Accounting from the Perspective of Regulatory History, Private Standard Setting and Family Firm Research

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Abstract

This dissertation presents three studies on German accounting history, on the internal sphere of private accounting standard setting of the International Accounting Standards Board (IASB), and on the state of the art of financial accounting and reporting research on family firms.

After a brief introduction in chapter 1, chapter 2 explores the impact of accounting internationalisation on the contracting-oriented German accounting system. Accounting plays a distinct role in a firm's governance system and has evolved in a specific institutional setting over time to meet the contractual demands of various stakeholders. Against this backdrop, we argue that accounting internationalisation affects the contracting system when formal rules from other settings are introduced. To support our argument and to substantiate the interplay of accounting as a contractual device and country-specific institutions, we provide an in-depth case study of one European code-law country, Germany. Here, we place the recent phenomenon of accounting internationalisation into historical-institutional perspective and illustrate how accounting internationalisation has triggered a balancing act between a path-dependent preservation of the traditional contracting role and a moderate move towards valuation-based international benchmarks.

Chapter 3 provides evidence on the little-researched internal sphere of private IASB standard setting, more specifically, on the dynamics of board discussions and the respective impact of individual board and staff members, the array of arguments evoked in IASB debates and board-staff relations. We conduct a content analysis of audio recordings of 14 IASB meetings on the amendment of IAS 19 Employee Benefits (2011) between November 2008 and February 2010. We identify a framework of 205 categories that is arranged by four main categories: project elements, arguments, references and governance. Our main findings are that IASB members, in particular, engaged heterogeneously in the meetings and differed in their individual impact on (tentative) decisions. Arguments that were brought forth were largely conceptual and revolved around focal project elements (disclosure, presentation and recognition). Agenda papers (conveying staff proposals) were the dominant source of information for the board. Moreover, technical staff members played a key role in structuring board discussions and acted as intermediaries between constituents and board.

To outline the current state of knowledge and to provide some suggestions for future research, chapter 4 reviews 36 studies that explore financial accounting and reporting issues in a family firm context with respect to subject, method, empirical models, setting, family firm

definition, theory, and main findings. I find that prior research has largely focused on earnings management, earnings properties and disclosures of listed family firms from an agency perspective. Evidence on earnings management and disclosures of family firms is mixed, whereas family firms generally seem to report higher quality earnings than non-family firms. Finally, several suggestions for future research that encourage a broader inclusion of subjects, settings, definitions, theoretical perspectives, and methods are provided.

Chapter 5 provides several concluding remarks.

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Chapter 1

Introductory Summary

In his personal blog *Musings on Accounting Research*, Steven Salterio, Professor of Business at the Canadian Queen's School of Business and former editor-in-chief of *Contemporary Accounting Research*, raises a call for the pluralism of subjects, methods, and methodologies in accounting research under the banner of a, as he calls it, *Manifesto for the Radical Centre in Accounting Research*[1]. On what constitutes the radical centre, his blog entry reads:

> "It is an appreciation that accounting research can cover numerous subject matters, employing a wide variety of methods and underlying social science disciplines. It is an appreciation that one can search for 'truth' while at the same time recognizing that many institutions, including accounting, are 'socially constructed' by implicit norms that are 'understood' by all those who 'matter'. Further, it values the rigor of the research NOT [sic] its conclusions or premises. It takes a simple yet difficult position – that all research is created equal if the scientific community (as a whole) has reached a level of consensus about its utility."

Salterio explains that the position of the radical centre is "radical" in the sense that it seems so rarely embraced in the accounting community and "centrist" because it particularly appreciates topical and methodical pluralism. Moreover, he emphasises that accounting research is "a true social science endeavor from anthropology to sociology, from economics to psychology, from history to philosophy". In the ideal conception of the radical centre, all underlying social science disciplines would be treated by the community without prejudice, accounting journals be reflective of the multifaceted nature accounting research, and methods be accepted in terms of rigor instead of "some 'one right way'". With regard to the latter, Salterio's postulate echoes the general tenor of other (yet rare) claims for methodical pluralism in accounting as well as other disciplines (Fülbier & Weller, 2008 with references). Although worded cautiously, the *Manifesto,* along with its illustrative examples, can be understood as a critique of the positivist, quantitative-empirical "mainstream" in accounting research (Chua, 1986; further evidence by Oler et al., 2010 and, similarly, Fülbier et al., 2014) and, with particular glance at the US, the dominance and self-contained arena of the respective top tier accounting journals. In this spirit, the *Manifesto* concludes with a pointed "call to arms": "Accounting researchers of the world unite – you have nothing to lose but the chains of the ONE RIGHT WAY [sic] to do accounting research!"

Evidently, accounting research is a social science discipline with many facets. It offers a broad range of subjects from various fields (e.g., financial accounting, managerial accounting, auditing, taxation, accounting education, or accounting history) and related issues (e.g., corporate governance, accounting standard setting), all of which may be addressed through a varie-

[1] Salterio, S. E. Manifesto for the Radical Centre in Accounting Research. https://morebysteve.wordpress.com/manifesto-for-the-radical-centre-in-accounting-research/. Accessed 10.09.2015 All direct quotes in this paragraph are taken from the *Manifesto* blog post.

ty of research methods. The latter involve quantitative approaches (e.g., empirical-archival econometric studies, analytical models), qualitative methods (e.g., case studies, surveys, interviews, experiments, content analyses, discourse analyses), or combinations of both. In appreciation of the multifaceted nature of accounting research, the dissertation follows the pluralistic view. It presents three ("non-mainstream") studies on German accounting history (chapter 2), on private accounting standard setting of the International Accounting Standards Board (chapter 3), and on the current state of art of financial accounting research on family firms (chapter 4) which are premised on a qualitative case study along with a historical-institutional narrative, a content analysis of IASB meeting audio recordings, and a descriptive-analytical literature review, respectively. The remainder of this doctoral thesis is organised as follows.

Chapter 2 explores the impact of accounting internationalisation over the last 20 years—in particular, the rise of the valuation-based International Financial Reporting Standards (IFRS)—on the contracting-oriented German accounting system from a historical-institutional perspective. It is joint work with my doctoral supervisor Rolf Uwe Fülbier and has been published as Fülbier & Klein (2015). The second chapter is premised on the notion that accounting has historically evolved to fulfil the information requirements of different contractual partners and, accordingly, interrelates with environmental and institutional conditions. Against this backdrop, we argue that ongoing accounting internationalisation impacts the evolved interplay of financial accounting and the institutional setting. This phenomenon may particularly apply to the rise of the valuation-oriented IFRS, which have been introduced relatively quickly in heterogeneous (and not fully harmonised) national environments. In this regard, prior research suggests that IFRS adoption is accompanied not only by intended but also by unintended economic consequences that primarily relate to respective contractual outcomes (Brüggemann et al., 2013).

We substantiate the impact of accounting internationalisation on domestic accounting in the historical setting of Germany. In this regard, we first illustrate that German accounting has evolved in the code-law tradition and accentuate the respective predominance of contracting purposes. Our historical inquiry spans from the early roots of the German accounting tradition in the 14th century into the first phase of European accounting harmonisation in the 1980s. We further outline how the (contractible) German accounting system (constituted in the "Handelsgesetzbuch", HGB) has been shaped by four major characteristics of German business. Whereas accounting regulation and the institutional setting had remained relatively stable over several decades, institutional changes in the 1990s promoted the rise of valuation-oriented accounting that set off more radical changes in the German accounting system. In this regard, the "Kapitalaufnahmeerleichterungsgesetz" (1998) was a cautious attempt to balance the valuation demand of (a few) German listed companies against the dominant contracting role of German HGB accounting through a deregulation of public firms' group accounting. HGB legal entity financial statements—the basis for contracting purposes—have remained unaffected. Subsequent regulations, however, differed in scope and impact. The European Regulation 1606/2002 has stipulated group accounting in accordance with the International Financial Reporting Standards (IFRS) for all public firms and, thus, also for the substantial majority of German listed companies that had not adopted IFRS or US GAAP before. As before, German legislation safeguarded the contracting role of German accounting through a restriction of the Member State option for single financial statements. The core area of contracting, however, was considerably influenced by the "Bilanzrechtsmodernisierungsgesetz" (2009) which brought valuation-based accounting elements to legal entity financial statements and, thus, to all German companies. The reform can be understood as another, but more difficult, balancing act between strengthening the valuation capabilities of German accounting while protecting its contracting-based accounting tradition from being replaced by IFRS. In this regard, we outline several contracting implications—that we dare to say are unintended—from these regulatory balancing endeavours.

Chapter 3 is dedicated to the internal sphere of private accounting standard setting of the International Accounting Standards Board (IASB). A paper version of this chapter is available as Klein & Fülbier (2015). The third chapter provides evidence on several board-internal aspects of private accounting standard setting that have received little attention in prior research so far. In particular, we address the subtleties of IASB debates that are not evident from publicly available summary documents, the respective role of arguments in these debates, and the individual contribution of board and staff members. For this purpose, we conduct a content analysis of audio recordings of 14 IASB meetings on the amendment of IAS 19 *Employee Benefits* (2011), as debated between November 2008 and February 2010, i.e., after the release of the discussion paper up to the publication of the exposure draft. We identify a set of 205 categories that we arrange into four main categories: 1) *project elements*—to classify project characteristics, standard elements and proposals discussed in the IASB meetings, 2) *arguments*—to reflect reasons that were brought forth in discussing and justifying project elements, 3) *references*—to link statements to sources if explicitly revealed, and 4) *governance*—to identify organisational aspects of the board meetings.

At the project element level, we first expose the chronology of IASB discussions and tentative decisions. We then highlight how individual participants, in particular, the "leading" IASB members David Tweedie, James Leisenring and Stephen Cooper, impacted board debates and respective decisions. Focussing on meeting-internal argumentation, we find that conceptual arguments played a relatively greater role than specialised or consistency arguments. In this regard, we outline how individual arguments related to prominent project elements and reconstruct respective IASB decisions on disclosures and presentation of pension cost components. Findings from the reference main category indicate that agenda papers, involving staff summaries and recommendations, were a dominant source of information for board members. In addition, IASB members occasionally argued from the perspectives of particular constituents or examples but only scarcely referred to their personal or professional background, whereas staff members were inclined to reaffirm their proposals by reciting (selected) comment letters. Finally, we elaborate on the prominent role of the chairman in leading the IASB meetings, on the intermediary role of technical staff, and on general observations regarding board-staff relations, language proficiency, and the board meetings' discussion culture.

Chapter 4 reviews the research literature on financial accounting and reporting of family firms. In contrast to management, organisational, and finance research, accounting has, somewhat surprisingly, only recently begun to address family firms as distinct objects of research. I presume that accounting research has been, first and foremost, facing the challenge of taking account of established conceptions of the idiosyncrasies of family business, strategies on the (empirical) identification of family firms, and family firm-specific theoretical frameworks from the, in this regard, more "mature" disciplines. To outline how (financial) accounting research has met this challenge, to elaborate on respective findings, and to provide several suggestions for future research, the fourth chapter reviews 33 journal publications and three working papers that deal with financial accounting and reporting issues of family firms. In contrast to related reviews, I exclude the fields of managerial accounting and auditing for the benefit of a more in-depth review of the prevailing financial accounting literature. Here, I provide a refined view on subject, method, empirical models (if applicable), setting, family firm-definition, theory, and the studies' main findings.

The review suggests that prior research on financial accounting of family firms has been dominated by quantitative-empirical studies with a limited range of subjects (in particular, earnings management, earnings properties, and disclosures). Moreover, the vast majority of the reviewed literature has explored listed family firms, mostly in comparison to non-family firms, in single country settings. The identification of family firms is commonly premised on definitional elements that can be subsumed under the components-of-involvement approach, more precisely, (a minimum threshold of) family ownership and/or the presence of one or more family member(s) on the management or supervisory board. Notably, the reviewed literature shows remarkable heterogeneity in the interpretation of these elements. Regarding family firm-specific theorisation, I observe that four of five studies ground in agency theory, whereas alternative frameworks such as stewardship theory or socioemotional wealth theory have only played a subordinate role so far. I contend that the dominant "type" of financial accounting study (quantitative-empirical, family involvement-oriented, and agency theory-based) stems from a relatively stable "interlocking" of theory, method, and operational definition of family firms.

Regarding the studies' main subjects, I illustrate that empirical evidence on the genuine earnings management activities is mixed, although a slight majority of studies suggest that family firms are less likely to manage earnings than non-family firms. Family control, however, seems to mitigate the effectiveness of certain corporate governance mechanisms (e.g., audit committees) in constraining earnings management. Similarly, findings on (voluntary) disclosures of family firms are heterogeneous and do not convey a clear picture due to different focal points and settings. By contrast, evidence on earnings properties indicates that family firms exhibit higher earnings quality than non-family business. Finally, I outline several non-exhaustive suggestions for future research which mainly encourage the broader inclusion of subjects, settings, definitions, theoretical perspectives (involving theorisation from related disciplines), and methods.

The fifth chapter provides several concluding remarks.

Chapter 2

Balancing Past and Present: The Impact of Accounting Internationalisation on German Accounting Regulations[†]

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2.1 Introduction

The process of accounting internationalisation has always been attended by one crucial question: How much uniformity in financial reporting is required in globalised (capital) markets and how much diversity is still necessary to satisfy diverse contractual and regulatory settings at the firm- and country levels? Accounting plays a distinct role in a firm's governance system and has evolved over time to fulfil the information requirements of different contractual partners. Accordingly, accounting interrelates with environmental and institutional conditions and accounting information ensures coordination within a firm's nexus of contractual relationships (e.g., Biondi, 2007; Coase, 1990). To control the efficient use of firm resources, outside contractual partners (principals) have incentives to monitor management (agents) actions, to link contractual claims directly or indirectly to financial accounting information and to assess a firm's compliance with its contractual obligations (e.g., Bushman & Smith, 2003). A contracting orientation, often associated in the literature with stewardship, can be separated from valuation-based accounting, which focuses exclusively on timely firm valuation to derive the value of individual ownership claims for investment purposes (Gjesdal, 1981; Lennard, 2007).

The role of accounting in a firm's institutional environment has at least one material consequence. Country-specific regulatory settings and other institutions foster cross-country heterogeneity in accounting. From an evolutionary perspective, national systems represent the outcome of a historical process in which accounting regulation has aligned with the specific institutional environment. This alignment may include the adaption of foreign accounting elements that have either proven compatible with the domestic setting or have triggered an evolutionary adjustment.

Against this backdrop, we argue that ongoing internationalisation in accounting rules has an impact on the evolved interplay of financial accounting and the institutional setting. This phenomenon is particularly applicable in the context of the rise of the capital market- and valuation-oriented International Financial Reporting Standards (IFRS), which have been introduced relatively quickly in heterogeneous—and therefore not fully harmonised—national environments. Prior research suggests that IFRS adoption is accompanied not only by intended but also by unintended economic consequences (Brüggemann et al., 2013). The latter include effects that are unrelated to the stated objectives of either the standard setter (the International Accounting Standards Board (IASB)) or other regulators that have introduced IFRS in national and supranational jurisdictions. The distinction between intended and unintended consequences points to the polarity of contracting and valuation: Whereas stated objectives focus almost exclusively on valuation, accounting internationalisation and, in particular, IFRS adoption, has "the potential to materially affect contractual outcomes" (Brüggemann et al., 2013: 1). Accordingly, any regulator who aims to increase benefits from valuation must also consider contracting implications. However, whether unintended consequences can be rigorously anticipated remains to be seen.

To illustrate the impact of accounting internationalisation on domestic accounting, we provide a qualitative in-depth case study on the regulatory history of a single country: Germany. We deem Germany worth investigating for two primary reasons. First, Germany is a continental European code-law country (Ball et al., 2000; d'Arcy, 2001; Nobes, 1992, 1998, 2004) with a historical contracting-based accounting tradition. In that regard, German accounting regulation has historically evolved within a unique institutional setting to fulfil the contractual demands of different stakeholders and has attached major contractual consequences to legal entities' financial statements[2]. This framework has been confronted with a relatively short period of accounting internationalisation, beginning with European harmonisation in the 1980s, followed by the accounting deregulation stemming from the rise of valuation-based accounting since the 1990s. Second, with IFRS being mandated for group reporting, international accounting is limited to a rather small number of German firms. International accounting, however, has affected the domestic contracting-based accounting system. In this regard, we identify the balancing act involved in preserving the traditional contracting orientation while moving towards a stronger valuation focus.

Methodologically, our paper combines a literature-based narrative with a more explanatory, interpretative historical inquiry that links past developments (the historical state) to the current situation in German accounting (the present state) (Previts, 1984; Previts et al., 1990). In line with historical institutionalism (e.g., Steinmo, 2008; Steinmo et al., 1992) and the associated theory of institutional change (North, 1990, 1994), we show that specific continental European and German institutions and institutional changes have shaped the development of Germany's accounting regulations. The distinction between formal and informal institutions (e.g., Henisz & Williamson, 1999; Williamson, 1985) or similarly, formal rules and informal constraints (e.g., North, 1991), helps us to illustrate how accounting internationalisation in Germany has partially changed formal institutions over a short period of time, whereas other formal rules and institutions, such as insolvency, tax and corporation law, the dominance of debt markets and the prevalence of the family-owned small and medium-sized entity (SME) sector, have remained largely unchanged. In addition, informal institutions, such as contracting behaviour in general, stronger stakeholder orientation (especially towards employees) or

2 Throughout the chapter we use the terms "legal entity financial statements" and "single financial statements" synonymously.

culture have been even less affected by accounting internationalisation. Overall, this may point to efficiency effects from changing transaction costs of firm contracting (Williamson, 1979, 1985). Economies that adopt other economies' formal rules are likely to exhibit different performance characteristics because of different informal and formal norms (North, 1994: 366). This may also explain the "powerful influence of the past on the present and future" (North, 1994: 364) and the path-dependent nature of recent German accounting changes.

Our study adds to the existing literature in several respects. First, we put the recent phenomenon of accounting internationalisation into historical-institutional perspective. In contrast to prior studies on Germany's accounting tradition and regulatory history (e.g., Baetge et al., 1995; Ballwieser, 2010; Busse von Colbe, 1992, 1996; Busse von Colbe & Fülbier, 2013; Eierle, 2005; Forrester, 1977; Haller & Eierle, 2004; Heidhues & Patel, 2012; Hellmann et al., 2013; Hoffmann & Detzen, 2013; Küpper & Mattessich, 2005; Schneider, 2001; Sellhorn & Gornik-Tomaszewski, 2006), we accentuate the impact of formal and informal institutions on the development of Germany's contracting-oriented accounting system. Grounded in this historical elaboration, we identify recent balancing attempts manifested in preserving the traditional contracting role while moving to international benchmarks. In this regard, we add to other code-law country case studies from the perspective of historical institutionalism, for example, the recent study by Caria & Rodrigues (2014) on Portuguese accounting. Moreover, we contribute to the accounting history literature on the development of accounting principles and systems in the area of the European code law (e.g., Richard, 2005; Vogeler, 2005). Finally, we add to the literature on the economic consequences of accounting harmonisation and IFRS adoption in particular regions or countries (e.g., Boross et al., 1995; Callao et al., 2009; Ernstberger & Vogler, 2008; Kikuya, 2001; Laínez et al., 1999; Márquez-Ramos, 2011; Qingliang, 1994). Our findings are useful to understand the German regulatory and contractual challenges in which unintended economic consequences of accounting internationalisation might occur (Brüggemann et al., 2013).

The remainder of this chapter is organised as follows. The next section describes the theoretical underpinnings for understanding the approach of this chapter. In section 2.3, we first provide a conceptual outline of the contracting role of accounting and then illustrate how prior to the late 20th century, German accounting evolved into a contracting-based system. In section 2.4, we elaborate on pivotal institutional characteristics that facilitated this development. Section 2.5 illustrates the last 20 years of accounting internationalisation and exposes the German legislature's balancing acts. The final section of chapter 2 provides our conclusions.

2.2 Methodology: Historical institutionalism and an interpretational case study approach

Historical institutionalism is a social-science approach associated with political science, sociology and economics. It centres on the institutional setting over time and aims to explain how the formation of, existence of and changes in institutions affect historical developments (Steinmo, 2008; Steinmo et al., 1992; Thelen & Steinmo, 1992). Even though there is no clear definition of institutions, in a broad sense, they are commonly understood as mechanisms of social interaction (Henning, 2007). This understanding involves rules, but often also includes other norms and organisations as institutional arrangements (Henning, 2007; Steinmo, 2008; Thelen & Steinmo, 1992). We follow (North, 1990, 1991) and the new institutional economics in conceiving institutions as “humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct), and formal rules (constitutions, laws, property rights)” (North, 1991: 97). Moreover, the past experiences of a society—which are embodied not only in culture and belief but also in language and religion—are also subsumed under informal institutions (Henisz & Williamson, 1999; North, 1990, 1994). In the accounting context, formal institutions include, for example, the constitutional political and economic system, legislation, accounting and auditing standards, along with professional bodies, such as standard setters or enforcement organisations. In contrast, best practices or conventions in accounting or the cultural disposition of accounting professionals are supposed to be informal.

Historical institutionalism also commonly notes that institutions tend to be enduring, which leads to a self-reinforcing persistence of patterns over time (Immergut, 1992; Mahoney, 2000). Unlike approaches that focus on radical breaks and institutional breakdowns (e.g., punctuated equilibria, Krasner, 1984), historical institutionalism rests upon the idea of continuously evolving processes and thus is tied to the concept of path dependence (Vitols, 2006: 51). Whereas the latter is commonly used in the social sciences, it still lacks a clear interpretation (Page, 2006; Pierson, 2000). However, the bottom line is that “history matters” (e.g., Mahoney, 2000: 507; North, 1990: 100; Pierson, 2000: 252) and that “current and future states, actions, or decisions depend on the path of previous states, actions, or decisions” (Page, 2006: 88). Originally applied in the context of technology—David (1985) uses path dependence to explain the persistence of the QWERTY typewriter keyboard over time (also Arthur, 1989)—the concept has been applied, for example, to the formation of language and law (Hathaway, 2001), the location of cities (Arthur, 1994; Page, 1999) and the evolution of government policies (Hacker, 2002). We refer to path dependence in the institutional context, an area that has been particularly investigated by North (1990; 1994) with respect to the impact of institutional evolution on economic developments within countries and in cross-country settings. North investigates the path dependency of historical economic processes, driven by the idea that some but not all formal institutions can change in a short time, whereas "informal norms usually change only gradually". Thus, "revolutionary change is never as revolutionary as its supporters desire, and performance will be different than anticipated" (North, 1994: 366). North focuses on the pervasive influence of formal and (especially) informal institutions on economies' long-run character and economic performance (efficiency). In this regard, North and others (esp., Arthur, 1989, 1994; David, 1985) do not claim that path-dependent developments necessarily increase efficiency—sometimes quite the contrary (potential path inefficiency, Arthur, 1994; Pierson, 2000). Here, we concur when we assume in our analysis that accounting internationalisation causes efficiency effects.

Our understanding of accounting internationalisation in Germany is that of a path-dependent process characterised by changes in some, but not all, formal (e.g., changes in accounting legislation, standard setting and enforcement) and informal institutions (e.g., changes in managers' financing decisions, investment behaviour and capital markets). Our analysis, however, abstains from the question of whether the strict or bounded individual rationality assumption of rational choice institutionalism can be applied, along with the question of whether institutions or institutional changes themselves are always meant to be efficient (reducing transaction costs), intentionally created solutions (Thelen, 1999; Thelen & Steinmo, 1992).

In enquiring about recent accounting internationalisation in Germany, we employ a qualitative case study approach—a common method in historical institutionalism (e.g., Mahoney, 2000; Steinmo, 2008; Thelen, 1999). Accordingly, we identify patterns and develop insights "in the course of interpreting the empirical material itself" (Thelen & Steinmo, 1992: 12) to illustrate the path-dependent process of accounting internationalisation in Germany and to indicate some of the efficiency effects due to a partially changing and persistent "institutional matrix" (North, 1991: 109). To understand the contingent nature of a complex process, interpretational history provides, in the manner of a social science, both explanations and possible causal relations. It goes beyond mere storytelling, even though narrative history is a legitimate and widely used approach in accounting history (Previts et al., 1990). Interpretational history requires process tracing, which is the analysis of historical processes over a substantial stretch of years, decades or even centuries (Pierson & Skocpol, 2002) to search for patterns and to better understand the institution-driven, path-dependent development and the specific character of German accounting regulations on the one hand and (at least) some internationalisation effects on the other hand. In line with historical institutionalism, our case study focuses on the process over time (Pierson & Skocpol, 2002; Thelen, 1999). We accept, however, that our collection may be incomplete and our interpretation may be subjective, as is always the case in historical research (Previts et al., 1990; Thelen & Steinmo, 1992).

2.3 The rise of contracting-based German accounting

2.3.1 The contracting role of accounting

From the contractual perspective, accounting information contributes to the coordination of contractual relationships within a firm, which is regarded as a nexus of contracts (Alchian & Demsetz, 1972; Fama, 1980; Jensen & Meckling, 1976; Williamson, 1991). Individual parties (stakeholders) negotiate with the firm on a set of rights and obligations. On the one hand, accounting mitigates respective principal-agent conflicts by reducing information asymmetry. On the other hand, accounting-based proxies, such as earnings or equity, serve as contractible signals to govern and enforce contractual claims and consequences (Biondi, 2007; Bushman & Smith, 2003; Christensen & Demski, 2003; Christensen et al., 2005; Coase, 1990). The contracting role of accounting involves, in particular, the accounting-based determination of both financial payouts and payout restrictions with regard to stakeholders, such as investors, creditors, employees and tax authorities. Because they typically occur in social contracts between taxpayers and the state (e.g., Musgrave, 1992), accounting-based statutory tax regulations are also subsumed under the contracting role. In Germany, this also applies to other accounting-based contracting areas, such as capital maintenance, profit distribution and the identification of financial distress and insolvency in company law and bankruptcy law, respectively.

