most often advanced by members of the organized accounting profession and central rule-making agencies, justify specific accounting reforms based on assertions about enhancements to be derived in the accountability and performance of the organizations involved. In such instances, the *actual* application and consequences of the reforms may not be considered, let alone evaluated.

can occur in at least three main ways. First, the framework can be used to interrogate the roles of key institutions of accounting such as conceptual frameworks or the accounting profession as a whole in shaping the process by which accounting regulatory changes can occur within specific settings. Adopting this approach can enhance our understanding of how and why the accounting domain may be expanded in some instances to include transactions and events that were hitherto excluded from that domain. Second, it can enable a greater appreciation of the roles played by small groups of technical experts located in influential positions in the accounting profession and in key regulatory agencies in creating the conditions conducive to accounting changes to occur. Such insights will be fruitful, for example, where regulatory changes occur, the utility of which is represented as being innate, while little consideration is given to the quality of the rules developed or the organizational and social consequences of their application within specific settings (West, 2003). Finally, these perspectives can be applied to gain an enhanced understanding of several broader accounting reforms occurring in many countries in areas including IFRS, environmental accounting and accounting for public sector entities. These opportunities are discussed further in the remainder of this section.

Interrogating Key Institutions of Accounting

An important characteristic of institutions, as articulated by Douglas (1986, pp. 46, 53), is their inherent capacity to shape the cognitive processes of individuals associated with them. In this sense there are several aspects of accounting that satisfy the *institution* definition developed by Douglas and which, therefore, may be implicated in shaping accounting reforms developed in specific settings. One such example is the conceptual framework (CF) documents, which form part of the accounting regulatory landscape in countries such as Australia, Canada, New Zealand, the U.K. and the U.S.[10]

Upon their initial development and release, CFs have typically been depicted by accounting regulators and central rule-making agencies as important technical tools which can be applied to improve the quality of accounting standards and resulting financial reports (see, e.g., Pallot, 1997; McGregor, 1999; Newberry, 2003). However, for much of the past three decades, this alleged technical or functional role has been widely criticized, and CFs have come to be understood, instead, as 'functional failures' (Hines, 1989b; Power 1994b; Dean and Clarke, 2003; Loftus, 2003; Walker, 2003; Walker and Jones, 2003). A number of specific criticisms have been levelled at the frameworks, including suggestions of 'incompleteness', 'internal inconsistency', 'ambiguity', 'circular reasoning' and 'unsubstantiated assertions' (see, e.g., Dopuch and Sunder, 1980; Peasnell, 1982; Pacter, 1983; Solomons, 1986; Agrawal, 1987; Gerboth, 1987; Hines, 1989a, 1991a; Schuetze, 1993, 2001; Chambers,

[10] Applying the work of Douglas, the organized accounting profession could also be depicted as an institution within specific settings. Accordingly, future studies adopting this perspective could utilize the framework presented to explore the role of the organized profession in specific episodes of accounting change.

1995; Samuelson, 1996).[11] These authors offer a range of theoretical arguments to demonstrate the inability of CFs to provide clear guidance on the choice between alternative accounting policies or the resolution of accounting controversies.

Despite being widely regarded as functional failures, CFs continue to be pursued and used as primary justification for a range of detailed accounting standards developed in recent years, particularly in countries such as Australia, New Zealand and the U.S.A. (see, e.g., Hines, 1989b; Young, 1996; Micallef and Peirson, 1997; Newberry, 2003).[12] This seemingly extensive influence of CFs, particularly in light of their problematic technical capabilities, has prompted researchers to contemplate the broader non-technical roles that CFs can play in certain settings. According to Hines (1989b, 1991a), for example, the U.S.-based CF formed an important part of a considered response by the organized accounting profession that was faced with threats to its legitimacy when the knowledge base underpinning accounting rule-making processes and accounting practices was called into question. In such instances, Hines maintained that CFs assist in creating the appearance that accounting practices and standards are developed from a coherent body of knowledge (see also Dopuch and Sunder, 1980, p. 19; Hopwood, 1990b, p. 83). However, in doing so, most CFs are also constrained 'by the need to appear rational while retaining the bulk of existing practice as it is' (Power, 1994b, p. 6). Accordingly, CFs have been criticized for leaving many substantive accounting issues untouched (Dopuch and Sunder, 1980; Peasnell, 1982; Power, 1994b). Hopwood (1988, p. 16), also writing about the U.S-based framework, articulated the strategic roles which CFs can serve:

> The Conceptual Framework studies of the FASB have many of the characteristics of . . . strategically oriented research. They are cast in general, even ambiguous, terms. The aspirations of the project are as yet more important than its specific technical enabling properties. Emphasis has been placed on scholarly respectability and the studies have been put into the public domain at an unusually early stage of their development.

Utilizing the theoretical perspectives identified in the previous section can elucidate how the influence of the CF, as an institution,[13] typically extends far beyond the limits of its formal structure or authority, with associated implications within and beyond accounting, and also for society in general. Potter (2002) demonstrates this in a study examining the role of the Australian CF in the adoption of accrual systems of accounting within the public sector in that country. According

[11] An illustration of the primacy of this issue is the recent forum on the Accounting Conceptual Framework held at the University of Sydney (December 2002) and the special issue of *Abacus* on this topic (Vol. 39, No. 3, 2003). For further discussion of many criticisms levelled at conceptual framework documents, readers are encouraged to refer to papers contained therein.