Although accounting research has analytically separated the objectives of contracting and valuation (Gjesdal, 1981), it has not been able to precisely differentiate the related consequences for recognition and measurement (Botosan et al., 2006). Theoretical findings, however, suggest that information for contracting purposes is not optimal for valuation and vice-versa (e.g., Biondi, 2013; Christensen & Demski, 2003; Christensen et al., 2005; Gjesdal, 1981; Littleton, 1961). Contracting-based accounting, often associated with a stewardship purpose, tends to yield more complete, reliable and hard data that are “difficult for people to disagree” (Ijiri, 1975: 36) with to ensure the efficient enforcement of contracts (Biondi, 2007; Bushman & Smith, 2003; Christensen, 2010; Gjesdal, 1981; Lennard, 2007; Leuz, 1996). The more verifiable, recurring and standardised the information, the more appropriate it is for contracting purposes (Cascino et al., 2014; Demerjian, 2011; Leuz, 1998). Accordingly, contracting-based accounting emphasises past transactions and therefore breeds more historical information. In contrast, valuation-based information that is useful for decisions should enable shareholders to forecast a firm's future cash flows and therefore has a more prospective focus (Lennard, 2007). In that respect, empirical findings support the notion of contracting and valuation as conflicting objectives of financial accounting (Gassen, 2008; Li, 2010)[3].

From a historical perspective, the development of accounting was closely connected to major contracting areas, such as debt contracting, taxation and the separation of management and ownership (e.g., Leuz, 1996, 1998; Littleton, 1966; Schneider, 2001). Although accounting information has long been tied to contracting, today's accounting systems have been shaped differently due to the different patterns and evolution of institutional settings in different countries. This structure is reflected in various accounting system classifications with more or less complex dimensioning (e.g., Nobes, 1992). Even the frequently used dichotomy of code- (macro) and common-law (micro) accounting system (Nobes, 1983) is suitable to explain major accounting differences, because legal system-variables and major accounting characteristics are highly correlated (Doupnik & Salter, 1995; Nobes, 1998). Our case study of the code-law country of Germany shows that the regulator of the German Generally Accepted Accounting Principles (GAAP) system has explicitly stipulated the contractual purpose and its priority in the conceptual guideline—which is important in a principles-based system for the deduction of new rules and the interpretation of existing ones. We also illustrate that material contractual consequences are legally connected to accounting information in Germany, representing a collective contract approach (e.g., Brüggemann et al., 2013). Without denying that accounting information is also used for contracting purposes in the common-law world, we find related accounting systems to exclusively focus on valuation and capital providers in organised capital markets, respectively. Accordingly, such accounting systems do not generate information for contracting purposes and therefore, private and individual contract adjustments or alternative systems, such as separate tax systems, are necessary to fulfil contracting demands. In contrast to the German code-law system, the contracting demand in common-law countries is therefore most likely met outside the valuation-based accounting system on a more individual (firm) level, assuming that typical common-law attributes, such as stronger organised capital markets and a focus on equity investors, apply.

[3] We note that accounting research continues to experience difficulty providing consistent empirical evidence on different accounting objectives, such as contracting and valuation, leading to different accounting outcomes (Banker et al., 2009; Bushman et al., 2006; Drymiotes & Hemmer, 2013; O'Connell, 2006).

2.3.2 Pre-1900 developments

In this section, we show that German accounting has evolved in the code-law tradition, which was substantially influenced by Italy and France beginning during the Renaissance. To identify the predominance of contracting purposes, we highlight the institutional motives and changes underlying major milestones in German accounting regulation.

In terms of mercantile bookkeeping, the German accounting tradition can be traced back at least to the early 14th century. Contemporary recordings, however, merely contain fragmentary entries on lending transactions and more closely resemble notebooks than systematically kept accounts (Brown, 1968; Mollwo, 1901; Penndorf, 1913, 1916; Sombart, 1919). In the early 16th century, accounting practice advanced with the dissemination of bookkeeping techniques along the lines of Pacioli's double-entry method (Kellenbenz, 1971; Oldroyd & Dobie, 2009; Ricker, 1967), and the first German manuscripts on bookkeeping emerged (e.g., Inoue, 1978; Jeßing, 2009; Weitenauer, 1931; Yamey, 1967). By this time, the first formal rules on debt contracting arose when several municipal laws in southern German towns (e.g., Freiburg, Nuremberg, and Augsburg) began to require the preparation of trading and debt books, which had probative value in court (Penndorf, 1913).

The initial Italian influence was followed by a strong and formative French impact on the German legal system in general and German accounting in particular. The first comprehensive legal accounting requirements arose with the enactment of Louis XIV's "Ordonnance de Commerce" in 1673, accompanied by Jacques Savary's commentary on good merchant behaviour, "Le Parfait Negociant", in 1675 (Savary, 1675). The Ordonnance, also referred to as "Code Savary", legally obliged merchants to keep orderly journals and to biennially prepare inventories of their commercial assets, receivables and debts (Title III, Art. 8) to be disclosed in the event of bankruptcy. If merchants did not comply, they could be accused of fraud and sentenced to death (Title XI, Art. 11 and 12). Savary annotates that financial statements are intended for self-information about net assets, receivables, and a period's profit or loss; they may also serve as legal evidence in case of insolvency (Klein-Blenkers, 2010; Richard, 2005; Savary, 1675). The Ordonnance influenced commercial legislation across Europe. It was not only incorporated into the French Code de Commerce of 1807, which spread throughout the Napoleonic Empire at the beginning of the 19th century (Walton, 1993), but also affected the institutional setting for economic activities in Prussia. Accordingly, the Ordonnance was a model for the General Law for Prussian States ("Allgemeines Landrecht für Preussische Staaten") of 1794 (Ballwieser, 2010; Barth, 1953; Schneider, 2001; Schröer, 1993). Like the Ordonnance, the Prussian Law mandated orderly bookkeeping (Part II, Title 8, §§ 566–607), especially for owner-manager self-information and debt-contracting purposes; with respect to the latter, the Prussian Law required the submission of a balance sheet in the event of bankruptcy (Part II, Title 20, § 1468). Moreover, it established the lower of cost or market-principle for the valuation of current assets and the strict depreciation of fixed assets (Part II, Title 8, §§ 642–646). Accounting regulation further progressed with Europe's political restoration after the Congress of Vienna in 1814-15. Following the formation of the German Union in 1815 and the German Customs Union in 1833, the German National Assembly called for the draft of a unitary commercial law. Consequently, the General German Commercial Code ("Allgemeines Deutsches Handelsgesetzbuch", or ADHGB) was enacted in 1861 and remained effective after the foundation of the German Empire in 1871.

Even though the long-term focus on debt contracting and owner-manager self-information continued, German (accounting) regulations in the 1870s, also triggered by capital inflow from reparations in the aftermath of the Franco-Prussian War, developed additional elements to mitigate shareholder-manager conflicts. Comprehensive regulations for stock corporations and limited joint-stock partnerships emerged (1870), not only with further elements of debt (e.g., capital maintenance requirements) but also of equity contracting (e.g., the introduction of separate supervisory boards). In particular, the new equity perspective stimulated the introduction of an accounting measurement principle later on, which had parallels to the current concept of fair value (Richard, 2005). In contrast to prior Prussian laws, Art. 31 of the ADHGB required all assets to be measured at their current value to prevent arbitrary valuation (Barth, 1953). However, the misuse of this principle—for example, through strong earnings management and unrealised profit payouts—led to the downfall of numerous German stock corporations between 1870 and 1873 ("Gründerkrise"). Consequently, the Supreme Court of Commerce clarified in 1873 that current values were to be based on objective, observable market prices as of the balance sheet date. In a later response to the Gründerkrise, the reform of the Stock Corporation Law of 1884 abandoned this form of fair value measurement (Barth, 1953; Hoffmann & Detzen, 2013; Richard, 2005; Schröer, 1993). The revision in 1884 was primarily driven by the debt-contracting role of accounting. To prevent the distribution of unrealised profits and to strengthen stock corporations' capital funds, a strict commitment to conservative valuation (Art. 185a ADHGB 1884), based on acquisition or production costs as the highest attributable asset value and the depreciation of all noncurrent assets, and a capital reserve (Art. 185b ADHGB 1884), were introduced. However, valuation at cost was not yet required for other legal forms such as private limited companies. In 1897, the ADHGB was superseded with only minor changes by the new German Code of Commercial Law ("Handelsgesetzbuch", HGB), which became effective along with a revised Civil Law on 1 January 1900. For the first time, the HGB referred to the term "Grundsätze ordnungsmäßiger Buchführung" (GoB, or generally accepted principles on proper bookkeeping), a set of formal, codified rules, along with informal norms based on interpretations and best practices. Moreover, from 1874 on, several federal states of the newly founded German Empire had legal book-tax conformity (Pfaff & Schröer, 1996; Schneider, 2001), which tied the determination of taxable income to financial statements (the authoritativeness principle).

2.3.3 Major regulatory steps during the 20th century

In the 20th century, German accounting regulation was substantially impacted by legislative reactions to the Great Depression. The emergency decree on the Stock Corporation Law of 1931 ("Aktienrechtsnotverordnung") stipulated a specific layout for balance sheet and income statements along with stricter disclosure requirements to provide a clear and reliable view of financial position and performance (§ 260b HGB 1931). Moreover, in response to several cases of accounting fraud in large German companies, the Law demanded stock corporations' annual accounts henceforth to be audited (§ 262a HGB 1931) (Busse von Colbe, 1996). In 1937, the Stock Corporation Law ("Aktiengesetz", AktG) was comprehensively amended and due to its increased complexity, it was separated from the HGB, which retained general requirements such as orderly bookkeeping and the preparation of inventories and financial statements. For the sake of creditor protection, the new Aktiengesetz particularly emphasised the need for financial capital maintenance, thus leading accounting regulation in an even more conservative direction. Accordingly, the Aktiengesetz required fixed assets to be strictly valued at amortised cost and current assets through the lower of either cost or market. It also prohibited the capitalisation of start-up costs and internally generated goodwill (§ 133 AktG 1937). To strengthen capital maintenance, further payout (dividend) restrictions were implemented (§ 130 AktG 1937). Rules on the layout of balance sheets and income statements (§§ 131, 132 AktG 1937) were largely inherited from the emergency decree but were accompanied by stricter disclosure requirements.

The Stock Corporation Law was marginally amended in 1959 but substantially reformed six years later. The new Aktiengesetz of 1965 (AktG 1965) brought two innovations. First, it introduced a fixed value principle regulating the valuation of assets below historical costs (§§ 154–156 AktG 1965) to limit the buildup of hidden reserves (Busse von Colbe, 1996). Second (and for the first time), preparation of consolidated financial statements was required (§§ 329–338 AktG 1965), albeit only for domestic subsidiaries (§ 329 AktG 1965).

In this regard, the legislature followed an earlier rule (imposed by the Allied forces in 1950), which required mining and metallurgy firms to prepare consolidated accounts; that rule was also adopted by other industries (Busse von Colbe et al., 2010). The legal birth of group accounting led to a formal segregation of accounting objectives. Because legal consequences have been tied to legal entity financial statements since that time, the newly established group accounting facilitated a greater emphasis on the so-far less-pronounced valuation role (e.g., Sellhorn & Gornik-Tomaszewski, 2006). As outlined below, consolidated financial statements have been the primary gateway to the accounting internationalisation that began in the 1980s and 1990s. However, group accounting has also extended the scope of contractible accounting proxies for private arrangements beyond the level of the single financial statement.

In 1969, the obligation to publicly disclose financial statements was extended to legal forms other than stock corporations or joint-stock partnerships in the Disclosure Law ("Publizitätsgesetz" 1969). This was motivated by the crisis of the Krupp Group, a large, unincorporated steel parent firm with subsidiaries that suffered severe losses in 1966 (Busse von Colbe, 1996). Until that time, even large non-incorporated companies had been required to prepare—but not to disclose—financial statements. The Krupp crisis revealed that restricted disclosure disadvantages contractual partners that do not have the power to claim information bilaterally (e.g., customers or suppliers). Further requirements for the financial and insurance sector followed. However, legal accounting requirements remained scattered across commercial and corporate law.

2.3.4 European accounting harmonisation: The early period of accounting internationalisation

Because of the European Commission's endeavours for accounting harmonisation throughout the European Economic Community (EEC; later European Union, EU), the face of German accounting regulation changed substantially. In December 1985, the Accounting Directives Act ("Bilanzrichtliniengesetz") transformed the EEC's fourth (78/669/EEC, Accounting Directive, 1978), seventh (83/349/EEC, Directive on Consolidated Accounts, 1983) and eighth directives (84/253/EEC, Audit Directive, 1984) into federal law. Most importantly, accounting rules that had been scattered across commercial and corporate law were now unified and condensed in the Third Book of the Commercial Code (§§ 238–339 HGB). Because the fourth directive applied to all incorporated firms, domestic accounting rules were extended to limited liability companies and, beyond that, even to unincorporated firms. The reform embedded several innovations, such as the adoption of the concept of the true and fair view (§§ 238, 264, 297 HGB), the requirement to prepare a management report (§§ 289, 315 HGB) and the recognition of new pension obligations (Art. 28 EGHGB). The adoption of the true and fair view concept exemplifies how German regulators struggled with contracting and valuation. The original meaning of true and fair view, a valuation-based concept from the UK, was diluted in the process of transformation by omitting the overriding property of the UK concept and by adding a GoB compliance requirement. The HGB version suggests that the true and fair view essentially bears on the notes, whereas balance sheets and income statements exclusively refer to the traditional, contracting-based German GoB (Alexander, 1993; Ordelheide, 1993). Furthermore, the GoB principles themselves (e.g., conservatism in measurement and the strict realisation principle) have become more important through their wider codification in the HGB (§ 252 HGB). Accordingly, the character of previously uncodified principles (informal institutions) was changed to one of formal rules.

The seventh directive also opened the German Commercial Code to Anglo-American elements of group accounting. Most importantly, it mandated the preparation of consolidated statements with geographically unrestricted consolidation (§ 294 (1) HGB), the purchase method (§§ 300, 301 HGB), the valuation of investments in associates at equity (§§ 311, 312 HGB) and the proportionate consolidation of joint ventures (§ 310 HGB). Thus, the internationalisation impact of European harmonisation on HGB was clearly visible in the consolidated financial statements, which leaned towards more valuation (Baetge et al., 1995). However, recognition and measurement rules were, and remain, differentiated between single and consolidated financial statements. Eventually, legal entity financial statements, the sole base for contractual consequences such as dividend distribution (e.g., § 58 (2) AktG), payout restrictions and capital maintenance (e.g., § 150 AktG), taxation (§ 5 (1) EStG) or the identification of insolvency (§§ 17–19 InsO), remained largely unaffected. Moreover, the path dependence of German contracting-based accounting prevailed during times of European harmonisation. Whereas the fourth directive implied approximately 40 Member State options, the German legislature adopted only a few to preserve traditional accounting features with respect to profit determination in single financial statements. In general, the extensive Member State options in the directives enabled other Member States to maintain their national accounting traditions, which led to a formal “harmonization without comparability” (Haller, 2002: 154). Despite material changes on the group accounting level and with respect to additional information requirements, legal entity financial statements remained unaffected.

2.4 Institutional setting: Major German business characteristics

This section illustrates how the emergence of contractible German GAAP has depended on the institutional setting. We describe four major characteristics of German business that qualify as formal and informal institutions and that have materially shaped the German accounting system. These involve the persistence of debt financing, the prevalence of small and medium-sized companies, book-tax conformity and strong stakeholder orientation, especially towards employees. All institutions have been stable for decades and have remained unchanged, particularly after the Second World War.

2.4.1 The dominance of debt financing

Germany is classified as a typical bank-based economy. (Nobes, 1998) and (Zysman, 1983) suggest that Germany has a credit-based financing system with insider ownership that typically correlates to its code-law origin (Nobes, 1998; Nobes & Parker, 2012). In contrast to governmental, credit-based code-law countries such as Japan, banks and other financial institutions have been dominant in Germany (Nobes, 1998; Zysman, 1983) and have contributed to economic growth since the era of industrialisation. At the end of the 20th century, bank loans represented the largest single source of external finance, two-thirds of which were long-term loans (Cable, 1985; Samuels & McMahon, 1978; Vitols, 2001). The latter fits in with the notion of a German "coordinated" capitalist economy in historical institutionalism that relies heavily on "patient capital", contrasting liberal market economies, such as in the US or the UK, that are characterised by short-term financing arrangements (Hall & Soskice, 2001; Thelen, 2004). Furthermore, German banks have been the key contact and contract partners to access other external funds and have played a major role—in addition to family owners and other companies—as insider shareholders who enjoy close, long-term relationships with their investees (Cable, 1985; Leuz & Wüstemann, 2004; Nobes, 1998).

Intriguingly, during the early 20th century, the German equity capital market was one of the most highly developed in the world (Nowak, 2001), but it did not regain its earlier importance because Germany's restoration after the Second World War was primarily grounded on debt and internal financing (Büschgen, 1979). The minor role of the organised equity capital markets has persisted. Between 1991 and 2010, the average market capitalisation of listed German stock corporations amounted to not more than 40.7 % of the German gross domestic product (US: 117.9 %, UK: 132.0 %; data from the World Bank). In the same period, German companies raised more funds through bank loans than through shares or other securities (Deutsche Bundesbank, 2012: 20). In particular, small and medium-sized German companies tend to bond with one bank (relationship lending) on a long-term basis (e.g., Harhoff & Körting, 1998).

In line with Nobes (1998) and others (e.g., Ball et al., 2000; Leuz & Wüstemann, 2004; Sellhorn & Gornik-Tomaszewski, 2006), we argue that credit-insider governance systems coincide with accounting rules that cater to the needs of both creditors and tax authorities. This occurs because insider-shareholders can obtain valuation-oriented information through other means. Thus, debt contracting was one major stimulus in the evolution of German accounting regulation. In that regard, creditor protection, the determination of distributable profits and objectivity for the sake of reliable and verifiable accounting have emerged as core accounting principles (e.g., Baetge et al., 1995; Leffson, 1987; Moxter, 2003, 2007). Historically, prudence and conservatism have substantially shaped the understanding of fair business behaviour throughout Continental Europe. This focus on debt contracting has motivated continuous efforts in German (accounting) regulation to strengthen capital maintenance through conservative accounting rules and to mitigate debt-related agency conflicts through payout restrictions (e.g., Leuz, 1998). Thus, German debt contracts lack covenants that restrict dividends or modify accounting figures, because they can simply rely on HGB statements. In contrast, US counterparts usually include payout restrictions based on US GAAP figures adjusted to creditor demands (Leuz & Wüstemann, 2004).

The dominant role of creditors in German accounting is also visible in the HGB structure. Two sections of the third book address accounting rules (§§ 238-335 HGB) separate from specific requirements for cooperatives and financial institutions. The first section, which contains technical and basic recognition and measurement rules for all merchants (§§ 238-263 HGB), is followed by a larger section that applies to limited liability companies. The latter includes stricter and more comprehensive accounting rules and in particular, a more detailed financial statement display format, further disclosure requirements and the obligation to prepare consolidated financial statements. Additional information is exclusively justified as correlative to limited liability (Buschmeyer, 1993). Therefore, creditor protection is based on two major foundations: the calculation of conservative profits, restricted profit distribution and capital maintenance, on the one hand, and further information, on the other hand.

2.4.2 The prevalence of small and medium-sized entities

As of 2010, 99.3 % of Germany's approximately 3.6 million businesses are small and medium-sized entities. Even for incorporated firms (approximately 632,000), the ratio still amounts to 98.8 %. During that same year, German SMEs employed 54.7 % of all German employees and generated 35.9 % of total sales in Germany (Institut für Mittelstandsforschung (IfM), 2015)[4]. Although the economic relevance of the SME sector also applies to other economies, German SMEs seem unique. Above all, they are perceived as a German phenomenon (even in English, the term "German Mittelstand" is well known) and often are associated with highly innovative, family-owned and owner-managed firms, largely in the manufacturing industries, specialising in niches, with relatively strong positions in foreign markets, with strong ties to their regions of origin and with a long-term, stakeholder-oriented business policy (Federal Ministry of Economics and Technology, 2012).

The prevalence of German SMEs is an institutional feature with further impact on German accounting regulation. SMEs are usually unlisted, on average smaller and thus considered less resourceful. Accordingly, accounting regulation for SMEs is expected to comply with preparers' cost restraints and cost-benefit considerations, whereas the information demands of capital market investors are irrelevant. For that reason, HGB accounting and auditing rules have been regulated to be less comprehensive for smaller firms (e.g., §§ 276, 293, 316 HGB). Beyond Germany's GAAP, for example, the cost-benefit rationale, along with the perception of a convenient domestic system, has fostered German SMEs' reluctance with respect to the IFRS for SMEs (e.g., Bundesverband der Deutschen Industrie e.V. (BDI) & Ernst & Young AG, 2005; Deutscher Industrie- und Handelskammertag (DIHK) & PricewaterhouseCoopers AG (PWC), 2005; Haller & Eierle, 2007; Keitz et al., 2007; Quagli & Paoloni, 2012; Sian & Roberts, 2006, 2008). In addition, SMEs have a closer relationship, if not an absolute identity, of ownership and management, which mitigates owner-manager agency conflicts (Berle & Means, 1932; Fama & Jensen, 1983a; Jensen & Meckling, 1976). Taken together, closer owner-manager alignment, less-diverse ownership structures and missing capital market-related reporting incentives of unlisted, economically significant, cost-sensitive SMEs suggest that debt- and tax contracting rather than valuation demands impact German accounting regulations. For the reason that most German SMEs are family owned and controlled (Klein, 2000) and financed by "patient" capital (Thelen, 2004), their lack of short-term reporting incentives is likely to support a demand for more conservative accounting.

2.4.3 Book-tax conformity

The debt focus of German accounting is traditionally complemented by its tax orientation (Haller, 1992), which also correlates with its code-law origin (Nobes, 1998; Nobes & Parker,

[4] These numbers are based on the Federal Statistical Office of Germany's definition of SMEs, which is in line with the EU's definition. Accordingly, SMEs are companies with less than 250 employees and less than 50 million euros in annual sales.

2012). Ever since the introduction of legal book-tax conformity in Saxony (1874), Bremen (1874) and Prussia (1891) (Schneider, 2001), accounting has been regulated and applied with tax consequences in mind. This orientation might also be driven by the prevalence of the German SME sector and the cost-efficiency of preparing financial statements that comply with both tax and commercial law requirements ("Einheitsbilanz"). Tax incentives correspond to the debt-related contracting role of accounting in determining a conservative and distributable profit figure. (Nobes, 1998: 171) states as follows: "The calculation of legally distributable profit is a different purpose from the calculation of taxable profit but it is not 'competing' in the sense of requiring a different set of rules because both calculations benefit from precision in the rules and from the minimization of the use of judgement, which is not the case for the estimation of cash flows". To prevent legal disputes with the tax authorities, tax contracting further strengthens the demand for reliable accounting information.

After the Second World War, book-tax conformity led to the idea that German commercial law accounting can and will be interpreted with reference to the German Federal Tax Court of Appeals ("Bundesfinanzhof", BFH). Following the normative, economically driven accounting theories of the pre-war era by Schmalenbach, Schmidt and others (e.g., Busse von Colbe & Fülbier, 2013; Küpper & Mattessich, 2005), accounting scholars focused on the interpretation of indefinite aspects in the principles-based German accounting system. One group seized upon the accounting-related decisions of the Federal Tax Court to form a more descriptive-positive accounting theory, the legal doctrine of accounting ("Bilanz im Rechtssinne"; Beisse, 1978/1979; Döllerer, 1959; Moxter, 1974, 1982). This influential tax-driven doctrine and subsequent tax court perspective have been widely used in the interpretation and advancement of German accounting. Accordingly, this doctrine and perspective have strengthened the predominance of contracting purposes by defining the determination of distributable profit as a core accounting objective, considering both creditor protection and in particular, tax consequences (Baetge et al., 1995; Busse von Colbe & Fülbier, 2013; Hommel & Schmitz, 2013; Leuz & Wüstemann, 2004; Moxter, 1974, 1982).

2.4.4 Strong stakeholder orientation and labour-management cooperation

The above-mentioned institutional factors are complemented by a strong stakeholder orientation, especially regarding employees. Labour-management cooperation is a major feature of the German coordinated capitalist economy (Thelen, 2001, 2004). Explanatory approaches are based on various aspects of the German institutional matrix and involve, for example, the German origin and the influential political tradition of socialism and social democracy since the 19th century (e.g., Berghahn, 2006), the governance of labour markets by collective bargaining institutions along with flexible plant-level strategies (Thelen, 2001) and, perhaps most notably in historical institutionalism, Germany's supposedly cooperative and coordinative attitude based on long-term consensual relations among labour, capital and the state (Abelshauser, 2003; Berghahn, 2006; Heidhues & Patel, 2011). The latter is occasionally linked to the notion of "rhenish capitalism" (Albert, 1993; Albert & Gonenc, 1996), which refers to the specific German version of a post-/non-liberal coordinated economy. The cooperative attitude also suggests that even culture, an informal institution, contributes to the explanation of Germany's economy, remembering that cultural variables are difficult to measure and should be interpreted with care (e.g., Baskerville, 2003, 2005; Bhimani, 1999; Gernon & Wallace, 1995; Harrison & McKinnon, 1999; McSweeney, 2002; Nobes, 1998). Although collectivism scores are usually lower in highly developed Western societies (e.g., Brodbeck & Frese, 2007; Hofstede, 1994), Germany and the Germanic European business culture rank clearly ahead of their individualistic Anglo-American counterparts in seminal cross-country culture studies, according to Hofstede (esp. 1980, 1986, 1994) and Global Leadership and Organizational Behavior Effectiveness Research (GLOBE) scholars (Brodbeck & Frese, 2007; House et al., 2004). The result is even more pronounced with respect to the dimension of institutional collectivism that is used by the GLOBE researchers. Accordingly, the German score exceeds the median of the "should be" category, which relates to the normative ideal of a collective ("Gemeinschaft") in Germany (Brodbeck & Frese, 2007: 164). We find further support for Germany's strong stakeholder orientation and labour-management cooperation not only at the level of employment protection (Germany has one of the highest levels of employment protection of all the Organisation for Economic Cooperation and Development (OECD) countries (Estevez-Abe et al., 2001; Organization for Economic Co-operation and Development (OECD), 2013) but also in the comprehensive social welfare laws introduced in the 19th century. This further adds to the view of cooperative and consensual relations among labour, capital and the state in Germany (Hall & Soskice, 2001).

German accounting reflects the country's pronounced stakeholder orientation in two ways. First, unlike valuation-based systems, German GAAP do not refer to a primary user but instead include employees and labour unions as typical addressees of accounting information (e.g., Kern, 1975). In that regard, employees' information requirements resemble those of creditors, because they are likewise interested in a reliable and conservative determination of distributable profits to ascertain their security of employment and remuneration. Because labour agents must be legally represented on supervisory boards and have the right to have financial statements explained to them[5], employees are firm insiders. Ball et al. (2000: 3) note that in a code-law, credit-insider system, such as Germany, "current-period accounting income then tends to be viewed as the pie to be divided among groups" as interest, dividends, taxes, salaries and wages. Second, the stakeholder perspective even includes the (interested) public as an addressee. The perception that larger companies are of greater interest and require stricter accounting requirements is found in the Disclosure Law (1969) or the HGB structure, for example. Taken together, the conservative orientation of German accounting and its focus on profit distribution are in line with the stakeholders' perspective.

It is noteworthy that accounting conservatism can also be justified by another cultural value dimension of Hofstede and the GLOBE researchers: uncertainty avoidance, which is highly pronounced in Germany (Brodbeck & Frese, 2007; Hofstede, 1980, 1986) and helps to further explain the country's strongly conservative approach, especially in contrast to the US and the UK (Gray, 1988: 19). This approach may also add to Germany's preference for well-organised systems with legally binding accounting rules and institutionalised procedures to better cope with uncertainty (Brodbeck & Frese, 2007).

In this section, we conclude that German accounting's contracting orientation has been shaped by four formal and informal features of the institutional setting. Although equilibria do not fit in with the conception of long-ranging, continuously evolving historical processes (e.g., Thelen, 1999; Thelen & Steinmo, 1992), we find something similar to have occurred in Germany. Until the 1980s, both the institutional setting and accounting regulations remained relatively stable over several decades. In the next section, however, we illustrate how institutional change that began in the 1990s led to the rise of valuation-based accounting and a process of adjustments that accompanied more radical changes in German accounting.

2.5 The challenge of internationalisation: A balancing act

2.5.1 The rise of valuation-based accounting in the 1990s

Driven by globalisation and inherent institutional change (Crouch et al., 2007) in the aftermath of the Cold War and German reunification, some of Germany's largest firms decided to access important and more liquid foreign equity capital markets through cross-border listings.

5 The representation of employees on German companies' supervisory boards dates back to several acts, particularly the 1951 Act on Co-determination in the Coal and Steel Industry ("Montan-Mitbestimmungsgesetz"), the 1972 Works Constitution Act ("Betriebsverfassungsgesetz", BetrVG), the 1976 Co-determination Act ("Mitbestimmungsgesetz") and the 2004 One-third Participation Act ("Drittelbeteiligungsgesetz"). Companies with more than 100 employees are required to have an economic committee that is informed about the company's economic situation on a regular basis (§ 106 BetrVG). In that regard, the committee has the right to have the annual financial statements explained to it by management (§ 108 (5) BetrVG).

This step led to the rise of a valuation-based, capital market-oriented accounting philosophy in Germany in the early 1990s. In other words, companies from a credit-insider economy, interested in equity-outsider markets, voluntarily adopted accounting systems from the Anglo-American hemisphere (Nobes, 1998). The first German company that was admitted for listing by the New York Stock Exchange (NYSE) was Daimler Benz in 1993. Accordingly, Daimler was required to reconcile its consolidated equity and net income figures from HGB to US GAAP. To reduce that burden, Daimler moved its HGB consolidated—but not single—financial statements closer to US GAAP by taking advantage of accounting options and discretion (Bruns, 1998). Other German global players followed, for example, Deutsche Telekom in 1996, E.On (formerly VEBA) in 1997, SAP in 1998, Allianz in 2000, BASF in 2000, Deutsche Bank in 2001, Siemens in 2001 and Bayer in 2002. Despite a 2002 peak of 22 companies (Pellens et al., 2004), the absolute number of cross-listings remained low. Other German firms, for example, Puma in 1993 and Bayer, Heidelberg Cement and Schering in 1994, voluntarily adopted the International Accounting Standards (IAS), the predecessor of IFRS, in their consolidated financial statements. These firms committed to greater transparency in financial reporting and a shareholder value orientation, but did not consider a US listing.

The adoption of US GAAP and IAS by prominent (but few) German companies shows that these firms were able to balance their accounting demands by providing valuation-oriented information in their consolidated accounts while retaining contractible information in their HGB legal entity financial statements. Eventually, the moderate rise of valuation-based accounting did not affect contracting consequences. The requirement to prepare HGB consolidated financial statements, however, was increasingly called into question. In response to political pressure by large public firms (e.g., Pellens et al., 2014; Sellhorn & Gornik-Tomaszewski, 2006), the German legislature codified two seminal acts: the German Capital Raising Facilitation Act ("Kapitalaufnahmeerleichterungsgesetz", KapAEG) and the Corporate Sector Supervision and Transparency Act ("Gesetz zur Kontrolle und Transparenz im Unternehmensbereich", KonTraG). The KonTraG strengthened the valuation-role of public firms' HGB group accounting by adding requirements from valuation-based systems (i.e., cash flow statements, statements of changes in equity and segment reports). Further reforms extended these requirements to all firms and geared consolidated financial reporting further towards valuation, for example, by excluding tax-driven elements (Haller, 2002; Haller & Eierle, 2004). Moreover, the KonTraG implemented a German private standard setting body, the German Accounting Standards Board (GASB), primarily to provide guidance on the aforementioned accounting novelties. Second, the KapAEG introduced the (desired) option for listed companies to prepare their consolidated financial statements in accordance with either IAS or US GAAP instead of HGB. Interestingly, since 1997 the German stock exchange has required preparation of IAS or US GAAP figures on a quarterly basis from companies listed in the newly established new-market segment (d'Arcy & Leuz, 2000). With the *de facto* deregulation of group accounting, the number of IAS and US GAAP adopters increased in the following years. As of 2001, of the approximately 550 German companies listed in the Prime Standard, approximately one-third followed IAS and US GAAP, respectively (Weißenberger et al., 2004: 175; Zwirner, 2010: 530).

Despite the relatively low number of adopters and the restriction to consolidated statements of cross-listed public firms, the moderate rise of IAS and US GAAP raised awareness of non-domestic accounting standards with a stronger investor orientation and valuation role. For the first time, German accounting practice involved the parallel application of multiple accounting systems. Accordingly, the longstanding link between country and accounting system eroded and the prior distinction among countries shifted towards a polarity between the traditional German HGB and the valuation-based systems—either within a single country or even within a single reporting entity (Sellhorn & Gornik-Tomaszewski, 2006). That notwithstanding, survey research shows that in the early 1990s, German managers were sceptical about US GAAP accounting because it was perceived to promote short-term thinking and to lead to the neglect of long-term investments. Moreover, the US GAAP were not considered superior to German accounting (Glaum & Mandler, 1996), even in terms of valuation. Early empirical results were not able to disprove that notion (e.g., Harris et al., 1994). In addition, the vast majority of German companies were not affected by international reporting demands and continued to prepare both legal entity and consolidated financial statements in accordance with the HGB. The German regulator preserved the HGB commercial law accounting tradition on the single financial statement level (Haller & Eierle, 2004), which means that all German firms, including adopters of international standards, were able to satisfy their contractual demands (and legal contracting consequences) with accounting data from single financial statements. Over time, however, managers of large listed companies acknowledged that German accounting might indeed reduce share attractiveness on foreign markets and thus were increasingly willing to accept the adoption of international accounting rules for the benefit of information value (Förschle et al., 1998; Glaum, 2000) and lower cost of capital (Pellens & Tomaszewski, 1999). Related empirical research shows economic benefits, i.e., lower information asymmetry, for German firms that voluntarily commit to increased levels of disclosure under international reporting strategies (Leuz & Verrecchia, 2000).

2.5.2 The implementation of EU Directive 1606/2002

The orientation of European listed companies towards international, valuation-oriented accounting has bred heterogeneous regulatory solutions in various EU Member States (e.g., Haller, 2002). This situation, unsatisfying from the perspective of the EU regulator with a preference for harmonisation, resulted in further political attempts to obtain the additional harmonisation of European accounting rules. Based on the formal decision to cooperate with the International Accounting Standards Committee (IASC, the predecessor of the IASB) and to converge European accounting regulation with IAS/IFRS in 1995 and in further initiatives (e.g., Haller, 2002), European Regulation 1606/2002 was codified in 2002. To standardise group accounting of public firms at an EU level, all publicly traded companies governed by the law of an EU Member State have been required to prepare their consolidated financial statements in conformity with IFRS for each fiscal year since 2005 (Art. 4). Moreover, the regulation includes Member State options for the consolidated accounts of unlisted companies and single financial statements to permit or require the use of IFRS (Art. 5).

Prior historical research on IASC development until 2000 does not reveal any active role of German groups either in IASC activities or in the development of the EU regulation (Camfferman & Zeff, 2007) The latter was instead driven by the Commission’s attempt to provide a single set of accounting standards for public firms (i.e., to align the fragmented and temporary Member State regulations) and in this regard, by the clear political will to exclude US GAAP. Resistance from the German government, auditors and companies did not decrease until the 1990s, with the adoption of US GAAP and IAS by a few German global companies. Even the KapAEG initiated by these firms can be perceived as “a limited period of experimentation”, because it was intentionally restricted until 2004 in the expectation of a follow-up regulation at the European level regarding the application of international accounting standards (Camfferman & Zeff, 2007; Zeff, 2012).

Whereas the EU regulation has a direct binding effect, the Member State options required legal implementation. In Germany, the 2004 Accounting Law Reform Act (“Bilanzrechtsreformgesetz”, BilReG) transformed all these regulations into options for companies, but with restrictions at the single financial statement level. German companies, regardless of their listing status, may prepare IFRS single financial statements, but only to provide an additional set of accounts for disclosure (§ 325 (2a) HGB). Accordingly, all companies are still required to prepare German GAAP legal entity financial statements for contracting purposes. Unlisted parent companies can use either HGB or IFRS in their consolidated financial accounts.

As before, we find that the German legislature safeguarded legal entity financial statements, the basis for contracting purposes, on the one hand, while further permitting valuation-oriented group accounting on the other hand (e.g., Haller & Eierle, 2004; Sellhorn & Gornik-Tomaszewski, 2006). The scope of the EU regulation, however, left far less room for balancing. In contrast to the more cautious approach of the KapAEG in 1998, which had allowed companies to meet their valuation demands voluntarily, IFRS have now been imposed on all public firms, including those that had not previously adopted US GAAP or IFRS (approximately 50 %). Moreover, the transformation of Member States' options into company options opened the application of IFRS to consolidated financial statements of unlisted German companies and promoted, at least hypothetically, thoughts about IFRS's future role in legal entity financial statements.

Overall, we find that institutional change stemming from more integrated financial markets since the 1990s increased German companies' demand for valuation-oriented accounting rules. Although the EU regulation was initially attended by the more gradual balancing attempts of domestic regulators, it provided a much more distinct change in the formal rules. Even though some companies benefit from increased efficiency (capital market contracting), unintended economic consequences are also likely to occur (Brüggemann et al., 2013; Zeff, 1978). Because both intended and unintended consequences around IFRS adoption are complex and partially opposing, we are unable to precisely assess the overall impact of IFRS adoption on German companies' contracting efficiency. However, we describe several implications for debt, tax and other contracting purposes as follows:

1) *Debt contracting:* As required by § 18 KWG, German banks may grant corporate loans exceeding € 750,000 only prior to a credit analysis of borrowers' financial statements. In that regard, survey research as of 2006 showed that the majority of German banks did not differentiate between HGB and IFRS in their credit scoring. Consequently, IFRS had a direct impact on debt contracting, at least until the adaption of rating systems (Oehler, 2006: 117). Another example relates to capital maintenance. Even though capital maintenance rules (i.e., the determination and restriction of payouts) are based on HGB legal entity figures, there is a risk of spill-over effects. A survey of large German public firms suggests that these companies tend to determine dividend payouts from consolidated profit figures, whereas the legal payout rule (§ 58 AktG) is only a side condition (Pellens et al., 2003; similar, Leuz & Wüstemann, 2004). More volatile, partly unrealised IFRS earnings on a consolidated level might point to covenant violations and other frictions by diluted capital funds, particularly when there is no compensating adjustment of debt covenants (Brügge-

mann et al., 2013; Sellhorn & Gornik-Tomaszewski, 2006). The lean version of German debt covenants, which usually lack accounting adjustments (Leuz & Wüstemann, 2004), might reach its limits here. Moreover, the Member State option for IFRS on the single financial statement level has stimulated a debate in Germany and the EU about replacing the accounting-related capital maintenance system with the US company-law-inspired concept of a prospective, liquidity-based solvency test (High Level Group, 2002; Lutter, 2006; Rickford, 2004).

2) *Tax contracting*: Early in the debate about adopting IFRS in the EU, the German Federal Ministry of Finance (FMF) commissioned a research report to determine the effect of applying IFRS to single financial statements on national tax revenue (Oestreicher & Spengel, 1999a, 1999b). This signal of fiscal interest had no regulatory consequence, presumably because no material increase in tax revenue was found. However, in 2007, the German tax regulator introduced an interest-ceiling rule ("Zinsschranke", §§ 4h EStG, 8a KStG) that limits the tax deductibility of net interest expenses. One exemption contained in that rule relates to a group's consolidated equity ratio, according to IFRS (even for HGB adopters). Thus, valuation-based IFRS directly influences tax consequences and vice versa—tax incentives may also trigger a management of IFRS equity ratios (Brüggemann et al., 2013). Another bridge between IFRS and tax accounting was built at the EU level by an initiative of the European Commission, which suggested IFRS as a "starting point" for a common consolidated tax base of listed companies (European Commission, 2001), again without regulatory effect. A noticeable impact on German tax jurisdiction occurred in 2003, when Hamburg's regional tax court based an interpretation of the fourth EU directive on recourse to IFRS (Finanzgericht Hamburg, 2003). Because the European Court of Justice accepted this recourse (Europäischer Gerichtshof, 2003), spillover effects on other contracting areas based on single financial statements may have occurred. However, the Hamburg tax court's decision was reversed by the German Federal Tax Court (Bundesfinanzhof, 2005) later, but only with a formal timing argument: At the time of the case, the respective IFRS standard had not yet been issued.

3) *Other contracting areas:* Some legal forms in Germany—i.e., unincorporated firms and cooperatives—have equity positions pursuant to German company law that did not qualify as IFRS equity. In particular, puttable financial instruments or instruments that impose an obligation to deliver a pro-rata share of net assets on liquidation were classified as financial liabilities, according to IAS 32 (Financial Instruments: Presentation, rev. 2003). Consequently, consolidated IFRS equity decreased and affected contractual consequences,

amongst others, the BASEL II debt-equity relationship for the large German group of credit unions (Deutscher Genossenschafts- und Raiffeisenverband e.V. (DGRV) & Bundesverband Öffentlicher Banken Deutschlands (BVÖB), 2006). Against this backdrop, intensive pressure at the national and European levels (e.g., Detilleux & Naett, 2005) provoked the revision of IAS 32 in 2008. Further contracting consequences of IFRS consolidated financial statements might relate to management control and incentive systems, including compensation, if German firms do not adjust for an accounting system change (Brüggemann et al., 2013; Ozkan et al., 2012; Wagenhofer, 2006; Weißenberger, 2006).

These examples suggest that the impact of IFRS on contracting is most likely to trigger adjustment processes in the German institutional setting to counterbalance potential inconsistencies. However, path dependence implies that these adjustments will presumably take a longer time. Further research may help us better understand how IFRS affect contracting, their respective impact on contracting efficiency and potential counterbalancing adjustments.

After the transformation of the EU regulation, German accounting practice has been fragmented. A little more than 800 public German parent companies are directly required to prepare consolidated financial statements in accordance with IFRS. In addition, a much larger number of subsidiaries need to provide IFRS accounts for consolidation purposes in line with internal group accounting guidelines. Mandatory adopters are complemented by only a few unlisted parent companies that voluntarily prepare IFRS group accounts. Bassemir (2012: 35) finds that approximately 12 % (387) of a sample of 3,365 German private groups voluntarily prepares IFRS consolidated financial statements. Voluntary IFRS adoption is positively related to the size, legal form (corporations) and internationality of a firm's business activities and financing (Bassemir, 2012; Eierle & Helduser; Keitz et al., 2007). Accordingly, only very large and international private groups use IFRS, whereas the vast majority of SMEs prepare consolidated financial statements according to HGB (Eierle & Haller, 2009, 2010). The option to provide an additional set of IFRS single financial statements for disclosure purposes has little effect, if any, on German accounting practice (Küting et al., 2011; Pellens et al., 2014).

2.5.3 Accounting Law Modernisation Act of 2009

Originally aimed at moderately internationalising German GAAP, the Accounting Law Modernisation Act of 2009 ("Bilanzrechtsmodernisierungsgesetz", BilMoG) has marked the most fundamental reform of HGB accounting yet. Unlike prior balancing endeavours that had restricted the valuation impact of accounting internationalisation to public firms and consolidated financial statements, the reform touched, *inter alia*, the core principles of contracting-based

German accounting for the benefit of strengthening its valuation role. TABLE 1 illustrates the major changes.

Scope	Regulatory changes by BilMoG 2009
Intangible assets	Change of the strict ban on the capitalisation of self-created intangible assets into an option (§ 248 (2) HGB). Self-created intangible assets are to be valued at their cost of development (§ 255 (2a) HGB). The general approach, along with the distinction of research and development (R&D), was almost literally adapted from IAS 38—Intangible Assets.
Provisions	Abolishment of the option to recognise expense provisions (§ 249 HGB), similar to IAS 37—Provisions, contingent liabilities and contingent assets. Non-current provisions must be discounted with a market-based discount rate (§ 253 (2) HGB).
Production costs of goods	Valuation of produced goods was expanded through the inclusion of certain indirect costs (§ 255 (2) HGB).
Pension liabilities	Implementation of the option to measure pension liabilities in accordance with the projected unit credit method, as in IAS 19—Employee Benefits, and introduction of a market-based discount rate (§ 253 (2) HGB). Before BilMoG, measurement of pensions usually followed respective tax rules, usually applying a uniform discount rate of 6 %.
Deferred taxes	Introduction of the temporary concept, as in IAS 12—Income taxes, while retaining the option to recognise deferred tax assets, now explicitly including deferred taxes on carry forward losses (§ 274 HGB).
Financial instruments	Implementation of the requirement for financial institutions to measure financial instruments held for trading at their fair value minus a risk discount (§ 340e (3) HGB).
Payout block	Introduction of payout restrictions regarding capitalised intangible assets, net deferred tax assets and held for trading financial instruments of financial institutions (§ 268 (8) HGB).

TABLE 1: Major regulatory changes to German accounting rules by BilMoG 2009

Initially, the BilMoG was codified to transform two EU directives (2006/43/EC; 2006/46/EC) into national law, but it had an ulterior motive. The acceptance of IFRS for legal entity financial statements in several EU Member States—along with the drafting of the IFRS for SMEs—had raised concerns about a potentially wider scope of IASB rules in the near future. In this regard, German firms, professional bodies and public authorities lobbied against an implementation of the IFRS for SMEs in Europe, which was even stronger than in other European code-law countries such as France or Italy (European Commission, 2010; Quagli & Paoloni, 2012). Germany's reluctance is understandable because the IFRS for SMEs, which is conceptually similar to full IFRS[6], transfers the concept of a valuation-oriented, general-purpose financial statement to private firm accounting (Bertoni & Rosa, 2010; Fülbier & Gas-

[6] The IASB believes that concepts and pervasive principles shall not differ between the IFRS for SMEs and the full IFRS. According to the IASB, a distinct conceptual approach for SMEs "would be costly and time-consuming and ultimately futile." (IFRS for SMEs: BC97).

sen, 2010). Even though the IASB refers to contracting (stewardship) in the IFRS for SMEs, it clearly plays a subordinate role (IFRS for SMEs: Sec. 2.3.)[7].

Against this background, the Accounting Law Modernisation Act can be conceived as an attempt to strengthen the position of the German HGB (Deutscher Bundestag, 2008: Preamble A; Ernst & Seidler, 2007, 2008). The Act represents another, more difficult, balancing act between pushing German GAAP closer to valuation while protecting the contracting-based German accounting tradition from being replaced by the IFRS or the IFRS for SMEs. Intriguingly, the reformed HGB was even considered to potentially serve as a role model for modernising the European accounting directive (Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW), 2010: 11; Lehne, 2009). The notion of balancing is also included in the BilMoG preamble, which declares that the "approved and time-tested HGB should be developed further to an alternative that shall be durable and adequate relative to international standards, but more cost-efficient and more simple, while maintaining the fundamental principles of HGB: HGB financial statements shall remain the basis for profit distribution and tax accounting; HGB accounting principles shall remain unaffected" (Deutscher Bundestag, 2008: Preamble A, translated by the authors).

Prior research indicates that the German private standard setting body, the GASB, played an influential role in preparing the first draft and shifting HGB rules towards IFRS benchmarks (Froschhammer, 2013). The analysis of comment letters in the legislative procedure reveals a strong resistance, especially from preparers, against major valuation-based "symbols" such as fair value accounting or the recognition of self-made intangibles. Also auditors, academics and all other identified groups opposed, with only one exception, the domestic standard setter itself. Unsurprisingly, major arguments were grounded on the contracting-related concepts of conservatism and creditor protection. Additional cost-benefit considerations point to a strong focus on German SMEs (Froschhammer, 2013). The debate in comment letters concentrated on the specific accounting rules—several of which increased valuation (e.g., self-made intangibles), whereas a few others addressed contracting (e.g., payout blocks). Accordingly, the system-oriented dichotomy of accounting purposes, in which valuation is attributed to IFRS and contracting to HGB, was fragmented. The reformed HGB illustrates that neither countries (Germany) nor accounting systems (HGB) can be simply attributed to a homogeneous accounting role.

7 The IASB also points to the difference between general purpose and specific accounting demands: "SMEs often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities. Financial statements produced solely for those purposes are not necessarily general purpose financial statements." (IFRS for SMEs: P12). Accordingly, we understand that general-purpose financial statements are not tailored to the major contracting purposes that we refer to in this chapter.

Similarly, it is ambitious to rigorously assess the overall consequences of this balancing endeavour. In line with the previous section, we again provide examples of several contracting implications, all of which the regulator's preamble seems to indicate were unintended:

1) *Debt contracting*: The balancing of contracting and valuation is clearly evident from the introduction of legal payout blocks (§ 268 (8) HGB), which aim to compensate income effects from increased valuation by payout restrictions. However, these involve only three major BilMoG elements: deferred tax assets, self-generated intangibles and asset differences from pension netting. Other changes towards valuation, e.g., the increased volume of the production cost of inventories or the fair value measurements of banks' financial instruments held for trading, are not fully blocked and directly affect payouts. Moreover, further contracting consequences might stem from changing interpretations of fundamental accounting principles. Known in international law as the teleological approach, German legal commentaries interpret indefinite or unregulated aspects of HGB accounting and deduce solutions in light of the legally documented purpose of the entire accounting system and related principles (e.g., Leffson, 1987). Because the BilMoG was motivated by the increased importance of valuation and codified derogations from traditional principles, such as conservatism or historical cost, entire frames of reference might be altered. The regulator, however, seemed to be aware of this problem and declared that the purpose and core principles of the HGB would remain unaffected by BilMoG (Deutscher Bundestag, 2008: Preamble A).
2) *Tax contracting:* Comparable to payout blocks, several tax accounting proscriptions shall prevent consequences for tax contracting. Similarly, these are limited to only a few changes, e.g., the recognition of self-made intangibles (§ 5 (2) EStG). Others are not covered by the book-tax conformity or more importantly, have been explicitly transferred into tax accounting rules that cause direct tax base effects. A prominent example is the banks' fair value measurement of held for trading financial instruments (§ 6 (1) 2b) EStG). In that situation, unrealised profits (fair value gains) are taxed, whereas tax losses are discriminated through the lack of full tax loss compensation and restriction on tax loss carry forwards. Moreover, to strengthen valuation, the BilMoG abolished the reverse authoritative principle that had permitted the use of certain unique tax rules in HGB accounts (e.g., tax-induced impairment). Empirical findings show that for reasons of cost, many German companies, particularly SMEs, tend to prepare single financial statements that comply with both the HGB and tax accounting rules ("Einheitsbilanz"; e.g., Haller et al., 2011). Consequently, the enlarged gap between the two systems hindered the feasibility of uni-

form accounting. In addition, the gap fuelled a debate about whether book-tax conformity ought to be suspended entirely (e.g., Herzig & Briesemeister, 2009). However, it is unclear what type of tax accounting system would be suitable to replace the extant contracting- and principles-based system that evolved over a long period. One may argue that book-tax conformity has constrained tax regulators (Hanlon & Shevlin, 2005).

3) *Other contracting areas*: Another example relates to contracting in rate-regulated industries. In Germany, rate-regulated industries such as energy, telecommunications or rail transportation grids and networks rely on HGB legal entity accounts to provide a calculation base for cost compensation via firm-specific revenue caps (e.g., for electricity and gas supply regulated in §§ 21, 21a EnWG, § 6 ARegV, Part 2 StromNEV/GasNEV). The BilMoG changes in recognition and measurement rules affect the financial statement-based cost base with a direct impact on price regulation (e.g., Brüggemann et al., 2013). In this context, Pierk & Weil (2014) illustrate that regulated German firms are more likely to voluntarily adopt BilMoG rules earlier than unregulated firms to achieve higher regulated revenues.