[12] According to Newberry (2003, p. 329), the political nature of standard setting is such that even though some standards may not *actually* be consistent with the CF, standard setters will generally be reluctant to admit to any inconsistency.

[13] Those who portray the organized accounting profession as an institution may well represent CFs as products of that institution.

to Potter, the conceptual framework is best understood as a political tool, which served a crucial role in enabling accrual accounting reforms to be developed, promoted and defended within the Australian public sector. This occurred, even though several problems associated with the reforms remained unresolved, and even the reforms themselves were devoid of strong support based on available research evidence (Walker *et al.*, 2000a, 2000b). Such insights assist a greater understanding of the role of CFs as institutions which shape the process of accounting change within particular settings.

Identifying the Role of Influential Groups of Technical Experts

The thematic framework outlined also provides researchers with an opportunity to interrogate the role of small groups of technical experts in shaping the accounting change process. Merely identifying influential individuals and groups as key agents of change or even 'pioneers' in specific settings remains an interesting and worthwhile endeavour. However, combining the three perspectives outlined can facilitate an enhanced understanding of the role of such groups in specific instances. Such perspectives enable, for example, insight into how commercial accounting techniques become embedded in particular organizational settings such as government and social enterprise. Embracing such themes, Carpenter and Feroz (2001) apply institutional theory to explore the accounting rule choice in four U.S. state governments. These authors identify key technical experts and their attitudes as important for explaining the differential adoption of GAAP. Potter (2003) also applied these perspectives in exploring the implementation of accrual accounting practices within public sector organizations throughout Australia. Consistent with Carpenter and Feroz (2001), Potter identified a small group of technical experts located in influential positions in accounting and related fields as important for creating a climate conducive to public sector accounting reforms to occur. According to Potter, the concepts of financial reporting outlined in the CF provided an important basis for defining and upholding the beliefs and principles which bound these experts together.[14] Applying such perspectives in future research studies can also assist an understanding of the cohesion and influence of such groups over time generally, as well as providing an appreciation of how such groups can impact upon the process of accounting change in specific organizational and social settings.

Exploring Specific Episodes of Global Accounting Change

There also exists an opportunity to apply the three theoretical perspectives to gain a greater holistic understanding of broader episodes of accounting change. One obvious opportunity for studies of this genre is to build on research described above to examine the process by which accrual-based accounting and reporting practices have become 'the norm' in public sectors located in many countries.

[14] For further reading of other instances where experts in influential positions are depicted as important in shaping accounting changes in European settings including Germany, Spain and Sweden and in the U.K., refer Luder and Jones (2004).

Such research could usefully address how the measurement of the performance and accountability of diverse public sector organizations has become a seemingly legitimate derivation of the 'expert knowledge' typically associated with accountants. Future work which embraces such perspectives can also encompass the role played by small groups of technical experts in identifying the 'problems' to be addressed and in shaping the content of the reforms undertaken.

A further instance of broader accounting reform that may be explored using the framework identified is the decision by countries such as Australia, New Zealand and within the European Union to adopt IFRS. The requirement to adopt these standards has been largely driven by deductively derived rationales which associate such regulations with greater transparency and international comparability of published financial reports and the more efficient resource allocation in capital markets. These rationales have been continually, and essentially unquestioningly, applied by accounting regulators and other advocates of the reforms in various ways, including official-type presentations, research papers published in quasi-academic as well as professional journals, and public lectures. During this time, the appropriateness of applying such regulations within particular domestic settings has largely remained beyond question, and the likely consequences of the reforms for the organizations affected, as well as for society as a whole, are yet to be fully understood or evaluated. Whether the asserted benefits that are widely claimed in respect of the adoption of IFRS are proven correct only time may tell. A greater understanding of how such powerful images are constructed and diffused can, in turn, shed light on how such changes appear to have occurred almost without challenge, and may be addressed within the framework proposed.

CONCLUDING COMMENTS

This review has identified and examined a body of literature which depicts accounting as a social and institutional practice. A selection of works within this genre was also classified, using Miller's (1994) themes of accounting as a *technique*, the *rationales* of accounting and the *domain* of accounting. It was shown that this facilitates understanding the processes through which accounting reform can occur in specific settings. Also shown is a general concern for debunking conventional or 'official-type' explanations of accounting changes which are traditionally based on notions of progress or improvement. Perspectives emanating from this literature were also applied in the development of a broad thematic framework to assist researchers in exploring instances of accounting change in the future. The penultimate section of the paper identified three key areas associated with the process of accounting change (institutions, experts and global episodes) in which this framework may be applied.

While a number of interesting and worthwhile topics for future research have been identified, such pursuits are, like most research approaches, to be undertaken with due caution and three key points are worthy of mention. First, interpretive and critical case-study research which embraces the social and institutional paradigm is typically undertaken using a qualitative, holistic approach. In such instances, the researcher must remain sufficiently alert to take into account numerous local, time-specific factors which affect the subject or episode under examination. These will seldom be readily discernible. Second, there will generally not be a single or universal cause or explanation for the specific event or episode under investigation, leading the researcher, instead, to seek an explanation based not only on *possibility* and *probability*, but also on *adjudged plausibility*. Thus, the possibility arises that research conducted on the same archival material may in fact yield alternative, perhaps even conflicting, narratives or interpretations. Finally, as with almost all case-study research, the concern for generalizability of the results applies.

This overview seeks to promote more studies that depict accounting as a social and institutional practice to enhance our understanding of the nature and determinants of the different dimensions of change in the context of this important calculative practice.

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