Research on BilMoG accounting choices, including early and first-time adoption, provides further insights into the valuation and contracting demand at the single financial statement level. With respect to those HGB options that permit (but do not require) approaching IFRS benchmarks, related studies show that the vast majority of German companies, including listed companies, still use the traditional HGB treatments in their legal entity financial statements. This particularly applies to the options for recognising self-made intangible assets and deferred tax-net assets (e.g., Eierle & Wencki, 2014; Froschhammer, 2013; Keitz et al., 2011; Philipps, 2012; Theile et al., 2011). The only exception is the measurement of pensions, which generally has increased due to the introduction of more comprehensive actuarial methods and, above all, a lower market-based discount rate (Froschhammer, 2013; Gassen et al., 2011). In addition, empirical findings on the valuation benefits of BilMoG adoption remain inconclusive. Lopatta et al. (2013) find that following BilMoG adoption, German SMEs engage in less earnings management (discretionary accruals) and conclude that the reform has led to higher reporting transparency. In contrast, Zicke (2014) shows that BilMoG rules have not generally improved the accounting quality of German private firms' consolidated accounts. These findings suggest that the still unclear benefits of more valuation do not outweigh the demand for contracting in legal entity financial statements and the costs of conversion, e.g., by implementing new R&D management control systems.

In line with prior reasoning, we suppose that BilMoG's impact on contracting will trigger changes both in the legal environment and in firms' private contractual agreements. Elements that have evolved in different institutional environments, such as the common-law world, presumably require an even longer period of time to be integrated properly. Unsurprisingly, empirical cross-country studies document significant differences in the economic consequences of IFRS adoption at the firm- and country levels (e.g., Daske et al., 2008), even though valuation is the primary focus. Aside from capital markets and at the single financial statement level, the pronounced contractual demand is likely to increase these cross-country differences (e.g., Burgstahler et al., 2006; Coppens & Peek, 2005; Fülbier & Gassen, 2010; Peek et al., 2010). In addition, Nobes (2006; 2011; 2013) shows that the international accounting system classification persists even under a uniform IFRS regime, very much in line with the notion of path dependence.

2.5.4 The ambiguity of German standard setting

Whereas accounting rules are set as parliamentary law in the German code-law system, the KonTraG (1998) introduced the GASB as a supplementary domestic standard setting body. However, unlike its common-law counterparts, the GASB has no distinct standard setting competence. Apart from advising the Federal Ministry of Justice (FMJ) in matters of domestic accounting regulation and representing German interests on an international level, the GASB is limited to developing recommendations for applying principles of consolidated financial reporting. Accordingly, during its first years the GASB borrowed from particular IAS/IFRS rules to publish several German Accounting Standards (GAS), providing guidance on those accounting novelties that had accompanied the KonTraG (e.g., cash-flow statements), supplementing specific HGB-requirements (e.g., management commentary) or later interpreting IFRS. These standards, however, are not legally binding and because of their focus on group accounts, they are *de facto* irrelevant to legal entity financial statements.

Over time, the GASB established itself as an important link between the German accounting community and the IASB, as along with other international accounting bodies. However, financial support (which had been almost entirely provided by large German public firms) eroded because the board was increasingly perceived to be an extension of the IASB and to struggle with representing (heterogeneous) German interests, especially those of SMEs (e.g., Deutscher Genossenschafts- und Raiffeisenverband e.V. (DGRV), 2010; Haller, 2010). In that regard, the GASB was occasionally criticised for, e.g., supporting the IASB in developing the IFRS for SMEs (e.g., Deutscher Genossenschafts- und Raiffeisenverband e.V.

(DGRV), 2010)[8]. Eventually, the German standard setter resigned at the end of 2010 to allow a reorientation. A reformed institution was re-enacted only a year later and included two distinct bodies: a HGB committee linked to the FMJ to advise on matters of domestic accounting regulation and an IFRS committee to interact with the IASB at an international level and the European Financial Reporting Advisory Group (EFRAG) at the European level (Deutsches Rechnungslegungs Standards Committee e.V. (DRSC), 2014). Similarly, the dichotomy of the reform points to a balancing of both domestic and international interests within this institution. Even though both committees are supposed to interact, they may be subject to potential conflicts between the represented interests, especially when the IFRS committee represents Germany at an international level and interprets or adjusts the IFRS. Nobes (2006), for example, suggests that domestic standard setting bodies facilitate the existence of national versions of the IFRS and are another outcome of balancing attempts.

The rise of IFRS, the private nature of the IASB, and the foundation of a domestic counterpart have encouraged further research interests in the effect of lobbying on accounting regulation. Although lobbyism has been understood in a parliamentary context (e.g., Hoffmann & Zülch, 2014; McLeay et al., 2000), the lack of familiarity with private standard setting has promoted studies of the legitimacy of the IASB, its due process and the development of standards (e.g., Fülbier & Gassen, 2010; Königsgruber, 2010; Schmidt, 2002). Similar interest has not only occurred in other code-law countries such as France (e.g., Burlaud & Colasse, 2011) and Italy (e.g., Chiapello & Medjad, 2009) but also has concerned the European Parliament. Initiated by Germany and other code-law parliamentary countries, the EU raised concerns about the governance and accountability of the IASB and criticised both fair value measurement and several aspects of the IFRS for SMEs. Moreover, the EU recommends a wider stakeholder approach to reflect a more contracting-based understanding of accounting (EU Parliament, 2008). Even though the IFRS must be endorsed to be formally accepted by the EU, the critical view of private standard setting has persisted. In particular, recurring criticism has taken place in the debate on the IFRS for SMEs, arising out of the question of why the IASB, financed by and recruited by the Big Four auditors, large public companies and securities regulators (e.g., Brown, 2004; Chiapello & Medjad, 2009), should be qualified to develop unbiased and efficient standards for the private-firm sector (Fülbier & Gassen, 2010).

[8] This also adds to the more general notion that SMEs feel neglected by the government (Brodbeck & Frese, 2007).

2.6 Conclusion

Financial accounting plays a distinct role in the firm governance system and has evolved in a specific institutional setting to meet the contractual demands of different stakeholders. Although a change in institutional patterns has always triggered an evolutionary adjustment of accounting practices and regulation, we argue that the ongoing process of accounting internationalisation represents a more radical change. Driven by the interest in foreign equity-outsider markets after the Cold War, global players from credit-insider economies voluntarily adopted non-local GAAP from the Anglo-American world and triggered multiple regulatory responses. These responses have again changed the institutional setting and had an impact on the contracting system.

To support our argument and to substantiate the interplay of accounting as both a contractual device and a country-specific institution, we provide an in-depth case study of a single country: Germany. Here, we put the more recent phenomenon of accounting internationalisation into historical-institutional perspective and illustrate how accounting internationalisation has triggered balancing acts between a path-dependent preservation of the traditional contracting role and a moderate move towards valuation-based benchmarks. We demonstrate that German accounting has evolved over centuries in its specific code-law setting, resulting in several major contracting consequences that are legally and collectively tied to single financial statements. We also show how institutional variations and changing firm behaviour since the 1980s—and especially since the 1990s—induced regulatory action in Germany and Europe. The first regulations (in the late 1990s) reflected German regulators' cautious attempt to balance the valuation demand against the dominant contracting role of German HGB accounting through a *de facto* deregulation of public firms' group accounting. Eventually, the historical link between a country (Germany) and its accounting system (HGB) and the polarity between "traditional" German HGB and valuation-based systems (IFRS and US GAAP) have eroded, both within one country and even within one reporting entity. In any event, HGB single financial statements as a core area of contracting have remained unaffected. However, in contrast to the (desired) German exemption rule for a few cross-country-listed global players, EU Regulation 1606/2002 and subsequent German developments (especially BilMoG 2009) varied in their scope and impact. The EU regulation has stipulated an IFRS group accounting requirement for all public firms, including those that had not voluntarily adopted IFRS or US GAAP before (approximately 50 %). Beyond that, the BilMoG touched the core area of contracting and brought valuation-based accounting elements to the single financial statement level for all German companies. We elaborate on several contracting implications of these steps and presume that the continuing IFRS (valuation) impact will most likely trigger private and (perhaps later) legal adjustments in the German institutional setting. These processes will take more time because of the persistent institutional characteristics of the German credit-insider economy. Institutional persistency and the related notion of path-dependent processes cast doubt on the idea that accounting systems will globally converge to a uniform accounting and contracting system. However, future research is necessary to increase our understanding of the impact of IFRS on contracting in the code-law area and related changes and frictions in the historically developed institutional setting and evolutionary balancing processes.

Chapter 3

Inside the Black Box of IASB Standard Setting: Evidence from Board Meeting Audio Playbacks on the Amendment of IAS 19 (2011)‡

Good morning! Good morning!
Welcome to another riveting day of standard setting.

—Sir David Tweedie

IASB meeting of 18 February 2010
on the amendment of IAS 19–Employee Benefits

‡ A paper version of chapter 3 is available as Klein & Fülbier (2015). Earlier drafts have benefitted from the comments of Rachel Baskerville, Marcus Bravidor, Ulf Brüggemann, Joachim Gassen, Christoph Pelger, Thorsten Sellhorn, Brian Singleton-Green and delegates at the 2014 10th Workshop on European Financial Reporting in Regensburg, Germany, the 76th annual conference of the VHB in Leipzig, Germany, the 37th EAA annual congress in Tallinn, Estonia, the 50th BAFA annual conference in London, UK and the 2011 doctoral workshop *Current Topics in Accounting Research* in Wuppertal, Germany. We thank Sebastian Früh, Benita Kasch and Barbara Palutzki for their assistance.

3.1 Introduction

Private standard setting is a distinct characteristic of major Anglo-American accounting systems, including UK, US and Australian GAAP and others. Similarly, the globally dominant International Financial Reporting Standards (IFRS) are developed by a private standard setting body, the London-based International Accounting Standards Board (IASB), through a formal process of public consultation (due process). Private accounting standard setting is generally understood as a political process determined by self-interested parties that aim to shape accounting rules to suit their individual demands (Sutton, 1984; Watts, 1977; Watts & Zimmerman, 1978, 1986; Zeff, 2002, 2008). In this regard, a large body of literature has focused on the politics of accounting rule-making by examining the impact of constituents' lobbying activities through written submissions (e.g., comment letters) on accounting standards. Including respective corporate-level determinants, individual incentives for undertaking political activities have also been taken into account (e.g., Allen et al., 2014; Kosi & Reither, 2014). Empirical findings suggest that private accounting standard setters are responsive to constituents' preferences but do not necessarily follow them in all respects (Gipper et al., 2013; Walker & Robinson, 1993). Dissenting opinions, as disclosed in an IFRS basis for conclusions (BC), for instance, further point to contradictory views of IASB members and the heterogeneity of the board. The latter may be amplified by the diverse professional and geographical background of its members. Given the focus of most lobbyism studies, a recent strand of the empirical literature has added to our understanding of the standard setting process by examining the association between board members' personal characteristics and properties of accounting standards (Allen & Ramanna, 2013; Günther & Witzky, 2013; Jiang et al., 2014).

Nonetheless, there is little empirical research on the standard setting process from an internal perspective. Three aspects are of particular interest. First, we know little about the exact ways in which exogenous input (e.g., comment letters, input from outreach or research activities, etc.) affects the board. The complexity of (different) interests and information brought to the board suggests that its members must rely on summaries and analyses prepared by technical staff (Walker & Robinson, 1993). Therefore, as a gatekeeper of exogenous input, staff is likely to play a key role in filtering and processing information for decision makers (similarly, Botzem, 2012). Having said that, accounting standard setting is most likely subject to an even more complex interplay within the organisation, i.e., between board and staff members. Second, although publicly available due process documents reasonably explain board proposals and decisions, they necessarily fall short of portraying the entire dynamics of the related board decision-making process, which particularly applies to ideas or concepts that arise within board discussions but are not pursued further. Moreover, there is scarce empirical evidence on the role of arguments in board debates. Given that setting standards implies that board members debate possible treatments of an accounting problem, we would expect any observation of the internal process to reveal the reasons behind the agreed-upon solution to that problem. On a continuum, the justification might be entirely political or conceptual but might also stem from the ideological positions or fundamental worldviews of the standard setter (Kalt & Zupan, 1984; Laughlin & Puxty, 1983). In addition, argumentation and justification are likely to relate to board members' professional and geographical backgrounds. This notion points to the third aspect of interest: little is known about the individual contribution of board members to the decision-making process (e.g., Morley, 2014) and, in particular, whether some IASB members influence the due process more than others or whether there are fundamental differences in the way they argue. Insights into board-internal communications and decision making contributes to our understanding of accounting standard setting by providing information about what was taken into account in board meetings and by whom.

To shed light on the aforementioned internal aspects of IASB standard setting, we conduct a content analysis of one definite area of standard setting activity, i.e., 14 audio recordings of board meetings on the drafting of IAS 19 *Employee Benefits* (2011) with duration of 16:45:51 (hh:mm:ss). Our sample covers all IASB meetings that took place after the release of the discussion paper (DP) entitled *Preliminary Views on Amendments to IAS 19 Employee Benefits* (March 2008) up to the publication of the exposure draft (ED) 2010/3 titled *Defined Benefit Plans – Proposed amendments to IAS 19* (April 2010). We choose the amendment of IAS 19 (2011) for two reasons. First, the project was placed on the active agenda in July 2006, which corresponds to IASB meeting audio playbacks becoming publicly available from the beginning of 2006 onward. We focus on the drafting phase (DP to ED) because we aim to observe board-internal discussions and argumentation under consideration of constituents' comment letter feedback. In the prior DP compilation, the board collected possible solutions without being selective, whereas after the ED, prior decisions were largely confirmed. Second, the abolition of the deferred recognition of actuarial gains or losses, the rearranged allocation of pension cost components to profit or loss (P&L) and other comprehensive income (OCI) and the increase in disclosure requirements remarkably changed the preceding accounting model and touched on fundamental concepts involving recognition, measurement and disclosure. Here, we expect conceptual justification, research findings and, (perhaps controversial) individual experiences or beliefs to have a considerable impact on board discussions.

We also assume sufficient political influence due to the significant role of pension accounting for numerous companies worldwide.

We identify a set of 205 categories, including a total of 1,993 codings, which we arrange into four main categories: 1) *project elements*—to denote any project characteristics, standard elements and proposals discussed in the sample meetings; 2) *arguments*—to reflect reasons that were brought forth in discussing and justifying project elements; 3) *references*—to link statements to information sources if explicitly revealed; and 4) *governance*—to identify organisational aspects of the IASB meetings. At the project element level, we first expose the chronology of IASB discussions and (tentative) decisions and illustrate the respective impact of individual board members. We further examine the relation between arguments and individual project elements to identify the most relevant arguments. These were largely conceptual. Regarding references, we show that agenda papers were the dominant source of board information. Findings on governance point to the prominent role of the chairman in leading the board meetings and technical staff acting as important intermediaries between constituents and the board. Finally, we describe general observations on board-staff relations, language and the board's discussion culture.

This chapter makes several contributions to the literature. First, we add to the literature on the politics of standard setting by providing qualitative evidence on board meeting discussions that form an integral part of the IASB due process. As we, *inter alia*, address the role of arguments in the amendment of IAS 19, we also add to the literature on the properties of accounting standard setting. Finally, we contribute to the understanding of the board meeting structure and individual roles in the IASB decision-making process. Accordingly, standard setting not only may be subject to exogenous input and internal reasoning but also may be shaped by characteristics of the diverse group, its professional members and the embeddedness of the board in its organisational structure.

The remainder of this chapter is organised as follows. In the next section, we review the related literature. Section 3.3 briefly illustrates the regulatory background of the 2011 amendment of IAS 19. Section 3.4 describes data collection, the content analysis design and our category set. Section 3.5 contains the main results. The final section of this chapter provides our conclusions and suggestions for future research.

3.2 Literature review

3.2.1 Private IASB standard setting

IASB accounting standard setting has been investigated from different perspectives. One strand of literature explores the history of the standard setting body. Camfferman & Zeff (2007) investigate the evolution of the International Accounting Standards Committee (IASC), the predecessor to the IASB, from its foundation in 1973 through 2000 (i.e., when the IASC became the IASB). Based on interviews with individuals involved, the authors elaborate on the development and the evolution of the organisation as well as on the political and economic forces that have influenced its work. To document the increasing maturity and quality of IASC standard setting, the historical analysis also involves the evolution of major accounting standards. However, Camfferman & Zeff (2007) do not explicitly expose the board-internal standard setting process. Moreover, their results may reflect a more Anglo-American perspective (Botzem & Quack, 2009). Further historical studies focus on the IASC and the IASB (e.g., Botzem, 2012; Zeff, 2002) and emphasise their relationship with national accounting standard setters (e.g., Kirsch, 2012) or the political dimension and legitimacy of IFRS standard setting (e.g., Bengtsson, 2011; Burlaud & Colasse, 2011; Danjou & Walton, 2012; Richardson & Eberlein, 2011; Schmidt, 2002), among other topics.

A second strand of literature follows the perception of private accounting standard setting as a political process that is subject to constituents' self-interest (Watts, 1977; Watts & Zimmerman, 1978, 1986). This view of the positive accounting theory and respective cost-benefit models (Sutton, 1984) is anchored in political economics (Downs, 1957) and the interrelated economic capture theory (Posner, 1974; Stigler, 1971). Investigating accounting standard setting in the US and UK, Sutton (1984) and Gaa (1988) conclude that lobbying pays off for (large) preparers and auditors. In contrast to users, the latter are more involved in accounting standard setting, accordingly, whereas academic participation does not play a significant role (Larson et al., 2011). From a methodological perspective, most studies in the national context (e.g., McLeay et al., 2000; Ndubizu et al., 1993; Saemann, 1999) assess the success of constituents' lobbying activities by examining the association between written submissions and accounting standards. Thus, comment letters regularly serve as a major input variable and proxy for overall lobbying (Georgiou, 2004; Gipper et al., 2013; Walker & Robinson, 1994; Zeff, 2008). With respect to the IFRS, a large body of research explores constituents' participation, activities and success in the IASB due process. Some of these focus on single IASB standard setting projects that affect specific constituents and point to their individual incentives for lobbying (Giner & Arce, 2012 on IFRS 2; Cortese & Irvine, 2010, Cortese et al., 2010 on IFRS 6; Dobler & Knospe, 2013 on IAS 19; Kosi & Reither, 2014 on IFRS 4), whereas others explore multiple projects or follow a multi-issue/multi-period approach (Dobler & Knospe, 2014; Georgiou, 2010; Hansen, 2011, Jorissen et al., 2012, 2012; Jorissen et al., 2006; Larson & Herz, 2013; Orens et al., 2011; Zeff, 2002).

Other studies include further determinants, such as the constituents' financial contribution to the IFRS Foundation (e.g., Hansen, 2011) or the professional and geographical background of individual IASB members (e.g., Fülbier & Gassen, 2010). With respect to US GAAP, Allen & Ramanna (2013) find that certain political and professional characteristics (tenure and auditing or financial services background) of FASB members affect the reliability and relevance of proposed standards. Günther & Witzky (2013) provide evidence on the impact of IASB members' professional and cultural backgrounds on the importance of principles orientation and fair value measurement in IFRS. Jiang et al. (2014) examine the determinants of FASB members' dissenting opinions between 1973 and 2007 and suggest that professional backgrounds, personality traits and career concerns affect voting decisions. In addition, Bradbury & Harrison (2015) find that FASB dissenting opinions are grounded in a series of both conceptual and non-conceptual arguments, many that are not contained in the US *Conceptual Framework*.

Qualitative studies that utilise content analyses of IASB documents, minutes and staff papers, or interviews with staff and board members, complement the picture. Pelger (2013), Erb & Pelger (2015) and Pelger & Spieß (2014) reflect upon the IASB's decision processes on stewardship, on reliability—both in terms of the *Conceptual Framework* project—and upon the role of the IASB *Agenda Consultation* 2011/12 in constructing legitimacy. Morley (2014) elaborates upon how cultural and structural characteristics of the board affected the IASB *Liabilities* project that was put on hold in 2010. Hjelström (2005) provides a comprehensive case study on the revision of IAS 12 *Income Taxes* as of 1996.

From the internal perspective, several aspects of private accounting standard setting have not yet been explored in great detail. First, little is known about the ways in which exogenous input (e.g., comment letters, input from outreach or research activities) affects the opinion and decision making of the board. Walker & Robinson (1993) highlight the pivotal role of staff summaries and analyses. Against the backdrop that board members typically rely on staff documents to cope with the complexity of (different) interests and information, staff are likely to play a gatekeeper role by filtering and processing information for the decision-making board (similarly, Botzem, 2012). Analysing the use of verbal frequency quantifiers, Hoffmann (2014) finds that staff summaries are highly subjective and may therefore mediate between views of the constituents and of the IASB. Taken together, standard setting is likely to be subject to an even more complex interplay between board members and staff. Second, although publicly available IASB documents reflect board proposals and decisions, they typically fail to portray the entire dynamics of the decision-making processes, particularly with regard to ideas and concepts that do not survive due process milestones, which also applies to any other factors that affect board discussions and decisions. Some studies suggest that standard setters' fundamental beliefs or worldviews exert a substantial influence (Kalt & Zupan, 1984; Laughlin & Puxty, 1983) that might either contrast or complement a purely political or conceptual justification. Bradbury & Harrison (2015) show that FASB dissenting opinions are grounded in a series of arguments that extend far beyond merely referring to the US *Conceptual Framework*. Third, there is still limited knowledge as to whether and how individual board members affect IASB opinion and decision making. This notion also applies to individual argumentation and ultimately highlights the question of whether individual behaviour relates to a board member's professional or geographical background. Notably, Hodges & Mellett (2010) acknowledge that social interactions within an accounting standard setting body are too complex to rigorously assess their impact on accounting rules. Consistent with research findings about standard setting in general (David & Greenstein, 1990, with an overview), they intentionally model the accounting rule-making process as a "black box" and focus exclusively on input-output relationships (similarly, Cortese & Irvine, 2010).

Few studies directly relate to the amendment of IAS 19 *Employee Benefits* in 2011. Demaria et al. (2012) investigate all 227 comment letters on the ED to identify the aspects of recognition that were of greatest practical concern. Dobler & Knospe (2013) further include comment letters on the DP and conduct a comprehensive lobbying study on constituents' participation, content and success in terms of the framework developed by Sutton (1984). There are further lobbying studies on pension accounting in the US GAAP context (Francis, 1987; Ndubizu et al., 1993; Saemann, 1995, 1999, 1999). Larson & Street (2011) and Holtzblatt et al. (2012) posit that IASB web- and podcasts are useful teaching resources but do not characterise them as potential objects of accounting research.

3.2.2 Pension accounting and IAS 19

Prior research on pension accounting has covered technical aspects, the evolution of accounting models and respective standards, accounting choices and economic consequences in different institutional settings and jurisdictions (Glaum, 2009 for an overview). Because we use the context of IAS 19 (2011) to exemplify internal aspects of IASB standard setting, we abstain from portraying the entire literature on pension accounting. Instead, we limit our review to more recent studies that refer to IAS 19 in light of its previous accounting model (see 3.3) and add to an understanding of why it has been revised.

For unfunded pension plans, Amen (2007) examines the long-term accounting effects of actuarial gains and losses be either immediately recognised in equity (the equity approach) or deferred in P&L (the corridor approach). He finds that accumulated actuarial gains and losses do not offset one another in the long run, on average. In a sample of 265 listed European companies, Fasshauer et al. (2008) observe that, as of 2005, the majority applied the corridor approach and a large block of UK and Irish companies applied the equity approach, whereas only a few presented actuarial gains and losses in P&L. The findings are similar for STOXX Europe 600 companies (Morais, 2008). Because of the lack of comparability that arose from the different methods of recognition, Fasshauer et al. and, similarly, Amen recommended the abolition of the corridor approach. Stadler (2010) explores the determinants of pension accounting choice for 163 German listed firms (1998–2008). He finds that German firms with actuarial losses that exceed the corridor are more likely to switch to the option of recognising actuarial gains and losses outside P&L (equity approach). The findings suggest that this option is strategically chosen to avoid the negative effect of the corridor excess on P&L.

Two studies relate to the 2011 amendment of IAS 19 and its due process. Demaria et al. (2012) classify 227 responses to the ED of April 2010 with respect to the core questions on recognition. Whereas constituents supported the immediate recognition of remeasurements, they largely opposed the proposed net interest approach that had been brought forth by Stephen Cooper in February 2009 (see 3.5.2.2). Based on Sutton (1984), Dobler & Knospe (2013) conduct a comprehensive lobbying study and analyse all 377 comment letters on the DP and ED in terms of constituents' participation and content. The authors illustrate that lobbying intensity and the degree of agreement differ across interest groups; however, they also find a consistent pattern of opposition to major disclosure requirements. Moreover, the authors document lobbying success to be positively related to the level of agreement expressed in comment letters but find no clear impact for the intensity of comments. The latter may be interpreted to mean that board members are more likely to rely on summary feedbacks of constituents' views rather than individual statements. Accordingly, Dobler & Knospe (2013) suggest that how information is conveyed within the standard setting body should be further explored.

3.2.3 Group decision making and communication

Group communication, interaction and decisions have been analysed from different research perspectives by organisational science, sociology, psychology and communication science;

however, there is no integrative theoretical framework (Berdahl & Henry, 2005). Organisational and social psychology research shows that group decisions are mainly affected by attributes of the group and the context in which it is embedded (e.g., Bales, 1950, 1953; Bettenhausen, 1991; Davis, 1969; Hare, 1976; Turner, 2001 for an overview). The respective determinants include a group's size and composition as well as the heterogeneity (also the diversity) of group members, decision rules and behavioural patterns. The bigger a group is, the less that single group members believe that their contribution is material. Thus, the level of individual participation is inversely related to group size (Bettenhausen, 1991; Olson, 1971). By contrast, group composition and heterogeneity seem to increase the individual motivation to participate (Castore & Murnighan, 1978; Collins, 1970; Deutsch, 1968). In the IASB context, moreover, heterogeneity may influence individual board member behaviour. Board members are selected from different geographical and professional backgrounds to provide a (desired) level of heterogeneity (IFRS Foundation, 2013a: 25–27). Although they are required to act independently and to serve the public (user) interests—grounded in the *Conceptual Framework*—they most likely would also represent their region of origin or share their professional experiences as auditors, preparers, (national) regulators or academics.

Participation, group consensus and individual satisfaction also depend on decision rules. The more pronounced the majority rule, the more group members endeavour to argue, empathise with and convince others (Castore & Murnighan, 1978; Green & Taber, 1980; Mohammed & Ringseis, 2001). The IASB has a supermajority rule of ten out 16 members (IFRS Foundation, 2013b)[9], which appears to be consistent with precedent. Additional factors, involving social behaviour, may further affect the IASB decision process and may include the role of an (informal and, unfortunately, often not observable) pre-discussion agreement among group members (concordance), relative goal alignment, cohesion and intragroup conflict behaviour (Bettenhausen, 1991; Castore & Murnighan, 1978; Van de Vliert & Janssen, 2001). Because female and male group members appear to differ in their willingness to lead and to expedite group decisions, gender may also be an issue (Bettenhausen, 1991; Ertac & Gurdal, 2012). Further determinants stem from the IASB's international and multicultural character. The latter has been found to affect group performance differently. A negative impact on organisational effectiveness, i.e., difficulties involving reaching consensus and developing group cohesion (Fenelon & Megargee, 1971; Ruhe & Allen, 1977; Ruhe & Eatman, 1977), has been shown to be accompanied by greater innovation, creativity and higher quality solutions (Ruhe & Eatman, 1977; Watson & Kumar, 1992; Watson et al., 1993).

[9] In 2009, the IASB had only 14 board members. Accordingly, the supermajority rule at that time was nine out of 14 (IASC Foundation, 2006).

The group context contributes to our understanding of the IASB decision process. Organisational studies find that group processes depend on the organisational environment of a group (e.g., Keyton, 2011; Raheja, 2005). In particular, a group interacts with its ambient organisation and respective staff. Thus, IASB group decisions are affected not only by the IFRS Foundation—which provides the board's organisational and financial environment—but also by its staff, which provides technical support and professional expertise (e.g., Bradshaw, 2002; Bradshaw et al., 1992 on board-staff relations in general). Every IASB standard setting project is supervised by a technical manager who participates in board meetings, provides expertise, documents decisions and acts as a link between board members and technical staff. Hence, board members and staff form an extended group in which staff members have no formal decision rights but are involved in opinion making with respect to the board.

Another strand of literature from the communication sciences examines the group communication process and its determinants. Group communication is associated with group decision making and is therefore closely connected to group attributes and context (Fisher & Ellis, 1990; Stasser & Titus, 1985). Notably, group discussions tend to perpetuate rather than alter group members' pre-discussion preferences and choices (e.g., Moon et al., 2003; Sawyer et al., 2006). Communicative style and command of language may further affect decision processes. Diverse groups can experience significant communication problems (e.g., Aritz & Walker, 2009; Jehn et al., 1997; Maznevski, 1994). Language barriers for non-native speakers may weaken their positions and decrease their motivation to participate in the discussion. With respect to international accounting, the perception and interpretation of accounting concepts may differ, even between individuals who speak the same language. These differences increase when translation is involved (Baskerville & Evans, 2011; Evans et al., 2012).

3.3 Regulatory context: Amendment of IAS 19 (2011)

IAS 19 *Employee Benefits* constitutes accounting requirements for employee benefits, including short- and long-term benefits, post-employment benefits (PEB) and termination benefits. The standard was originally issued in February 1998 and has been amended several times since then—most recently in November 2013 to clarify accounting for employee contributions (effective 1 January 2014). In September 2014, accounting for new pension plan designs was put on the IASB research agenda.

Our paper is dedicated to the historical and the most substantial amendment to IAS 19 (thus far) that was carried out between 2006 and 2011 to reform the recognition, presentation and disclosure of post-employment benefits or, more precisely, defined benefit obligations

(DBO). The respective version of the standard, which we refer to as IAS 19 (2011) throughout the paper, was issued on 16 June 2011 and became effective beginning on 1 January 2013 (earlier application permitted).

When reforming IAS 19 was put on the active IASB agenda in July 2006, the board outlined that the need for reframing pension accounting was ultimately motivated by both users' and preparers' concerns about the lack of transparency and comprehensibility of the existing accounting model. Before 2011, IAS 19 constituted three different options to account for actuarial gains and losses: the immediate recognition in P&L, the deferred recognition of actuarial gains or losses that exceed the greater of 10 % of the pension obligation and 10 % of plan assets (corridor approach), and the immediate recognition outside P&L (equity approach; introduced in 2004). In particular, constituents criticised the lack of comparability between these options, the misstatement of financial position in case of the deferred recognition of actuarial gains and losses, and shortcomings in the definition of benefit promises (DP.IN3). In the March 2008 DP, titled *Preliminary Views on Amendments to IAS 19 Employee Benefits* (open for comments until September 2008), the board clarified the definition of post-employment benefits (DP.PV6–8) and proposed recognising all changes in the fair value of plan assets and the DBO in the period in which they occur (DP.PV2–4)—in other words, to abolish the corridor approach. By contrast, the presentation of pension costs was brought forward for a general debate. The DP suggested three alternative approaches: one that allowed all cost components to be recognised in P&L and two that split components between P&L and OCI. Accordingly, disaggregation and presentation of pension costs was heatedly debated in the respective IASB meetings.

The April 2010 ED 2010/3 entitled *Defined Benefit Plans – Proposed amendments to IAS 19* (open for comments until September 2010) specified pension recognition and presentation. While having retained immediate recognition of actuarial gains and losses, the ED commenced the separation of pension costs into a service and finance component, which were shown in P&L, and a remeasurement component, which was presented in OCI. Moreover, the ED extended the disclosure requirements regarding the characteristics and risks of defined benefit plans. Taken together, IAS 19 (2011) incorporated three major changes to pension accounting: the abolition of the corridor approach, the disaggregation of pension cost into service cost, finance cost and remeasurements (the first two to be presented in P&L and the latter in OCI) and more comprehensive disclosure requirements.

3.4 Content analysis design

3.4.1 Data collection and preparation

Our enquiry into accounting standard setting internals is premised on a content analysis of IASB meeting audio playbacks. MP3-audio recordings of board meetings, which are accompanied by further content such as Q&A webcasts and podcast summaries,[10] are publicly available since 2006 from the IFRS Foundation's website for completed and ongoing standard setting projects. Whereas the latter are prepared to complement written information (e.g., high-level summaries, comment letter submissions, and press releases), IASB meeting audio playbacks are unedited recordings of IASB meetings and echo board debates and tentative decisions, accordingly.

Data were collected in two steps. First, we downloaded the recordings of all 21 IASB meetings that took place after the end of the DP comment period (November 2008) until the release of the amended standard (June 2011) from the PEB project section of the IFRS website (duration of 29:27:01). As presented in TABLE 2, 14 board meetings relate to the due process phase between DP and ED (16:45:51)[11] and seven meetings to the phase between ED and the amended standard (13:30:13). Second, we prepared transcripts for all 21 IASB meeting audio playbacks in their original language, i.e., English[12].

For the content analysis, we limit our sample to the 14 board meetings between DP and ED (16:45:51). We do not include meetings prior to the release of the DP because we aim to observe board discussions under explicit consideration of constituents' comment letter feedback. In compiling the DP, the IASB collected and presented different approaches without being selective, whereas, in the post-ED phase prior (tentative) decisions and ED proposals

[10] The availability of IASB meeting audio playbacks grounds in the due process core principle of transparency as formulated in the IFRS Foundation's *Due Process Handbook* (IASC Foundation, 2006; IFRS Foundation, 2013b). Accordingly, meetings of the IASB or the Interpretations Committee are generally open to the public (outside observers are either allowed to attend meetings in person or via a live-webcast after registering online). Moreover, all meetings are recorded and provided online (IFRS Foundation, 2013b: 3.2). As of November 2013, the IFRS Foundation website contains approximately 800 hours (33 days) of IASB meeting audio playbacks.

[11] The period further involves a meeting of six IASB members and the Analyst Representatives Group (later renamed into Capital Markets Advisory Committee) on 24 February 2010 (0:51:04). Although a recording is available, we are unable to transcribe it due to poor audio quality.

[12] We follow the basic transcription principles of Mergenthaler & Stinson (1992). Accordingly, we maintain syntactical errors, eye dialect, interruptions and duplication of phrases, but smooth out hesitation vowels for the purpose of readability. We mark incomprehensible and unarticulated phrases with square brackets. For parsimony, we abstain from indicating linguistic style (e.g., pitch, intonation, accentuation) in our transcripts, but mark nonverbal communication (e.g., laughter). Any statement is marked with a time label [h:mm:ss] and a speaker label (initials). Because speakers are not formally introduced, we identify them by the use of first names throughout all meetings. We fail to identify two members of the technical staff (U1 and U2) who appear on only a limited number of occasions.

were largely confirmed[13]. Accordingly, we do not include board meetings between the ED and the amended standard in our sample but resort to the respective transcripts to track major decisions that were made within the sample period.

TABLE 2
IASB meetings on the amendment of IAS 19 (2011)

Phase	Date (dd/mm/yyyy)	Duration (h:mm:ss)
Before DP *(not included)*	various	13:30:13
DP to ED	19/11/2008	0:34:27
	23/01/2009[a]	1:36:06
		0:40:04
	17/02/2009	1:59:24
	18/03/2009[a, b]	1:11:41
		1:16:31
	22/04/2009	0:52:14
	19/05/2009	1:06:05
	21/07/2009	1:33:04
	22/07/2009	0:06:08
	15/09/2009	0:14:49
	22/10/2009	1:13:37
	17/11/2009	1:07:18
	18/12/2009	1:05:27
	21/01/2010	1:32:20
	18/02/2010	0:36:36
Sample period: DP to ED	**n_1 = 14**	**16:45:51**
ED to standard	16/09/2010	1:12:38
	20/10/2010	2:42:18
	16/11/2010[a]	1:31:33
		1:08:22
	13/12/2010	1:42:59
	21/01/2011	1:40:27
	02/02/2011	1:13:10
	16/02/2011	1:29:43
ED to standard *(not included)*	n_2 = 7	12:41:00
Total	N = 21	29:27:01

TABLE 2 displays date and duration of 21 audio playbacks of IASB meetings on the amendment of IAS 19 (2011) between November 2008 and February 2011, arranged by due process phases. The DP to ED-phase includes 14 IASB meetings that took place after the end of the DP comment period until release of the ED (16:45:51, sample period). The ED to standard-phase covers seven board meetings that were held after the end of the ED comment period until release of the amended standard (12:41:00). No meetings took place during the comment periods. Our content analysis is limited to the DP to ED-phase (sample period) and does not embrace board meetings prior to the DP and after the ED. Throughout the paper we use the British date format dd/mm/yyyy.

[a] Meeting audio playback provided in two MP3-files.
[b] Original duration of the recording is 1:41:21. The meeting closes with a coffee break of 0:29:40 that was accidentally recorded (not included).

TABLE 3 presents all sample meeting attendees arranged by board members (Panel A), technical staff (Panel B) and senior staff (Panel C).

[13] Agenda Paper 5B (November 2011) illustrates that nearly all major ED proposals were confirmed by the board in the post-ED phase.

TABLE 3

Participants of the sample IASB meetings on the amendment of IAS 19 (2011)

Panel A: Board members

Initials	Name	Origin	Period of service	Previous employer	Native speaker
DT	Sir David Tweedie (Chairman)	UK	01/2001–06/2011	UK Accounting Standards Board	Yes
TJ	Thomas E Jones (Vice-Chairman)	USA	01/2001–06/2009	Citigroup	Yes
MB	Mary E Barth	USA	01/2001–06/2009	Stanford University	Yes
SC	Stephen Cooper	UK	08/2007–	UBS	Yes
PD	Philippe Danjou	France	11/2006–	Autorité des Marchés Financiers	No
JE	Jan Engström	Sweden	05/2004–	Volvo	No
PF	Patrick Finnegan	USA	07/2009–	CFA Institute	Yes
RG	Robert P Garnett	South Africa	01/2001–06/2010	Anglo American Corp.	Yes
GG	Gilbert Gelard	France	01/2001–06/2010	KPMG	No
PK	Prabhakar Kalavacherla	India	01/2009–	KPMG	Yes
JL	James J Leisenring	USA	01/2001–06/2010	FASB	Yes
PMC	Patricia McConnell	USA	07/2009–06/2014	Bear Stearns & Co.	Yes
WMG	Warren McGregor	Australia	01/2001–06/2011	Australian Accounting Research Foundation	Yes
AG	Amaro Luiz de Oliveira Gomes	Brazil	07/2009–	Central Bank of Brazil	No
JS	John T Smith	USA	09/2002–06/2012	Deloitte	Yes
TY	Tatsumi Yamada	Japan	01/2001–06/2011	PricewaterhouseCoopers (affiliate)	No
WZ	Wei-Guo Zhang	China	07/2007–	China Securities Regulatory Commission	No

Panel B: Technical staff

Initials	Name	Position
AMG	Anne McGeachin	Senior Project Manager
MK	Manuel Kapsis	Assistant Technical Manager
AP	Andrea Pryde	Technical Principal
U1	Unknown 1	–
U2	Unknown 2	–

(Continued)

TABLE 3—*Continued*

Participants of the sample IASB meetings on the amendment of IAS 19 (2011)

Panel C: Senior staff

Initials	**Name**	**Position**
PC	Peter Clark	Director of Research
GF	Gavin Francis	Director of Capital Markets
WU	Wayne Upton	Director of International Activities

TABLE 3 displays the 25 participants of the 14 sample IASB meetings on the amendment of IAS 19 (2011) between November 2008 and February 2010 (DP to ED). Attendees are arranged by board members (Panel A), technical staff (Panel B) and senior staff (Panel C). Origin, service period and previous employer of board members were adopted from Botzem (2012) and Deloitte (2015). We consider an IASB member a native speaker if English is national or official language in his or her country of origin. Information on the positions of technical and senior staff members was collected from the IFRS Foundation website.

We further collect all observer notes on the 14 sample board meetings. These papers are prepared by technical staff and provided to board members prior to a meeting (IFRS Foundation, 2013b). They contain staff recommendations, executive summaries and illustrative examples. We include them in our analysis to illustrate staff proposals and supplement discussions that are not self-explanatory using attendees' statements (e.g., regarding numerical examples) or the progress of meetings.

3.4.2 Content analysis and inductive coding

Content analysis is a research method that aims to structure and describe the content of communication by means of abstraction and simplification (Berelson, 1952; Dey, 1993; Flick, 2014; Holsti, 1969; Krippendorff, 2004; Mayring, 2010; Neuendorf, 2012).Whereas content analysis may imply purely quantitative analyses (e.g., word counts), due to its mainly interpretative and contextualising character, it is generally considered a qualitative approach. The basic methodical idea of content analysis is to abstract from the original complexity of communication by arranging pieces of the same or similar meaning into definite categories. The outcome is a more accessible category (or, synonymously, code) framework that groups related observations and that may be interpreted on its own, allowing for inferences to be drawn that extend beyond the original data (e.g., Elo & Kyngäs, 2008; Krippendorff, 2004). Accordingly, the definition and assignment of codes—ultimately guided by the researcher's analytical aim—are methodical core issues in content analysis. Data categorisation (or, coding) may be performed in two different but not mutually exclusive ways. First, codes may be *ex ante* deduced from related theoretical considerations, comparable observations or extant evidence and then assigned to the data at hand (deductive content analysis). In that regard, deductive coding allows for the identification and re-search of established concepts in a novel data context. Second, codes may be directly processed from the material itself (inductive content analysis). The inductive approach is grounded in gradually identifying, refining and validating categories that seem most salient with respect to the researcher's purpose of analysis. Inductive content analysis thus aims at the most naturalistic description of the communication at hand (Mayring, 2010).

Because there is no prior study that applies content analysis to IASB meeting recordings comprehensively (to the best of our knowledge), we consider inductive content analysis the most promising approach to start with. Methodically, inductive content analysis involves an open coding process (Glaser & Strauss, 1967; Strauss & Corbin, 1990). Accordingly, we jointly read through the transcript data and assigned preliminary categories to board and staff members' individual statements (or parts of them). In a second round, categories were refined by clustering codes of similar meaning and dropping redundant ones, which resulted in a final set of 205 categories. Consistent with our research interest in the aforementioned internal aspects of IASB standard setting, we arranged them by four main categories:

1) *Project elements:* The first main category involves any project characteristics, standard elements and proposals that were discussed in the sample of IASB meetings. Subcategories relate to scope and timing of the project, definitional issues (e.g., contribution-based promises), recognition, measurement and presentation of pensions, disclosures and several quick-fix issues.
2) *Arguments:* The second main category reflects arguments that were brought forward in discussing and justifying project elements. We classify these into three subgroups. First, we identify conceptual arguments that were commonly used in different contexts, e.g., usefulness. Second, we cluster specialised arguments that were closely tied to individual project elements. Finally, we identify arguments of consistency that point to any related IAS/IFRS or to ongoing projects that were taken into account while drafting the amendments to IAS 19 (2011).
3) *References:* Our third main category links individual statements to information sources whenever they were explicitly revealed by participants (e.g., citing comment letters).
4) *Governance:* The last main category codes data that relate to any technical and organisational matters in our sample meetings. The respective subcategories reflect board votes and voting results, internal policies and requests for input on unresolved issues.

APPENDIX A provides a detailed breakdown of the category set, including category definitions and further explanations. Inductive coding yields 1,993 codings in total. As we address different aspects of board meetings, individual statements may be coded with more than one category.

3.5 Results

3.5.1 Summary descriptive statistics

To illustrate the main categories' relative importance and, in general, the relationship between categories and board and staff members, TABLE 4 displays the distribution of all 1,993 codings across the 25 sample board meeting participants. Of 1,993 codings, 1,173 (58.9 %) pertain to project elements, 481 (24.1 %) to arguments, 215 (10.8 %) to governance aspects and 124 (6.2 %) to references. Among project elements, disclosure (308, 26.3 %) and presentation (264, 22.5 %) account for nearly half of the related codings (1,173). Arguments (481) that

TABLE 4
Distribution of codings across the sample IASB meeting participants

	IASB																	Technical staff					Senior staff	Total
Main categories	DT	TJ	MB	SC	PD	JE	PF	RG	GG	PK	JL	PMC	WMG	AG	JS	TY	WZ	AMG	MK	AP	U1	U2		
Panel A: Project elements	*146*	*2*	*54*	*134*	*54*	*32*	*38*	*59*	*7*	*28*	*161*	*14*	*29*	*3*	*19*	*54*	*17*	*128*	*29*	*102*	*22*	*2*	*39*	**(1,173)**
Project scope	3		1	2	4	1		4			3		3		1			1		5			1	29
Project time table	7			2	7	2		1							1	3		1	1	14			5	44
+ Definitions	2		4	6	3	1	2	7	1		11	1		1		5		6		11				61
+ Recognition	12		13	12	5	2	5	3		2	19	3	2		2	8	1	17	4	13			3	126
+ Measurement	15		6	17	4	10	1	7	2	1	12	1	5	1	4	2	3	7	4	4			3	109
+ Presentation	38	2	15	50	5	6	2	11	1	9	30	4	4		4	21	3	24		23			12	264
+ Disclosure	40		6	33	19	6	27	13	2	6	42	5	11	1	2	5	6	33	1	13	22	2	13	308
+ Quick-fix issues	10		7	8	3	2		4		4	19				2	5	1	16	14	4				99
Transitional requirements	4			1	2	1		1		1	3					1			4	3			1	22
+ (ED) IFRIC 14	11		1	2				5	1	4	13		2		1	3	1	22	1	11			1	79
+ Side issues	4		1	1	2	1	1	3		1	9		2		2	1	2	1		1				32
Panel B: Arguments	*33*		*20*	*77*	*24*	*20*	*26*	*34*	*4*	*11*	*64*	*9*	*14*	*1*	*13*	*15*	*9*	*42*	*16*	*16*	*10*	*5*	*18*	**(481)**
+ Conceptual	14		6	43	11	6	19	18	3	3	26	2	5	1	6	8	7	17	10	6	3	3	6	223
+ Specialised	10		2	20	7	11	5	11		5	21	6	4		4	1		6	2	1	2	2	5	125
+ Consistency	9		12	14	6	3	2	5	1	3	17	1	5		3	6	2	19	4	9	5		7	133
Panel C: References	*15*	*2*	*2*	*4*	*2*	*7*		*5*	*2*	*2*	*7*	*1*	*2*	*1*			*4*	*19*	*18*	*18*	*6*	*4*	*3*	**(124)**
Staff proposal	12			1	1	3				1			1				1	8	15	12	3	2		60
Comment letters				2		1				1	2		1					10	2	6	3			28
Constituents, examples	3			1	1	3		5	2		2	1		1			3	1	1				1	25
FASB			1								3													4
Public demand		2																						2
Accounting principles																							2	2
Institutions																						2		2
Academic opinion			1																					1
Panel D: Governance	*87*		*7*	*4*	*2*	*1*	*2*	*10*		*1*	*5*		*8*		*6*	*5*	*1*	*18*	*13*	*36*	*5*	*2*	*2*	**(215)**
Staff presentation																		5	12	19	3	2		41
+ Board voting	63			1	1			2					4		1			5		8				85
+ Further development	23		4	3	1		2	8		1	5		4		5	1	1	8	1	6	2		2	77
+ Internal policies	1		3			1										1				3				9
Dissenting opinion																3								3
Total	**281**	**4**	**83**	**219**	**82**	**60**	**66**	**108**	**13**	**42**	**237**	**24**	**53**	**5**	**38**	**74**	**31**	**207**	**76**	**172**	**43**	**13**	**62**	**(1,993)**
Rank (top five)	1			3							2							4		5				
Participant	DT	TJ	MB	SC	PD	JE	PF	RG	GG	PK	JL	PMC	WMG	AG	JS	TY	WZ	AMG	MK	AP	U1	U2	Sen.	**Total**
Native speaker	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	No							

TABLE 4 illustrates the distribution of all 1,993 codings—arranged by the four main categories (Panel A–D) including their first level subcategories—across 17 IASB members, the five members of technical staff and the three senior staff members (aggregated). "+" denotes second level categories with further (untabulated) subcategories. We provide subtotals per main category in parentheses and, for each panel (main category), subtotals per participant in italics.

were put forth in the meeting discussions are mainly conceptual (223, 46.4 %). The remaining codings are almost evenly attributed to specialised (125) and consistency arguments (133). Participants' references (124) largely include staff members having referred either to their own proposals (60, 48.4 %) or to comment letters (28, 22.6 %), whereas IASB members argued mainly with reference to particular constituents or examples (25, 20.2 %); however, compared with the other main categories, references played a subordinate role. Finally, board meeting governance (215) primarily related to calling for and taking votes (85, 39.5 %), requesting further input on unresolved issues (77, 35.8 %) and staff presentation (41, 19.1 %).

Regarding individuals, we observe codings to be unevenly distributed across the IASB meeting participants, ranging from a minimum of 4 (TJ[14]) to a maximum of 281 (DT) with an average of 86.6 codings per person. The distribution suggests that board meeting attendees, and particularly IASB members, engaged in heterogeneous ways in the sample IASB meetings. In the sections below, we illustrate our findings per main category in more detail.

3.5.2 Project elements: content level

3.5.2.1 Chronology of IASB discussions and decisions

To contextualise the sequence of board discussions on the amendment of IAS 19 (DP to ED), TABLE 5 illustrates the distribution of all 1,173 codings of the project element main category across the 14 sample IASB meetings. Complementarily, APPENDIX B summarises the tentative board decisions on focal project elements.

The first meeting on 19 November 2008 was organised to present a comment letter summary on the DP and constituents' views but did not lead to any formal decisions. Constituents were mainly concerned that the suggested definition of contribution-based promises was too broad[15]. In that regard, RG commented that extensively addressing the boundaries of contribution-based promises may endanger the timely completion of the project and suggested limiting the project scope to presentation (19/11/08, [0:09:55])[16]. The remainder of the first

[14] TJ (vice chairman) retired at the end of June 2009 and took part in only six of the 14 sample board meetings only. The board member with the least number of codings that served over the entire sample period was GG (13).

[15] The category of contribution-based promises was introduced in the DP to capture pension arrangements to which the previous requirements of IAS 19 had been difficult to apply. In that regard, the previous distinction between post-employment benefit plans and defined contribution plans was meant to be deleted (DP.PV8). According to DP.PV6–7 a contribution-based promise is a post-employment benefit promise, in which the benefit can be expressed as the accumulation of actual or notional contributions or any promised return on the same. By contrast, defined benefit promises are post-employment benefit promises that are not contribution-based.

[16] Throughout the paper, references to sample IASB meeting audio playbacks are indicated by date, speaker and time label. The suffix "cont" denotes the second part of meeting recordings that were provided in two separate files (January and March 2009, see TABLE 2).

TABLE 5
Distribution of project element codings across the sample IASB meetings

	IASB meeting date														
Project elements	19/11/2008	23/01/2009	17/02/2009	18/03/2009	22/04/2009	19/05/2009	21/07/2009	22/07/2009	15/09/2009	22/10/2009	17/11/2009	18/12/2009	21/01/2010	18/02/2010	**Total**
Project scope	3	26													**(29)**
Project time table	4	20	9	3			5				1		1	1	**(44)**
Definitions															**(61)**
Contribution-based promises	13	4													17
Remeasurements			17	9							1	17			44
Recognition															**(126)**
Recognition (general)	2			1											3
Immediate recognition	1			1	6						4				12
Interrelation with measurement		6	1		1										8
All changes in P&L		18	10	2					1		6	3	1	1	42
All changes in OCI												4			4
Maintain old OCI-option as fall-back		2	1												3
Split changes among P&L and OCI											7	4		2	13
+ Allocation of administration cost				3	32		2								37
Recognise unvested service cost with plan amendment					4										4
Measurement															**(109)**
Measurement (general)		1													1
Cross country-interest rate spread		1	2		9										12
Corporate and government bond rate		1	2				21			35					59
Risk-free rate			3							3					6
Expected return on assets	1	4	19	1							1	5			31

(Continued)

TABLE 5—*Continued*
Distribution of project element codings across the sample IASB meetings

Project elements	19/11/2008	23/01/2009	17/02/2009	18/03/2009	22/04/2009	19/05/2009	21/07/2009	22/07/2009	15/09/2009	22/10/2009	17/11/2009	18/12/2009	21/01/2010	18/02/2010	Total
	IASB meeting date														
Presentation															**(264)**
Presentation (general)	8	8	1	13											30
Net interest approach			42	4							17	12		2	77
Net expense only												1			1
Separation of remeasurements		11	5	4							1				21
Separation of interest cost			6												6
+ Income statement layout		11	15	33					2		5	1		1	68
+ Disaggregation	5	16	13	25	1							1			61
Disclosure															**(308)**
Disclosure (general)		2	4			4	4					1	35	5	55
Guidance on materiality and disaggregation						8									8
Actuarial assumptions			1			10	2					1	2		16
Mortality rates and longevity						9	5					1	6	3	24
+ Alternative measures						8	26				23				57
Curtailments and settlements						5									5
Best estimate of future contributions							5								5
Fair value of plan assets						7								6	13
Multiemployer plans						3									3
+ Plan risks						32	22					4	18	5	81
Breakdown of demographic and financial assumptions							1						6		7
Severance package													8		8
Reconciliation														15	15
Significant changes in service cost														8	8
Review disclosure requirements												2	1		3

(Continued)

TABLE 5—*Continued*
Distribution of project element codings across the sample IASB meetings

	IASB meeting date														
Project elements	19/11/2008	23/01/2009	17/02/2009	18/03/2009	22/04/2009	19/05/2009	21/07/2009	22/07/2009	15/09/2009	22/10/2009	17/11/2009	18/12/2009	21/01/2010	18/02/2010	**Total**
Quick-fix issues (+)		17	3	76			3								**(99)**
Transitional requirements							13	9							**(22)**
ED) IFRIC 14 (+)		41								31			7		**(79)**
Side issues (+)	6								12		7	7			**(32)**
Total	**43**	**189**	**154**	**175**	**53**	**86**	**109**	**9**	**15**	**69**	**73**	**64**	**85**	**49**	**(1,173)**

TABLE 5 illustrates the distribution of 1,173 codings of the main category project elements, across the 14 sample IASB meetings between November 2008 and February 2010 (DP to ED). "+" denotes categories with further (untabulated) subcategories. Subtotals per second level categories are provided in parentheses.

meeting dealt with the interrelatedness of pension presentation and the *Financial Statement Presentation*-project (FSP). In January 2009, the board continued its deliberations on project scope and schedule. In light of contribution-based promises being a "key risk"[17], the board decided to address this category with a future revision of the standard (second phase) and to limit the project scope to the recognition, presentation and disclosure of pensions (first phase). Because it was deemed useful in the DP comment letters, it was decided that all changes in the DBO and plan assets should be separated into an employment, a financing and a remeasurement component. At DT's suggestion, the board agreed to separate remeasurements on the face of the income statement, whereas employment and financing components may be presented either in the income statement or in the notes. In February 2009, the IASB picked up on defining the remeasurement component and continued its deliberations on the presentation of pension costs. It was tentatively decided that remeasurements should include the total return on plan assets and actuarial gains and losses from the DBO, but should exclude service and interest cost. Regarding presentation, SC suggested to determine interest cost based on the net funding position of a pension scheme and to allocate any other changes to the remeasurement component. Because it was unclear which rate could be used to appropriately measure an interest accretion on the net position, some board members were sceptical but proposed to take account of SC's net interest approach as an alternative presentation format. The March 2009 meeting covered two areas. First, the IASB reaffirmed its original decision to disaggregate pension changes into service cost, interest cost and remeasurements and decided to separate these components on the face of the income statement. In addition, remeasurements should be presented net of tax. Second, board members voted on several quick-fix issues, i.e., definite matters that were identified by staff to be addressed expeditiously beforehand (see APPENDIX A, Panel A)

In the next meetings, board and staff gradually worked through the internal agenda: in April 2009, the board confirmed its original decision to recognise all changes in the value of plan assets and the DBO in the period in which they occur (abolition of the corridor approach) and agreed upon the allocation of the plan administration costs. The board meetings of May 2009, July 2009, and January and February 2010 were devoted to pension disclosures, particularly regarding their alignment with IFRS 4 *Insurance Contracts*, and with regard to plan risks, IFRS 7 *Financial Instruments: Disclosures*. In July 2009, staff suggested revising the requirements on the discount rate for post-employment benefits in another side project. Fol-

[17] AP stated: "The key risk is probably around the contribution based from section because there would be-- It's not even clear to us now how much work would need to be done to get that to a workable standard." 23/01/09, AP [0:02:20].

lowing feedback from outreach efforts to the International Actuaries Association (IAA), the board proposed removing the requirement to use a government bond rate in cases in which there is no deep market in high-quality corporate bonds (IAS 19.78). In August 2009, the limited amendment ED/2009/19 *Discount Rate for Employee Benefits* was issued with a 30-day comment period. Due to massive resistance in the comment letters, in October 2009, the IASB decided to drop the proposed amendment and return to the original requirement. Further discussions involved proposed amendments to IFRIC 14 as set forth in ED/2009/3 *Prepayments of a Minimum Funding Requirement* and accounting for termination benefits. The meeting of November 2009 substantially changed the previous approach to presenting pension costs. In light of concurrent board decisions on OCI presentation in the *Financial Instruments* and FSP project, staff suggested to either relocate remeasurements to the non-recyclable OCI section in a single statement of comprehensive income[18] or to continue presenting pension costs in P&L. In favour of unambiguous treatment, the former was proposed in the ED (ED.119A) and retained in the amended standard. In December 2009, the IASB finalised the definition of remeasurements. The meetings in January and February 2010 addressed pension disclosures.

3.5.2.2 Individual participation and group formation

TABLE 4, Panel A suggests that, at the participant level, IASB members were inclined to focus on particular key issues (project elements) and to promote specific accounting concepts. To highlight the relation of individual board members and project elements, TABLE 6 breaks down how the highest (disclosure) and second-highest (presentation) ranked project element subcategories pertain to the top three (according to their rank order) IASB participants, JL, DT and SC.

First, we observe that, in January 2009, DT strongly advocated that remeasurements be shown separately from other pension costs on the face of the income statement (DT, [1:22:33]), which was later agreed upon by the board.

[18] The staff proposal to relocate remeasurements was contingent on concurrent deliberations regarding the presentation of OCI in phase B of the *Financial Statement Presentation* project (jointly with the FASB). In the October 2008 DP titled *Preliminary Views on Financial Statement Presentation*, the IASB had proposed requiring comprehensive income and its components to be presented in a single statement of comprehensive income only (DP.3.24), i.e., to remove the previous option for a dual statement of profit or loss and other comprehensive income. The single-statement approach had been retained in ED/2010/5, although the statement was relabeled as *Statement of profit or loss and other comprehensive income* (ED.81). Because the FASB ultimately decided not to require a single statement of comprehensive income, the IASB maintained the previous option to present a separate statement of profit or loss (IASB, 2011).

TABLE 6
Focal project elements of DT, SC and JL

	DT	SC	JL
Presentation	*38*	*50*	*30*
Presentation (general)	5	9	1
Net interest approach	4	22	5
Net expense only			
Separation of remeasurements	5	1	2
Separation of interest cost	5		
Income statement layout			
Layout (general)	3		3
Net of tax presentation	4	1	12
One item	4	1	2
Two items	2	3	
Three items	5	1	
Postpone	1		
Disaggregation of pension costs			
Disaggregation (general)		6	3
Trias: Employment, financing, remeasurements			
Permit disaggregation of remeasurements		1	
Prohibit disaggregation of actual return on plan assets		5	1
+ Location			1
Disclosure	*40*	*33*	*42*
Disclosure (general)	9	3	5
Guidance on materiality and disaggregation	2	2	
Actuarial assumptions	1	2	2
Mortality rates and longevity	7	5	1
Alternative measure			
Accumulated benefit obligation	7	4	6
Vested benefit obligation	1		1
Buyout liability		5	1
Curtailments and settlements			
Best estimate of future contributions	2		
Fair value of plan assets		1	1
Multiemployer plans			1
Plan risks			
Plan risks (general)	2	1	5
Funding risk		1	3
Credit risk			1
Focus on net risk		3	1
Sensitivity analysis	2	3	5
Stress testing, scenario analysis		1	
Liquidity analysis		1	
Breakdown of demographic and financial assumptions			
Severance package	1		5
Reconciliation	4	1	2
Significant changes in service cost	1		2
Review disclosure requirements	1		

(Continued)

TABLE 6—*Continued*
Focal project elements of DT, SC and JL

TABLE 6 illustrates the distribution of a subset of 233 codings of the project element subcategories "Presentation" and "Disclosure"—including their first and second branch subcategories—across the IASB members DT, SC and JL. "+" denotes a category with further (untabulated) subcategories. Subtotals per board member for "Presentation" and "Disclosure" are provided in italics.

Regarding the disclosure of actuarial assumptions, DT emphasised that information on mortality rates was very useful (May 2009):

> "I'm going to live for 19. John's going live for another four. In France because egalitarian society everybody lives 23 years, man and woman. (…) Now if you had a mining industry and they say everyone's going to live for 40 years after they retired at 65, you know, that's just nonsense. You'd really want to know-- I think it's probably the most important piece of information. Now it may be difficult but I think we should do it." 19/05/09, DT [0:12:31].

In this respect, DT objected to the staff recommendation to require disclosure of the process of determining key actuarial assumptions instead of specifying them[19]. DT was strongly supported by PK and by SC, who argued that merely describing the process would lead to boilerplate (SC [0:14:07]). By contrast, PC, RG, JL and JE argued that detailed mortality disclosures were not useful—particularly, if provided by multinational companies— and WMG suggested framing a question in the ED as to whether constituents would feel the need to have additional disclosure on mortality rates. Eventually, the board agreed that the staff recommendation would be included in the ED (ED.125G(b)). Because constituents affirmed the boilerplate argument, it was withdrawn from the final standard. Instead, IAS 19.144 mandates disclosure of significant actuarial assumptions, including mortality rates.

A major example of an individual board member's belief in one accounting concept is the net interest presentation approach that was proposed by SC in February 2009. In the context of debating the arbitrariness of the expected return on plan assets, SC suggested measuring the interest accretion on the net surplus or deficit of the pension plan and to put the remaining changes into remeasurements. In response to the following discussion on an appropriate discount rate, SC indicated that he would either use the same rate as for the liability (corporate bond rate) or, in the event of a surplus, consider a risk-free rate (SC, [0:36:14] and [1:03:49]). SC emphasised the practicability and particular information content of the net interest concept as follows:

[19] U1 explains that, although many constituents had also asked that the disclosure of mortality rates be required, the staff followed the recommendation of the Employee Benefits Working Group to inform constituents of the process involved in identifying those assumptions that are significant to the individual plan (19/05/09, U1 [0:11:17].

> "Suppose you have two companies: One with the entirely unfunded pension plan, the other one with the funded; same liability but funded. If you go down the route of having the interest accretion on the gross liability in the interest line, and the full asset return down below in remeasurement, then these two companies, one of which funded, one unfunded, would appear to be the same above the remeasurement line. They will both have a service cost, both have the gross interest expense. That profit before remeasurement, I don't think it's going to be very useful in that case because there's a vast difference between a company that has a completely unfunded pension plan and the one that's fully funded. By doing it, by looking at the interest accretion on the net amount, you successfully differentiate between those two companies at the remeasurement line. (…) If you have fully-funded scheme, asset-liability matching, that's going to be small. If' it's an unfunded scheme and you're not hedging the interest rate exposure, it could be large. (…) But I feel that the actual profit before remeasurement and the remeasurement line will both have important information content." 17/02/09, SC [1:03:49].

SC noted that his approach was inspired by a DP proposal for imputing interest income on plan assets based on corporate bond yields[20], although this notion found little support in the comment letters. In the board debate regarding this major issue, participants' formed three groups that espoused the following views:

- **Supportive:** JS supported SC's proposal in principle but underlined that he would like to get further (presumably external) input on its relative usefulness (JS, [0:38:25]). Similarly, JE strongly supported the concept, which he believed was "a rather elegant model" and "a viable solution moving this forward" (JE, [0:40:36]), which he later reaffirmed (JE, [1:28:35]). PC admitted that he had not liked the approach at first but began to consider it worth exploring over the course of the discussion. In his opinion, the suggested artificial disaggregation resembled separating out an embedded derivative. However, he was concerned that "if we go on through this process, splitting artificially into different components, we need to make sure that the users would understand what's going on there." (PC, [1:01:27]).
- **Neutral:** Consistent with the supporters, MB considered the net interest approach worth exploring but was concerned about which discount rate to apply to the net position (MB, [0:54:30]). AP took up her point and argued that, although "Stephen's method works fine in terms of concept", deciding on an appropriate discount rate would touch pension meas-

[20] The DP suggested three different approaches for presenting pension costs (DP.3.10–16). Among these, the third approach (presentation of interest cost on DBO and plan assets in profit or loss) proposed three different methods of imputing interest income to plan assets: 1) maintaining the expected return on plan assets; 2) using dividends received on equity plan assets and interest earned on debt plan assets; and 3) using market yields on high quality corporate bonds (DP.3.29). Accordingly, SC noted: "(…) this method is effectively in the discussion paper, except it is characterized as use of an expected return on the full amount of the assets, but just at the corporate bond rate. Mathematically, it gives you the same answer. My campaign to have the description, the discussion paper, consistent with what I've just been describing which is the net approach. And it is in there, in fact isn't it, it's just not quite that visible." 17/02/09, SC [1:03:49].

urement (AP, [0:56:57]), which the board had previously decided to exclude from the project scope.

- **Opposing:** WU noted that the board was "trying to compress a lot of stuff into a display issue" (WU, [0:58:33]). Moreover, WU argued that the net interest presentation was not consistent with common principles of pension accounting and, if implemented, display of pensions would completely differ from their measurement (WU, [1:00:27]). JL stated that he was not convinced that a net measure was even the right way to look at pensions:

  > "What bothers me more than now than anything else about it, now that I see it as that, is the focus on the net. Because I don't think we've reached the conclusion that that's the proper focus. My bothers coming in to any pension things is, I wanna start with the fact that I have an obligation and I like to measure that liability like any other liability. That fact that I choose to fund it, or regulator makes me fund it is coincidental, [] perhaps in many respects, or just something for tax driven or whatever reason that I did it. But I'm not so sure I even want to embrace net." 17/02/09, JL [1:17:39].

  Similarly, GG noted that he generally felt uneasy about netting positions on the asset and liability side that are measured differently. Continuing the discussion on net presentation would thus most likely not produce viable results (GG, [1:25:01]).

In the course of the debate, MB brought up a different interpretation of net interest presentation, i.e., to net interest income on plan assets based on expected return and interest expense on the liability using the corporate bond rate (MB, [1:12:47]), although it was not consistent with SC's concept. In his clarification towards MB, SC indirectly pointed to another advantage of the net interest approach using a single rate—the coherence of the interest effect and the funding status of a pension plan[21]:

> "But the point is at the moment, one of the real difficulties is that you have the interest accretion on the liability at the AA-rate and you have expected returns on the assets, so they're much on a higher rate. So even with the fund-- something which is fully funded, you're putting a net credit in the income statement equal to the spread between those two rates. That net credit in my mind is not value adding, because although it represents an expected future gain from the investment and equity, it's equally offset by the risk that you take on from adopting that asset allocation strategy. And I think that's one of the most confusing parts of the current pensions accounting system." 17/02/09, SC [1:21:12].

As no further decisions on presentation were made in February 2009, SC brought up his concept on several later occasions. In the board debate on the disaggregation of pension costs, he outlined the usefulness of the net interest approach once more:

[21] This argument, among others, was later used in the ED to conceptually justify the net interest approach. BC.30 reads: "Thus a reporting entity recognises interest income when the plan has a surplus, and interest cost when the plan has a deficit".

> "In terms of the disaggregation of the return, my preference which we expressed last time would be to calculate an interest accretion on the net pension funds that was what I've said. Now I recognised that we measure the asset and liability differently so that we have conceptual problems in that area and we discussed that last time, but I still maintain that that would be the most useful approach. My second approach would be to stick with what we have now, which is the expected return on the plan assets. I disagree that that is a meaningless disaggregation is what-- it's some sort of return that you'd hope for that you didn't achieve." 18/03/09, SC [0:56:25].

Similarly, in November 2009, SC strongly advocated his personal preference based on a two-fold argument of comparability. At that time, the staff had previously proposed relocating remeasurements to OCI:

> "My issue has more to do with the interest line, the fact that the interest proposed to be calculated along the gross liability and I saw but that created enormous difficulties when we came to comparing companies with funded and unfunded schemes (…) The other aspect I don't especially like at the moment is the expected return on the assets, not because I believe that is conceptually wrong, I just feel that we have the problem of different companies making different estimates so that we can have the spread of estimates for their switch produces an element of lack of comparability. Okay, we disclose but making adjustments is quite difficult. My preferred solution would be to do what I suggested in the first place which is to calculate the interest amount on the net surplus or deficit (…)". 17/11/09, SC [0:06:35].

In the recurring debate, we observe similar factions as those revealed in February 2009. Whereas JE strongly supported SC's concept once again (e.g., JE [0:39:36]), RG had the board consider that they would be choosing "another arbitrary number instead of the expected return"—although he was sympathetic to the approach in general (RG [0:42:12]). In conclusion, JS suggested continuing the discussion on the basis of an illustrative staff paper (JS, [0:48:47]), which was brought forward by AP in December 2009. Intriguingly, the staff recommended maintaining the requirement to recognise an expected return on plan assets (AP, [0:32:20]). In response, PMC emphasised that analysts understood managements' overoptimistic assumptions for expected returns a major problem of current pension accounting and that the staff recommendation would not bring any improvement (PMC, [0:33:23]). RG repeated his original concern that the net interest approach was arbitrary but admitted that it would indeed facilitate comparability. In variation of the concept, however, he suggested recognising net interest expenses for a plan in deficit only because net interest income (i.e., on a plan surplus) would have no informational benefit (RG, [0:35:41]). Once again, JL strongly objected to the net interest concept because it was based on hypothetical calculations (JL, [0:38:19]) but also rejected the staff recommendation because, in his eyes, it brought no improvement (JL, [0:49:36]). By contrast, he suggested recognising any changes in both the liability and plan assets other than service cost in OCI (JL, [0:38:19]), which was supported by

PF because "it defuses the emotional aspects of this discussion" (PF, [0:41:58]). TY agreed with the net interest concept being hypothetical and reaffirmed his view that pension costs should collectively be presented in P&L (TY, [0:43:47]). As previously argued, JE strongly supported SC's net interest approach, which he considered "[e]asy to understand, very, very straightforward" (JE, [0:41:00]). In defence of his approach, SC argued that net interest income was not arbitrary but did indeed have economic meaning. Moreover, putting interest cost in OCI "would be a step backwards in terms of transparency of financial reporting" (SC, [0:50:06]). When DT took the final vote in December 2009, the presentation of a net interest component based on the corporate bond rate was tentatively accepted by a majority of 13 board members (DT, [1:02:29]) and incorporated in the ED, accordingly (ED.119A–C).

Moreover, SC also suggested extending the net perspective to disclosures. When the board debated the sensitivity analyses of plan risks in May 2009, SC raised concerns about the proposed requirements separately focusing on the plan assets and pension liability, whereas in a fully funded plan, these risks might be offset. Accordingly, he noted that he "would like to see a greater emphasis on the impact on the net position rather than the two components" (SC, [0:34:30]), which was further supported by PF in July 2009 (PF, [0:45:23]). AMG, however, countered that a sensitivity analysis on the net was too complex to prepare (AMG, [0:36:49]). Similarly, GG argued that providing sensitivity information on the asset and liability side was much clearer (GG, [0:40:42]). In the February 2010 agenda paper, the staff decided to propose an option, i.e., to disclose the impact of changes in actuarial assumptions on either the DBO or the net defined asset or liability. For reasons involving complexity, the ED ultimately abstained from the idea of a net sensitivity analysis (BC.64).

Our third example relates to the net of tax presentation of the remeasurement component. Having preceded the board's decision to separate remeasurements on the face of the income statement, the January 2009 staff paper had illustrated a sample display format that showed remeasurements net of tax subsequent to after-tax profit.[22] JL expressed his opposition to the proposal clearly:

> "We agreed we're gonna show that separate on the face, but I don't know how to do it, okay? So, now, having decided, I don't know how to do it, I certainly didn't agree that I'd do a net of tax which I will object to. I don't know why this is anymore net of tax than any other lines net of tax. So, that's absolutely I didn't think I agree with you. I wouldn't agree to that." 23/01/09 (cont), JL [0:03:20].

[22] In November 2009, AMG explained that the rationale for presenting remeasurements net of tax was "that entities could if they wish draw a subtotal that was profits after tax but before pension remeasurements" (AMG, [0:23:27]).

Following the board decision to explore ways of prominently presenting the remeasurement component, staff illustrated five different presentation formats in their March 2009 Agenda Paper 8a. Whereas three of those formats showed remeasurements before tax, two formats presented them net of tax. With regard to the latter, JL repeatedly stressed that netting remeasurements was nothing but an arbitrary calculation (e.g., JL, [0:35:50]). When TJ argued that "almost the whole world wants the net of tax" and that the board would go against what everybody wanted if it did not go that way (18/03/09 cont, TJ [0:11:29]), JL replied: "Oh, let's just hire Louis Harris and let him just set accounts" (JL, [0:11:49])[23]. In the vote of March 2009, a majority of eight board members nonetheless supported presenting remeasurements net of tax. When staff suggested moving the remeasurement component to OCI in November 2009, it maintained showing them net of tax, which was once again strictly opposed by JL at the very beginning of the meeting (JL, [0:04:03]). He was backed by TY, who expressed concern about some items being recognised before tax and others not being recognised (TY, [0:12:33]). Intriguingly, the ED abstained from requiring remeasurements to be presented net of tax. Because the matter was no longer discussed in any of the remaining board meetings, it is unclear why this was so, however. It seems likely that the approach was simply straightened out because IAS 1.91 (effective 2009) already contained an option for net-of-tax presentation of OCI items[24].

A final example is TY's belief that any changes in the DBO and plan assets should be recognised in P&L and presented as one line item (e.g., 23/01/09, TY [1:30:57]). TY clung to this notion even after related board discussions had already moved forward considerably, such as regarding the disaggregation of pension costs (March 2009) or the relocation of remeasurements to OCI (November 2009). Overall, TY's arguments seem to have received little attention, and he was eventually the only board member to formally dissent in the last meeting of February 2010. His reasoning was officially set out in ED.AV1-9.

3.5.3 Role of arguments

In this section, we highlight how argumentation affected board meeting decisions. We group arguments into three categories: conceptual arguments used in multiple contexts, specialised arguments closely tied to particular project elements and arguments regarding consistency with other IASB projects or IAS/IFRS. First, TABLE 7 breaks down TABLE 4, Panel B and displays the distribution of arguments across the meeting participants. The distribution sug-

[23] JL was presumably referring to the American pollster and public opinion analyst Louis Harris.
[24] According to IAS 1.91, OCI components may be presented either net of tax or before tax, disclosing the aggregate amount of tax related to these items.

TABLE 7
Distribution of argument codings across the sample IASB meeting participants

Arguments	IASB																Technical staff					Senior staff	Total
	DT	TJ	MB	SC	PD	JE	PF	RG	GG	PK	JL	PMC	WMG	AG	JS	TY	WZ	AMG	MK	AP	U1	U2		
Conceptual	*14*		*6*	*43*	*11*	*6*	*19*	*18*	*3*	*3*	*26*	*2*	*5*	*1*	*6*	*8*	*7*	*17*	*10*	*6*	*3*	*3*	*6*	**(223)**
Usefulness	3			6	2	1	3	3		1	4	2	2		1	1	2		2	1	1	1	2	38
Arbitrariness			1			1	3	4		2	7		1		2			3	1	1			1	27
Comparability	2			10				3	1		1			1			1	1	3					23
General understanding	1		1	2		1					3						2	1		3				14
Materiality			2	5	3		1	1			2							2					1	17
Cost-benefit relation	1			1	3		3	1			1				1				2		1	2		16
Complexity and difficulty	1			3			2		1		1				1		1	3	1				1	15
Information overload	2			1	1	1	3	3			1		1		1									14
Practicability	1		1	1		2	1	2								1		3	1				1	14
Importance	2			1	1		3	1			1													9
Observability			1	1	1						4									1				8
Cohesiveness				3					1							2	1	1						8
Transparency				5																				5
Definition, wording													1			2		2			1			6
Mismatch				2							1													3
Recycling																2		1						3
Forecasting				2																				2
Reliability	1																							1
Specialised	*10*		*2*	*20*	*7*	*11*	*5*	*11*		*5*	*21*	*6*	*4*		*4*	*1*		*6*	*2*	*1*	*2*	*2*	*5*	**(125)**
External resistance	4				1	2				1	4				4			1						17
Touches measurement				1		3					2		1					1	1		1		1	11
Lack of causal relation	1						1				6												1	9
Information content				6		1		1		1														9
Confusion				1	1			2			1								1			1	1	8
Contains redundancies					1			1			4									1				7
Pro-forma reporting	1			4	1		1																	7
No improvement			2			1		1				1												5
Coherence	2			1			1					1												5
Cross-country heterogene-ity	1				2		1					1												5
Boiler plate				2				1		1			1											5
Prejudgement of future decisions						1						1									1	1		4
Hypothetical								1			1					1								3
Relates to presentation				1	1	1																		3
Overoptimistic assump-tions				2								1												3
Induces volatility	1						1											1						3
Supplements presentation												1						1					1	3
Behavioural impact								2										1						3
No cross-reference to uncompleted document											1												1	2
Placement (FS, MC)										2														2
Need for agreement						1		1																2

(Continued)

TABLE 7—*Continued*
Distribution of argument codings across the sample IASB meeting participants

Arguments	IASB																	Technical staff					Senior staff	Total
	DT	TJ	MB	SC	PD	JE	PF	RG	GG	PK	JL	PMC	WMG	AG	JS	TY	WZ	AMG	MK	AP	U1	U2		
Specialised																								
(…)																								
Habit						1		1																2
Coercion													2											2
Compensation of inadequacies				1							1													2
Lack of discipline											1													1
Indicator of flexibility				1																				1
Unintended consequences																		1						1
Consistency	*9*		*12*	*14*	*6*	*3*	*2*	*5*	*1*	*3*	*17*	*1*	*5*		*3*	*6*	*2*	*19*	*4*	*9*	*5*		*7*	**(133)**
Internal consistency				4			1			1	2		2			1		1					3	15
FSP	3		7	4	2	1		2	1		3	1	2			4	1	6		8				45
FVM	1		1	1	1						3							2	3		1		2	15
Emission rights				1																				1
Annual Improvements	1					1		1															1	4
IAS 1	1		3		1			1					1							1			1	9
IAS 24																	1							1
IAS 37	1			1	1			1			5							1						10
IFRS 2										1														1
IFRS 4																					2			2
IFRS 7				2			1				1							7			2			13
IFRS for SMEs											1													1
UK-GAAP				1																				1
US-GAAP	2		1		1	1				1	2				3	1		2	1					15
Total	**33**		**20**	**77**	**24**	**20**	**26**	**34**	**4**	**11**	**64**	**9**	**14**	**1**	**13**	**15**	**9**	**42**	**16**	**16**	**10**	**5**	**18**	**(481)**
Rank (top five)	5			1				4			2							3						
Participant	DT	TJ	MB	SC	PD	JE	PF	RG	GG	PK	JL	PMC	WMG	AG	JS	TY	WZ	AMG	MK	AP	U1	U2	Sen.	**Total**
Native speaker	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	No							

TABLE 7 illustrates the distribution of 481 codings of the main category arguments—including subcategories—across 17 IASB members, the five members of technical staff and the three senior staff members (aggregated). We provide subtotals for conceptual, specialised and consistency arguments in parentheses and, for these subcategories, subtotals per meeting participant in italics.

-gests that argumentation largely followed the individual participation on project elements. Across meeting participants and the top contributors, accordingly, conceptual arguments played the largest role (223; 46.4 %), followed by specialised arguments (125; 26.0 %) and arguments of consistency (133; 27.6 %).

Second, as the main analysis in this section, TABLE 8 displays the distribution of code relations between arguments and the project element-main categories[25]. Of all 498 codings, 237 (47.6 %) pertain to conceptual arguments, 135 (27.1 %) to specialised arguments and 83 (25.3 %) to consistency arguments, which, in rank order, corresponds to the previous findings. Among conceptual arguments, usefulness (40) and arbitrariness (31) are the most and second-most common arguments, whereas among specialised arguments, external resistance (19) and the interrelation with pension measurement (11) are most and second-most common. Finally, among consistency arguments, the relationship to the FSP project (41) and internal consistency (17), are the most and second-most common arguments. At the project element level, 171 (34.3 %) code relations pertain to disclosures, 120 (24.0 %) to presentation and 65 (13.0 %) to recognition; in other words, argumentation largely centred on the main project issues.

We find that disclosure requirements were primarily debated in light of their usefulness and materiality, whereas in the beginning, the entire disclosure package was criticised for providing information overload and containing redundant requirements. Further counterarguments included specific disclosures having been too costly or too complex to prepare. In terms of consistency, plan risk disclosures were laid out in accordance with IFRS 7 *Financial Instruments: Disclosures*.

Debates regarding the usefulness of specific disclosures related to two main areas. In May 2009, DT advocated disclosing mortality rates as material and useful (see 3.5.2.2). SC enquired as to whether the technical staff would consider the mandatory disclosure of any alternative measure of the pension obligation. He noted that in the UK, there was a (voluntary) recommendation to disclose the buyout liability that approximately one-third to one-half of the companies complied with and that was highly appreciated by analysts, moreover (SC, [1:00:42]). At the board's request, the staff presented three alternative measures in July 2009: the value of settlement, its fair value or the accumulated benefit obligation (ABO)[26].

[25] The number of code relations (498) is slightly higher than the number of codings at the participant level (481; see TABLE 4, Panel B and TABLE 7), as multiple references to one project element by a participant are counted as such to account for potential overlaps with different arguments.

[26] The ABO definition in Agenda Paper 5B corresponds to the definition of SFAS 87.264 under US GAAP. An ABO differs from the projected benefit obligation in that does not include assumptions about future salary levels. Agenda Paper 5B.19 states that disclosure of the ABO has been required by SFAS 132(R).5e, as recommended by the UK Accounting Standards Board *Reporting Statement* and proposed by the Pro-active Accounting Activities in Europe (PAAinE) Discussion Paper titled *The Financial Reporting of Pensions*.

TABLE 8
Distribution of code relations between arguments and project elements

	Project elements											
Arguments	Project scope	Project time table	Definitions	Recognition	Measurement	Presentation	Disclosure	Quick-fix issues	Transitional requirements	(ED) IFRIC 14	Side issues	**Total**
Conceptual												**(237)**
Usefulness				3	3	5	27	2				40
Arbitrariness			1	7	1	16	2	1			3	31
Comparability				2	8	10	2	1		1		24
General understanding			1	5	3	3	1	1				14
Materiality						2	17					19
Cost-benefit relation					4		12					16
Complexity and difficulty				2	6		7				2	17
Information overload							15					15
Practicability					2	2	2	4	4			14
Importance						2	8					10
Observability					3	1	1		3			8
Cohesiveness					1	5						6
Transparency				1		4	1					6
Definition, wording							6					6
Mismatch					2	2	1					5
Recycling				2		1						3
Forecasting						2						2
Reliability					1							1
Specialised												**(135)**
External resistance	2	2		5	2	6	1	1				19
Touches measurement				3	1		1	6				11
Lack of causal relation				6	1	2						9
Information content						9						9
Confusion			1	1			3		1	1		7
Contains redundancies							8					8
Pro-forma reporting				1		6						7
No improvement			1		1	1		2				5
Coherence			2	4		1						7
Cross-country heterogene-ity							5					5
Boiler plate							5					5
Prejudgement of future decisions							4					4
Hypothetical				1	1	3						5
Relates to presentation				1	2							3
Overoptimistic assump-tions					3	1						4
Induces volatility				2			1				1	4
Supplements presentation							3					3
Behavioral impact						3	1					4
No cross-reference to uncompleted document					2							2

(Continued)

TABLE 8—*Continued*
Distribution of code relations between arguments and project elements

	Project elements											
Arguments	Project scope	Project time table	Definitions	Recognition	Measurement	Presentation	Disclosure	Quick-fix issues	Transitional requirements	(ED) IFRIC 14	Side issues	**Total**
Specialised												
(…)												
Placement (FS, MC)							2					2
Need for agreement					2							2
Habit					3							3
Coercion					2							2
Compensation of inade-quacies							2					2
Lack of discipline							1					1
Indicator of flexibility							1					1
Unintended consequences										1		1
Consistency												**(126)**
Internal consistency			3	4		6	2	1			1	17
FSP		5	5	9		18	2				2	41
FVM					5		3	5				13
Emission rights										1		1
Annual Improvements		1			4							5
IAS 1						6						6
IAS 24							1					1
IAS 37				2		2	1	1		4		10
IFRS 2				1								1
IFRS 4							2					2
IFRS 7							12					12
IFRS for SMEs							1					1
UK-GAAP							1					1
US-GAAP				3		1	6	1		2	2	15
Total	**2**	**8**	**14**	**65**	**63**	**120**	**171**	**26**	**8**	**10**	**11**	**(498)**
Rank				3	4	2	1	5				
	Project scope	Project time table	Definitions	Recognition	Measurement	Presentation	Disclosure	Quick-fix issues	Transitional requirements	(ED) IFRIC 14	Side issues	**Total**

TABLE 8 illustrates the distribution of 498 code relations (overlaps) between arguments and the first branch of project element subcategories. The number of code relations (498) is slightly higher than the number of codings at the participant level (481; see TABLE 4, Panel B and TABLE 7), as multiple references to one project element by a participant are counted as such to account for potential overlaps with different arguments. Subtotals per first level subcategories of arguments are provided in parentheses.

The staff concluded, however, that the costs of providing alternative measures would exceed the benefits and that respective disclosure requirements "could be wrongly perceived as the board's future direction in the comprehensive project" (U2, [0:19:54]). Accordingly, it was recommended that the disclosure of any alternative measure should not be required. SC countered that disclosing the ABO was feasible and useful due its relationship to the DBO[27]:

> "The one I felt that could be done is the ABO. And to my mind, that would just be a disaggregation of the PBO into the component which is arising from the salary growth, and I think that would be useful." 21/07/09, SC [0:23:50].

RG suggested reaching out to national standard setters to refine the cost-benefit assessment of disclosing the ABO. Whereas summary feedback from national standard setters, the Employee Benefit Working Group and the IAA indicated that disclosure of the ABO was not too costly to implement, respondents raised concerns regarding the definition of the ABO and the risk of confusing users (17/11/09, U2 [0:50:32]). In the debate, GG raised the concern that defining the ABO as DBO without salary increases could not be sensibly applied in jurisdictions with statutory salary increases (GG, [0:55:59]). Consistent with prior staff arguments, JE noted that he felt reluctant about introducing a new method of measurement that might not be pursued in the future (JE, [0:59:18]). Among the supporters, JL noted that in the US, the ABO—and not the DBO—was often understood as the "right" measure of pension liability. Similarly, SC argued that "in the US it is a meaningful number and it seems to be calculated perfect sensibly" (SC, [0:59:59]). Moreover, from an investor's perspective, comparing ABO and DBO pointed to the (financial) flexibility arising from a pension plan. DT finally expressed that he felt uneasy about not being aligned with US GAAP (DT, [1:04:26]) on this matter. In the respective vote, eight (of 15) board members voted in favour of including mandatory disclosure of the ABO in the ED. However, because many constituents perceived such information to be relevant only in rare circumstances, the requirement was withdrawn from the final standard (BC.244(b)).

Second, the entirety of disclosures was debated in light of potential information overload. In January 2010, AMG presented a preliminary set of disclosure items with as many as 28 main paragraphs. She explained that the disclosure package entailed the prior requirements, risk disclosures from IFRS 7 and requirements envisioned in prior meetings but would still add disclosures on plan assets from the *Fair Value Measurement* project (AMG, [0:00:42] and [0:01:34]), whereupon DT retorted, "And then multiply by ten, is it?" (DT, [0:01:31]). With respect to the complexity of providing meaningful information, PD figuratively noted:

> "I think users will complain that they will receive not [about] pensions report, but a specific bound volume in addition to that, dealing with pension disclosures that will be delivered separately because the post office cannot handle that package. So there is a need

[27] SC uses the US term PBO (projected benefit obligation), which is synonymous with DBO.

> to be selective in which information can really be useful to investors, if we can help a little in this aspect, I think it will be good." 21/01/10, PD [0:08:22].

Similarly, JE argued that the board should be careful when adding new requirements and suggested framing a question in the ED as to whether specific disclosures could be rationalised or even dropped (JE, [0:14:50)]. By contrast, PF strongly contradicted the notion of "overkill" based on the importance of disclosures from the investors' perspective. In practice, moreover, even multinational enterprises reasonably limited pension disclosures to their significant plans (PF, [0:22:09]). While DT agreed with the latter, he reaffirmed his concerns about the "sheer heap" of disclosures. He suggested specifying disclosure objectives in accordance with user demands and have the requirements streamlined by an internal subgroup (DT, [0:30:51])[28]. RG, "horrified by the lengths of these disclosures", raised doubts as to whether users could agree upon disclosures whose existence even the board failed to justify. If not, he would "just scrap them and give some very high-level disclosures about the plans including mortality rate" (RG, [0:37:12]). He further noted that from his experience with other working groups, there was no "right" volume of disclosures. Eventually, DT requested staff to ask users[29] about the (desired) disclosure objectives and streamline disclosure requirements with the further support of JE and RG (DT, [1:07:25]). In February 2010, AMG presented a reduced disclosure set of 14 main paragraphs that was approved for incorporation in the ED.

The second main topic, pension presentation, was primarily discussed against the background of arbitrariness and comparability. Specialised arguments related to the avoidance of pro forma reporting and the particular information content of SC's net interest approach. Beyond that, presentation was determined by the boundaries of the ongoing FSP project (consistency).

Arbitrariness was the major counterargument against the net of tax-presentation of remeasurements as well as SC's net interest approach. The latter, moreover, would facilitate the comparability of companies with different funding statuses, and accordingly, would entail considerable information content (see 3.5.2.2). In March 2009, the need for comparability was also brought forward to encourage standardised presentation in the income statement. In re-

[28] DT's exact wording was more bold, however: "I would like this free-guilty users to tell us what exactly they want to know from these pension benefits, I would then make those the objectives, and instead of this sort of thing 'identifies the amount'. It's fine, that standard rule forward stuff. (…) And then I would ask the three of them plus Jan and Bob to sit down together and we'll lock them in a room. I suspect we might come out with three pages." JL jokingly replied "Well, I suspect Bob and Jan die", which was countered by JE with, "I think Jim should be in that room as well." (21/01/10, DT, JL, JE, [0:30:51]–[0:32:04]).

[29] At this point, it is not entirely clear who exactly is meant by "users". Agenda Paper 12.2 indicated that in having worked out the streamlined disclosure package, the "staff have consulted selected Board members with user and preparer backgrounds", but remained silent about the exact ones. We note that both supporting members JE and RG can be associated with a preparer background (see TABLE 3).

sponse to staff having illustrated five different presentation formats, DT argued that users would prefer a standardised format over a “do-it-yourself-kit” (DT, [0:25:11] and [0:25:59]). Interestingly, in the March 2009 debate on the disaggregation and presentation of pension costs, the board seemed utterly afraid of specifying any—imperfect, in their eyes—presentation format that would “force” prepares into pro forma reporting. DT, for instance, noted:

> “Would it be beneficial if we broke it into three and how do we show it and, what sort of information would you get without going to pro formas, because I think if we have to keep forcing people into pro formas, we’re failing. If we can stop that we’re probably are succeeding and I’m not just talking about management, I’m talking about users. If they have to recast it all then we haven’t got it quite right.” (18/03/09, DT [1:00:56].

In conclusion, the board tentatively decided upon disaggregating any changes in the net defined liability into three components, i.e., service cost, interest cost and remeasurements, which were basically maintained in both the ED and final standard.

The third main topic, recognition of pension costs, was closely tied to presentation, although it was subject to a more complex and notably changing pattern of argumentation. Respective board decisions brought two major innovations, i.e., the abolition of the prior smoothing mechanism (corridor approach)—the central motive for the amendment of IAS 19—and the explicit split of pension costs into P&L (service and interest cost) and OCI (remeasurements) components.

With regard to the former, AP outlined in November 2008 that constituents largely supported the recognition of any changes in plan assets and the DBO in the period in which they occur (AP, [0:01:42]; similarly PD, [0:12:51]). Due to constituents’ differing views on presentation and the ongoing FSP project, however, staff would reopen the discussion on immediate recognition but not before the board had agreed upon presentation issues (18/03/09, AP, [0:00:13]). In April 2009, the board reaffirmed its original decision with eleven positive votes (DT, [0:45:45]).

Allocating pension costs, however, changed substantially over the course of the board meetings. The starting point was the January 2009 staff recommendation to recognise all changes in plan assets and the DBO in P&L, contingent on clearly separating cost components in the income statement (AP, [0:42:22]). We find that (full) recognition in P&L at this point was repeatedly justified from a general conceptual understanding, such as in the following:

> “We're aware that that's quite a big decision to make and the reason we've made that recommendation is that we think that the important thing is to provide the separation of the components and you can do that under current IFRS. (…) So, we think that using OCI is unnecessary to some extent. Conceptually, of course, we continue to hold the

> view that there's no basis in IFRS for recognising any items outside profit or loss. And also, we think it's unclear how we could identify components be recognised outside profit and loss except in an arbitrary way.” 23/01/09, AP [0:42:22].

Agenda Paper 16C.35c repeated that there was neither a conceptual basis[30] to present any items outside P&L nor a need to recognise components in OCI. In response to AP’s argument of arbitrariness, WMG added that there was “no secret methodology that provides the appropriate split” and that artificially separating items to be put into OCI would “set a very dangerous precedent” (WMG, [0:45:11]). By contrast, project manager AMG herself emphasised that fully recognising pension costs in P&L may trigger massive (external) resentments (AMG, [0:44:29]). JL specified that the IASB was vulnerable in two respects, i.e., for putting changes relating to an imperfectly measured balance sheet item[31] in P&L and for being inconsistent with US GAAP:

> “People are gonna raise hell and we got to decide whether we're willing to stand up to that. But our vulnerabilities are, people say one of the problems of putting this in profit loss is you haven't measured it right. And you won't tell-- you won't look at how to measure it. You want to do that a decade from now. And so, why are you making me put this in profit loss? (…) [T]hat's gonna be an argument and very difficult to review. Second point they're gonna do is say, on a level playing field, not US GAAP.” (23/01/09, JL [0:51:12].

In other words, GG stated that the board was “blocked by measurement” (GG, [0:53:36]); similarly, JS argued that the board could not “win” without the right measurement basis (JS, [1:01:52]). Despite those counterarguments, a majority of eleven IASB members voted in favour of recognising all changes in plan assets and the DBO in P&L (AP, AMG [1:20:46]).

However, by October 2009, the context of this decision had changed considerably. First, Agenda Paper 7B explained that in their joint meeting on OCI presentation (part of the FSP project), IASB and FASB had agreed upon requiring a single statement of comprehensive income, i.e., to eliminate the previous option of presenting a dual statement of P&L and OCI. Moreover, the FASB had favoured disaggregating remeasurements in the income statement, which was understood to likely also affect the IASB (it did not, however). Second, the *Financial Instruments* project maintained a classification category that still required the use of OCI. To avoid potential changes to pension presentation from future decisions within the FSP pro-

[30] Agenda Paper 16C.34b clarifies that the conceptual understanding is based on the staff’s (narrow) contemplation of both the *Conceptual Framework* and IAS 1, which provide no basis for presenting items outside profit or loss. It is acknowledged, however, that the *Conceptual Framework* was written before OCI came into use.

[31] According to Agenda Paper 16B, Part G, some constituents believed that a comprehensive review of pension measurements was required (e.g., changing measurement to ABO from DBO). The board decided, however, to exclude pension measurements from the scope of the (short-term) amendment to IAS 19. Cooper (2015) recently outlined that, in its current research project on pension accounting, the IASB will focus on measurement issues, particularly regarding hybrid schemes.

ject, staff recommended that the board either continue requiring all pension cost components to be recognised in P&L or return to one prior option of IAS 19, i.e., to recognise actuarial gains or losses (the staff summary used the old term) in OCI and to recognise the remaining components in P&L. Given the problem of "flawed" measurement, JE considered the latter to be a practical solution, whereas PMC and TY preferred to return to the board's original decision and run all cost through P&L (PMC, [0:10:34]); TY, [0:12:33]). DT made it clear that he was willing to accept a split between P&L and OCI contingent on having a single statement of comprehensive income because he did not like the "idea of taking the fluctuations in pensions and dumping it four pages further on" (DT, [0:29:29]). The notion of separating pension costs pointed to another issue that had to be resolved—attaining a more precise definition of remeasurements. In this regard, JL raised concerns as to whether changes in the estimates of service cost should be included in remeasurements or in current service cost (JL, [0:04:03]), and SC raised concerns regarding where to put net interest. In the respective vote, however, a majority of ten IASB members supported relocating remeasurements to OCI (DT, [0:31:20]). The definitional issues on remeasurements were finally resolved in December 2009.

3.5.4 References, governance and other observations

TABLE 4, Panel C illustrates whether and to what extent IASB meeting participants explicitly referred to the source of their statements or arguments. We observe that staff proposals, as set forth in agenda papers, are a dominant source of information that is largely referred to by staff members. Beyond that, staff occasionally affirmed and justified their proposals with (selected) comment letter feedback. By contrast, board members argued with reference to the perspective of (particular) constituents (e.g., analysts) or grounded their statements in case examples. PK, for instance, noted that, from the perspective of an auditor or user of financial statements, he would be perfectly happy with pension cost merely being disaggregated in the notes (18/03/09, PK [0:53:08]). SC, for example, created a numerical example to further justify the information content of his net interest concept (17/02/09, SC [1:22:39]).

Intriguingly, IASB members only rarely made references that clearly related to their personal or professional backgrounds. In a debate on the terms deep vs. active market, Chinese board member WZ, for instance, exemplified:

> "We never say Chinese market is a deep market. It's an emerging market and matured, you can say it's active but we never say we're a deep market." 18/03/09 (cont), WZ [0:27:33].

Beyond that, JL occasionally utilised his extensive background working with the FASB, whereas DT referenced his UK ASB history.

With regard to board meeting governance, TABLE 4, Panel D highlights the key roles of single IASB meeting participants. First, we find that DT not only took an active part in the board discussions, but, was also responsible for leading the meetings and calling for and taking votes in his capacity as chairman, i.e., for taking IASB decisions. Moreover, he initiated the exploration of open issues (further development), for instance, by requesting further staff analyses and proposals or consulting with (external) experts (e.g., IAA). Prior sections contain respective examples.

As shown in TABLE 4, the top three IASB contributors—DT, JL and SC—were closely followed by the senior project manager AMG (rank four) and technical staff member AP (rank five), suggesting the prominent role of staff in general. In particular, technical staff members opened, and implicitly structured, the sample IASB meetings by presenting cornerstones of the agenda papers (staff presentation) and introducing staff proposals that were the exclusive basis for any (tentative) board decisions[32]. Corroborating the concept of technical staff acting as an IASB intermediary, staff members, as noted above, also responded to any requests for further analyses and recommendations regarding unresolved matters. We find further support for this notion in the prominent position of senior technical manager AMG, who, apart from the technical role, significantly contributed to the main board debates at eye level with IASB members (TABLE 4, Panel A) with the frequent use of conceptual and consistency arguments (TABLE 4, Panel B). We also observe that IASB members respected and explicitly referred to the pivotal role of the technical staff. In the debate on the disclosure package, for instance, WMG sympathised with staff members who, in his eyes, were entrusted with a "hopeless task":

> "And I feel so sorry for the staff in those circumstances because we give them so many mixed messages. I go and talk to a working group, do some outreach, find out what people want, get people from around the board table aside and try to determine what you think is gonna be a useful information. And I bring back what we asked them to, and then we say to them 'It's too much'. I must say I feel rather sorry for the staff in those circumstances because I think we leave them with hopeless task." (21/01/10, WMG [0:58:31].

Occasionally, board members also openly commended staff members for their thoughtful recommendations and progress on standard elements (not tabulated). From our understanding, however, board-staff relations were not unilaterally biased towards the manifold information requirements of the IASB. In January 2009, for example, JE encouraged staff to feel free to convene extra board meetings to speed up board decisions with respect to project time frame

[32] This internal policy is referred to on several occasions, such as by MB: "We used to have a policy that you had to vote the staff recommendation." (18/03/09, MB [1:05:35]).

(JE, [0:35:54]). In addition, IASB members typically supported the advancement of staff recommendations and provided constructive suggestions whenever possible.

We finally note a few general observations from the board meeting content analysis. First, it is notable that non-native English speaking IASB members, on average, account for substantially fewer total codings per person (60.0) than native speakers (105.0). Given the multinational professional background of non-native board members, which would typically involve a proficiency of English close to the native level, we do not intend to suggest a causal relationship here. Notably, TY—the only IASB member to dissent from the ED and the final standard—frequently struggled to express himself, which often resulted in queries from other participants, occasional misunderstandings and sometimes impatience. Our impression from the sample meetings' etiquette and culture of discussions is that they were generally polite (e.g., speakers rarely interrupt one another), respectful, constructive, highly professional and topic-oriented debate, although board debates were frequently heated and many board members turned out to be disputatious discussants. However, the atmosphere was often relaxed and even jokey[33].

3.6 Conclusion

The purpose of this chapter was to shed light on private IASB standard setting from an internal perspective. Three aspects of the rule-making process were of particular interest: the dynamics of board discussions and (tentative) decisions along with the potential impact of single IASB and staff members, the array of arguments brought forward in IASB debates and the role of board-staff relations.

Based on a content analysis of 14 IASB meeting audio playbacks on the amendment of IAS 19 *Employee Benefits* (2011) between November 2008 and February 2010 (DP to ED), we identify a set of 205 categories, embodying 1,993 codings in total, which we arrange into four main categories: project elements, arguments, references and governance. Of 1,993 codings, 1,173 (58.9 %) pertain to project elements, 481 (24.1 %) to arguments, 215 (10.8 %) to governance aspects and 124 (6.2 %) to references.

At the content level, we first expose the chronology of IASB discussions and tentative decisions. We further observe that meeting attendees generally engaged in the board meeting debates in heterogeneous ways and that IASB members were inclined to focus on individual

[33] Apart from other examples provided in this paper, GG, for instance, noted in the July 2009 debate on mortality rates, "In France women live longer, especially widows" ([1:04:23]). At the end of the November 2009 meeting, DT went on to the next project saying, "Okay income taxes, Jim and I go down into the pub 'cause we can't agree on anything in income taxes" ([1:06:29]).

key issues. In this regard, we exemplify how the top three contributing board members—DT, SC and JL—impacted board debates and decisions. We find that SC individually raised and defended the concept of net interest presentation that was ultimately included in the ED. DT facilitated the present disaggregation of pension changes into three components. JL vehemently opposed presenting remeasurements net of tax, which was presumably given up only for the reason of maintaining consistency with IAS 1.

Argumentation largely followed the sample board meetings' focal topics (disclosure, presentation and recognition), whereas conceptual arguments played a greater role than specialised and consistency arguments. We observe that disclosure regulation was debated in the light of usefulness, materiality and complexity. The initial disclosure package was heavily criticised for its information overload and was streamlined, accordingly. Pension presentation was largely discussed from the perspective of (avoiding) arbitrariness and (attaining) comparability. Specialised arguments were related to avoiding pro forma reporting and the particular information content of SC's net interest approach. Finally, we illustrate that the (envisioned) recognition of pension cost was justified with a general conceptual understanding, which was considerably challenged by contextual changes in the joint FSP project. Eventually, the board was "pushed" towards a more pragmatic way of drafting pension recognition.

Regarding references, we find that agenda papers were the dominant source of board information. Staff occasionally reaffirmed its proposals by reciting (selected) comment letters. IASB members argued with references to the perspectives of particular constituents or examples but only scarcely referred to their personal or professional background (at least, visibly). Findings on board meeting governance point to individual key roles. In his capacity as chairman, DT was responsible for taking votes and requesting the exploration of unresolved issues, in addition to taking an active part in the board discussions. Staff members opened and structured board meetings on the basis of their agenda papers. Beyond that, senior technical manager AMG contributed to the board debates at eye level. Overall, our findings corroborate the perception of technical staff acting as an IASB intermediary. We finally point to further observations regarding the language proficiency of IASB members and the general board etiquette and culture of discussion.

Our findings should be interpreted with caution, however. First, our observations are restricted to the sphere of board meetings. Accordingly, we are unable to identify opinion making outside of the IASB discussions at hand or any further interaction between board members and staff members[34]. Second, observable participation does not necessarily point to the degree of formal influence (voting), as IASB members have one vote each[35]. Regarding observability, we understand that board members are not formally obligated to contribute to meeting discussions, i.e., they may remain silent but still influence the outcome through their vote. Similarly, participants may not feel the need to reveal their individual position if it has previously been stated by someone else, or more strategically, they may involve themselves in discussions only at certain points in time. Likewise, we are limited to identifying only those references that were explicitly revealed by meeting attendees, which may explain the subordinate role of this main category.

Although we feel that the content analysis of board meeting audio playbacks provides novel and valuable insights into the black box of IASB standard setting, further research may help complement our results. Above all, exploiting additional sources, particularly surveys and interviews of IASB and staff members, seems promising to reappraise our interpretations. Further comparative research based on the vast amount of (audio) material provided by the IASB (or other standard setters) may broaden our understanding of the role of key players in the due process, group formation, argumentation, and particularly references as well as governance aspects, such as the role of staff in different contexts and beyond the boundaries of one single standard setting project. This may also include further dimensions of board meeting discussions that have not yet been analysed in depth, such as power, the style of negotiation and communication or rhetoric in general.

[34] We find only one statement that points to an interaction outside the examined board meetings. Regarding the interrelation of decisions on pension presentation and the FSP project, MB noted in November 2008: “Yeah. I have a similar view. I actually talked to the staff about it. I think we should at least lay this out and see what it looks like so people can know how this would be displayed in the financial statement presentation project.” (MB, [0:15:59]).

[35] In the case of a tied vote on any decision made by a simple majority of board members, the chairman has an additional vote (IFRS Foundation, 2013b: 3.21).

3.7 Appendix

APPENDIX A
Description of category set

Panel A: Project elements	**Definition (**and listing of further subcategories)
Project scope	Inclusion or exclusion of particular project elements in the scope of amending IAS 19
Project time table	Time frame for discussion on individual project elements and the conduct of the project as a whole
Definitions	Scope and definition of terms used in DP, ED or final standard
Contribution-based promises	
Remeasurements	
Recognition	Recognition of plan assets, DBO and related pension costs
Recognition (general)	
Immediate recognition	
Interrelation with measurement	
All changes in P&L	
All changes in OCI	
Maintain old OCI-option as fall-back	
Split changes among P&L and OCI	
+ Allocation of administration cost	*Subcategories*: Allocation (general); Include in the DBO; Remove definition of return on assets; Amend definition of return on assets
Recognise unvested service cost with plan amendment	
Measurement	Measurement of plan assets and DBO, especially regarding discount rate
Measurement (general)	
Cross country-interest rate spread	
Corporate and government bond rate	Proposal to abolish the requirement to use a government bond rate when there is no deep market in high quality corporate bonds
Risk-free rate	
Expected return on assets	
Presentation	Proposals on the presentation of pension costs on the face of the income statement and/or in the notes
Presentation (general)	
Net interest approach	

(Continued)

APPENDIX A—*Continued*
Description of category set

Panel A: Project elements		Definition (and listing of further subcategories)
Presentation		Proposals on the presentation of pension costs on the face of the income statement and/or in the notes
	(…)	
	Net expense only	Variation of net interest-approach (no presentation of net interest income)
	Separation of remeasurements	
	Separation of interest cost	
+	Income statement layout	*Subcategories:* Layout (general); Net-of-tax presentation; One item; Two items; Three items
+	Disaggregation	*Subcategories:* Disaggregation (general); Trias: Employment, financing, remeasurements; Permit disaggregation of remeasurements; Prohibit disaggregation of actual return on plan assets; Location (income statement, notes)
Disclosure		Disclosure requirements on pensions
	Disclosure (general)	
	Guidance on materiality and disaggregation	
	Actuarial assumptions	
	Mortality rates and longevity	
+	Alternative measures	*Subcategories:* Accumulated benefit obligation (ABO); Vested benefit obligation (VBO); Buyout liability
	Curtailments and settlements	
	Best estimate of future contributions	
	Fair value of plan assets	
	Multiemployer plans	
+	Plan risks	*Subcategories:* Plan risks (general); Funding risk; Credit risk; Focus on net risk; Sensitivity analysis; Stress testing (scenario analysis); Liquidity analysis
	Breakdown of demographic and financial assumptions	
	Severance package	
	Reconciliation	
	Significant changes in service cost	
	Review disclosure requirements	
Quick-fix issues		Issues that were identified by staff beforehand to be dealt with expeditiously
	Quick-fix issues (general)	
	Settlements and curtailments	

(Continued)

APPENDIX A—*Continued*
Description of category set

Panel A: Project elements	**Definition (**and listing of further subcategories)
Quick-fix issues	Issues that were identified by staff beforehand to be dealt with expeditiously
(…)	
+ Discount rate	Relates to the request of several constituents to provide further guidance on determination of the discount rate
+ Multi-employer plans	
Back end-loading	
Risk sharing and conditional indexation	
Distinction of long- and short-term benefits	
Taxes payable by plan	
Panel B: Arguments	Collection of arguments raised in the justification of individual project elements
Conceptual	
Usefulness	General usefulness of an accounting treatment or usefulness from the perspective of specific constituents
Arbitrariness	Accounting treatment implies substantial discretion
Comparability	Facilitates or hampers comparability across different companies
General understanding	Imprecise general conceptual justification
Materiality	Inclusion of an information depends on its materiality
Cost-benefit relation	Information can or cannot be reasonably provided in terms of cost
Complexity and difficulty	Information is too difficult to prepare or too complex to understand
Information overload	Lack of comprehensibility due to an exuberant amount of information
Practicability	Relates to an accounting treatment that can or cannot be implemented feasibly
Importance	Information is of significant relevance
Observability	Financial reporting requires information that is difficult or impossible to observe
Cohesiveness	Ability—or lack thereof—to connect disaggregated information
Transparency	Information fully reflects the underlying economic phenomenon
Definition, wording	A term is or is not in line with an existing (glossary) definition
Mismatch	Income statement does not reflect a pension plan's funding status
Recycling	A component will not be recycled to net income
Forecasting	An information does or does not facilitate the estimation of future cash flows

(Continued)

APPENDIX A—*Continued*
Description of category set

Panel B: Arguments	**Definition (**and listing of further subcategories)
Conceptual	
(…)	
Reliability	Information faithfully reflects the underlying economic phenomena
Specialised	
External resistance	A proposal will most likely be strongly opposed by constituents
Touches measurement	Accounting treatment will affect measurement of pensions (not included in the amendment's scope)
Lack of causal relation	Information is not causally related to the pension plan
Information content	Accounting treatment bears particular information content
Confusion	Information confuses users of financial statements
Contains redundancies	Disclosure package contains redundant requirements
Pro forma reporting	Suggested presentation format promotes reporting of pro forma numbers
No improvement	Suggested acounting treatment does not improve the status quo
Coherence	Related information must not be artificially separated
Cross-country heterogeneity	Measurement input factors vary significantly across countries (especially regarding the discount rate)
Boiler plate	Disclosure requirements are most likely to cause boiler plate disclosures
Prejudgement of future decisions	A proposal will be wrongly perceived as the direction of future IASB decisions
Hypothetical	Accounting treatment is fictitious
Relates to presentation	Accounting treatment depends on decisions regarding pension presentation
Overoptimistic assumptions	Estimation of the expected return on plan assets usually based on overoptimistic assumptions
Induces volatility	Accounting treatment will make net income more volatile
Supplements presentation	Disclosure is only a supplementary to presentation
Behavioural impact	Accounting influences human behaviour
No cross-reference to uncompleted document	Standard shall not incorporate elements from or make references to the ongoing *Fair Value Measurement* project
Placement (FS, MC)	Putting information in the financial statement (FS) or in the management commentary (MC) makes a difference to users
Need for agreement	Especially in emerging economies, the estimation of a hypothetical AA bond rate would require agreement on the yield curve within one country
Habit	Preparers are inclined to maintain certain accounting treatments merely out of habit

(Continued)

APPENDIX A—*Continued*
Description of category set

Panel B: Arguments	**Definition (**and listing of further subcategories)
Specialised	
(…)	
Coercion	Companies are forced into fair value level three estimates if the use of the government bond rate is abolished
Compensation of inadequacies	Disclosures are often used to compensate for unreliable financial statement figures (here, mortality rates)
Lack of discipline	IASB is not disciplined in drafting disclosure requirements
Indicator of flexibility	Comparing ABO and DBO points to the financial flexibility of a company
Unintended consequences	Imprecise argument that the abolishment of the government bond rate might cause unintended consequences
Consistency	
Internal consistency	Arguments on whether or not a proposal is or should be drafted consistent to one of the left-hand IAS/IFRS, IASB projects or other accounting systems
FSP	
FVM	
Emission rights	
Annual Improvements	
IAS 1	
IAS 24	
IAS 37	
IFRS 2	
IFRS 4	
IFRS 7	
IFRS for SMEs	
UK-GAAP	
US-GAAP	
Panel C: References	
Staff proposal	Staff proposals and analyses as featured in the agenda papers
Comment letters	References to comment letters in general, or selected opinions of constituents
Constituents, examples	Perspective of (selected) constituents or references to (self-created) examples
FASB	Reference to the FASB

(Continued)

APPENDIX A—*Continued*
Description of category set

	Panel C: References	**Definition (**and listing of further subcategories)
	(…)	
	Public demand	Unspecified reference to the general interest
	Accounting principles	Unspecified reference to the conceived principles of sound accounting
	Institutions	References to accounting bodies other than the FASB and professional bodies
	Academic opinion	Academic perspective and research findings
	Panel D: Governance	
	Staff presentation	Recitation of agenda papers in general, staff proposals and staff analyses
+	Board voting	Indication of (tentative) board decisions through board votes. *Subcategories:* Call for a vote; Voting result; Postpone a vote
+	Further development	Enquiry of additional input on or analyses of unresolved issues. *Subcategories:* Bring up as proposal or question in ED; Issue short-term ED; Outreach to experts, users, others; Further (internal) exploration; Staff review; Delegate to a subgroup
	Internal policies	Indication of internal policies not mentioned in the *Due Process Handbook*. *Subcategories:* Staff policies; Board policies
	Dissenting opinion	Inclusion of a dissenting opinion in the ED

APPENDIX A displays the set of 205 categories arranged by the four main categories project elements (Panel A), arguments (Panel B), references (Panel C) and governance (Panel D). In addition, the left-hand side displays first and second level subcategories. "+" denotes the existence of further subcategories which are listed along the category definitions. Panel A only features category definitions that are not self-explanatory.

APPENDIX B

Focal topics and decisions of the sample IASB meetings

Date	Topics	(Tentative) board decisions
19/11/2008	Comment letter summary	The Board discussed an overview of responses to its discussion paper Preliminary Views on Amendments to IAS 19-*Employee Benefits*. No decisions were made.
23/01/2009	Project scope	The Board tentatively decided to work from the proposals in the discussion paper (DP) Preliminary Views on Amendments to IAS 19-*Employee Benefits* and the responses to the DP towards two separate exposure drafts, as follows: • Part 1: Recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures, and other issues raised in the comment letters that can be addressed expeditiously. • Part 2: Contribution-based promises, potentially as part of a comprehensive review of pension accounting.
	Disaggregation of pension costs	On part 1 the Board tentatively decided that entities should: • disaggregate changes in the defined benefit obligation and in plan assets into employment, financing and remeasurement components, and recognise the components in the income statement. The Board will consider at a future meeting how to define those components. • disclose the employment and financing components either in the income statement or in the notes, and present the remeasurement component in the income statement.
	Presentation of remeasurements	The Board plans to explore ways to present the remeasurement component in a way that distinguishes it from other items of profit or loss.
17/02/2009	Definition of remeasurements	The Board considered how to split the changes in the defined benefit obligation and in plan assets into a remeasurement component and other changes. The Board tentatively decided that the remeasurement component should: • exclude service cost and interest cost. • include the total return on plan assets and actuarial gains and losses on the defined benefit obligation. The Board did not decide how entities should present these components in the income statement, nor whether it should require entities to present the remeasurement component as a single line item.
18/03/2009		In January, the Board decided to develop two separate exposure drafts from the proposals in the discussion paper Preliminary Views on Amendments to IAS 19-*Employee Benefits* and the responses to them. At this meeting, the Board continued its discussion of the first exposure draft, which will address recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures, and other issues raised in the comment letters that can be addressed expeditiously.
	Disaggregation of pensions costs	The Board decided tentatively that an entity should separate changes in the net defined benefit asset or liability into three components: • service cost • interest cost on the defined benefit obligation to be presented in the same way as other finance costs • remeasurements comprising other changes in the defined benefit obligation and in plan assets to be presented separately in the income statement net of tax effects.
	Effects of settlements and curtailments	The Board also decided tentatively that an entity should: • classify the gain or loss on settlement and the effect of the asset ceiling in the remeasurements component. • classify the gain or loss on curtailment with service costs.

(Continued)

APPENDIX B—*Continued*

Focal topics and decisions of the sample IASB meetings

Date	Topics	(Tentative) board decisions
18/03/2009 (…)	Quick-fix issues	The Board decided tentatively: • not to provide additional guidance on how to determine the appropriate discount rate. However, when the Board finalises the definition of an active market in its project on fair value measurement, the Board may consider bringing that term and related guidance into IAS 19, to replace the term deep market . • not to introduce a blanket exemption from defined benefit accounting for multi-employer plans. • to clarify that an entity should consider expected future increases in salaries when assessing whether benefits attribute higher benefits to later years. • to clarify that an entity should consider risk-sharing and or conditional indexation features when determining the best estimate of the defined benefit obligation. • to amend the Basis for Conclusions on IAS 19 to clarify that the definitions of short-term employee benefits and other long-term employee benefits are based on the timing of when the entity expects the benefit to become due to be settled. • to clarify that tax payable by the plan would be included in the return on plan assets or in the measurement of the obligation depending on the nature of the tax. The staff will consider where costs of administering a plan should be included in the light of this decision.
22/04/2009		The Board continued its discussion of recognition and presentation of changes in the net defined benefit asset or liability.
	Immediate recognition of changes in plan assets and PEB Recognition of unvested past service cost	The Board decided tentatively that entities should recognise: • all changes in the value of plan assets and changes in the post-employment benefit obligation in the period in which they occur. • unvested past service cost in the period of the related plan amendment.
	Allocation of administration cost	The Board decided tentatively that entities should include the costs of administering the plan in the defined benefit obligation, unless they relate to the management of plan assets and the benefit promise does not depend on the return on those plan assets.
	Project scope	Next steps: The Board has completed its redeliberations on recognition and presentation of the net defined benefit asset or liability. The Board will discuss disclosure and transition requirements at a future meeting, with a view to publishing an exposure draft in the third quarter of 2009.
19/05/2009	Disclosures	The Board continued its discussion on post-employment benefits and decided tentatively: • to align the disclosure requirements for post-employment benefits with those in IFRS 4–Insurance Contracts and IFRS 7–Financial Instruments: Disclosures. • to require additional disclosures for participants in multi-employer plans. • not to include in IAS 19 guidance on materiality for disclosures. • to delete from IAS 19 the references to curtailments and settlements. Other changes proposed in this project would remove the need to distinguish curtailments from negative past service cost and settlements from other remeasurements. • to require disclosure of the effect of plan amendments, with a narrative description of the amendments. • to require disclosure of non-routine settlements, defined using wording similar to that used in IFRIC Update in May 2008 (events not covered by the actuarial assumptions).

(Continued)

APPENDIX B—*Continued*

Focal topics and decisions of the sample IASB meetings

Date	Topics	(Tentative) board decisions
21/07/2009		The Board discussed the discount rate for post-employment benefit obligations, disclosures for defined benefit plans and transition.
	Removal of government bond rate	The Board decided tentatively: • to remove from paragraph 78 of IAS 19–*Employee Benefits* the requirement to use a government bond rate when there is no deep market in high quality corporate bonds. Instead, entities would be required to estimate the rate for high quality corporate bonds in all cases. • to direct entities to the guidance on determining fair value in IAS 39–Financial Instruments: Recognition and Measurement for guidance on how to estimate a high quality corporate bond rate (with a footnote that the exposure draft Fair Value Measurement proposes to replace this guidance).
	Transition requirements	The Board will discuss the transition for the amendment to the discount rate at an additional meeting to be held by teleconference on 4 August. The Board decided tentatively that entities should apply the other proposed amendments to IAS 19 retrospectively. This is in accordance with the general requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 1 First-time Adoption of International Financial Reporting Standards.
	Disclosures	The Board decided tentatively that an entity should disclose: • the information set out in Agenda paper 5C for this meeting, except that it should apply the requirements of paragraphs 31- 42 of IFRS 7–Financial Instruments: Disclosures to the net benefit asset or liability. If it is not feasible to disclose information about the net asset or liability, an entity should provide that information separately for the defined benefit obligation and for the plan assets, together with an explanation of how the risks relating to the defined benefit obligation and the plan assets are linked. • a description of the limitations of the methods used to provide the risk disclosures. • information about its best estimates of the contributions it expects to pay to the plan during the next annual period, distinguishing required contributions, discretionary contributions and non-cash contributions. • the accumulated benefit obligation (i.e., the defined benefit obligation, excluding projected growth in salaries).
	Short term ED on discount rate	The Board intends to publish an exposure draft containing the proposed amendments on the discount rate as soon as possible, with a 30 day comment period. The Board intends to finalise any amendments to the discount rate in time for 2009 year-ends. As a result of developments relating to financial statement presentation in other projects, the Board intends to review in September 2009 the publication timetable for an exposure draft of amendments to IAS 19 relating to recognition, presentation, disclosures and other issues.
22/07/2009		See 21/07/2009.
15/09/2009		The Board discussed the publication timetable for an exposure draft of amendments to IAS 19 relating to recognition, presentation, disclosures and other issues ('the ED').
	Presentation of remeasurements (in the light of the October 2009 Joint Meeting)	The Board decided tentatively that: • after the October joint meeting the staff should consider whether the Board's conclusions on the presentation of other comprehensive income have any implications for the presentation of the remeasurement component of the post employment benefit obligation; • any discussion of such implications would take place at the November meeting.

(Continued)

APPENDIX B—*Continued*

Focal topics and decisions of the sample IASB meetings

Date	Topics	(Tentative) board decisions
22/10/2009	Amendments to IFRIC 14	The Board discussed the following possible amendments to IFRIC 14 IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IAS 19-*Employee Benefits*: • prepayments of a minimum funding requirement • discount rate for employee benefits • termination benefits
	Prepayments of a minimum funding requirement	The Board discussed responses to its exposure draft (ED) Prepayments of a Minimum Funding Requirement (Amendments to IFRS 14), published in May 2009, and tentatively: • confirmed the scope of the project as proposed in the ED • confirmed the definitions proposed in the ED. However, the Board tentatively decided to propose clarifying that a minimum funding requirement must be enforceable in the forthcoming ED of proposed amendments to IAS 19. • reinstated paragraph 22 of IFRIC 14. • confirmed the transitional arrangements as proposed in the ED. • decided to require entities to apply the amendments for annual periods beginning on or after 1 January 2011 with early adoption permitted.
	Government bond rate	The Board discussed responses to the exposure draft *Discount Rate for Employee Benefits* (amendments to IAS 19), published in August 2009. The responses to the ED indicated that the proposed amendment raised more complex issues than had been expected. The Board therefore decided to adhere to its original plan to address measurement issues only in the context of a fundamental review. Thus, the Board decided not to proceed with the amendment, which means that entities will still need to refer to a government bond rate when there is no deep market in high-quality corporate bonds.
	Termination benefits	In June 2005, the Board published an Exposure Draft of Amendments to IAS 19, dealing with the accounting for termination benefits, together with proposed amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. At this meeting, the Board tentatively: • confirmed its previous decisions on termination benefits. • decided that entities should apply the amendments for annual periods beginning on or after 1 January 2011 with early adoption permitted. • decided it would publish the amendments to IAS 19 relating to termination benefits together with the amendments to IFRIC 14. The Board intends to publish final amendments to IFRIC 14 and IAS 19 in December 2009.
17/11/2009	Presentation of remeasurements	The Board decided to propose that pension remeasurements should be presented in the other comprehensive income section of the statement of comprehensive income.The Board also asked the staff to bring to a future meeting papers on two aspects of the definition of remeasurement: changes in estimates of the service cost and interest income.
	Disclosures	The Board reaffirmed the decision in its July meeting to require the disclosure of the defined benefit obligation excluding projected salary increases in the forthcoming exposure draft.

(Continued)

APPENDIX B—*Continued*

Focal topics and decisions of the sample IASB meetings

Date	Topics	(Tentative) board decisions
18/12/2009	Definition of remeasurements	In previous meetings, the Board tentatively decided that entities should disaggregate changes in the net defined benefit asset or liability into service cost, interest cost and remeasurement components, and recognise the remeasurement component in the other comprehensive income section of the statement of comprehensive income. At the December meeting, the Board discussed two aspects of the definition of the remeasurement component and tentatively decided that the remeasurement component: • includes changes in the estimate of service costs. • excludes net interest income or expense, determined by applying the high quality corporate bond rate to the net defined benefit asset or liability. The Board will consider at the January meeting the disclosure requirements to be proposed in the exposure draft.
21/01/2010	Disclosures	The Board considered proposed disclosures to be included in the forthcoming exposure draft on post-employment benefits. The Board asked the staff to reduce and streamline the disclosures. The Board will consider the revised set of disclosures at a future meeting.
	Termination benefits	The Board discussed termination benefits and tentatively decided that: the definition of termination benefits should not include benefits provided in exchange for future employee service; and an entity should recognise termination benefits when it no longer has the ability to withdraw an offer of those benefits. The Board expects to publish the final amendments for termination benefits in the first quarter of 2010.
18/02/2010	Disclosures	The Board: • tentatively approved a revised package of disclosures for the forthcoming exposure draft of amendments to IAS 19. • tentatively decided it would not require entities to apply to plan assets the disclosure requirements proposed in the exposure draft Fair Value Measurements. The Board intends to publish the exposure draft in March 2010.

APPENDIX B summarises focal topics and (tentative) decisions of the 14 sample IASB meetings between November 2008 and February 2010 (DP to ED) as provided as provided in the PEB project section of the IFRS Foundation website.

Chapter 4

Research on Financial Accounting and Reporting of Family Firms: A Review*

Fredo, you're my older brother, and I love you.
But don't ever take sides with anyone against the family again. Ever.

—Michael Corleone

From the motion picture
The Godfather (1972)

* A paper version of chapter 4 is available as Klein (2015).

4.1 Introduction

Family firms are of considerable economic importance and a prevailing type of business in numerous economies worldwide (e.g., Claessens et al., 2000; Faccio & Lang, 2002; La Porta et al., 1999; Shleifer & Vishny, 1997). Continuous interest in the idiosyncrasies of family firms, in particular, within management, organisational, and finance research, has led to the emergence of a unique academic field that involves specialised research facilities (e.g., *International Family Research Academy*), related professional organisations (e.g., *Family Firm Institute*), publication outlets (e.g., *Family Business Review*), conferences, and an evolved body of literature. Although family business research is understood to have reached a state of adolescence over the past decades (Gedajlovic et al., 2012), accounting research has only recently begun to discover family firms as unique objects of research. Intriguingly, respective studies on financial accounting, managerial accounting, and auditing of family firms are not older than 15 years. Thus, I expect that accounting research has been, first and foremost, facing the challenge of meaningfully placing established conceptions of the idiosyncrasies of family business, strategies on the (empirical) identification of family firms, and family firm-specific theoretical frameworks from more "mature" disciplines into an accounting context.

This chapter illustrates how (financial) accounting research has met this challenge, outlines respective findings and provides several suggestions how future research might move forward. I explicitly focus on financial accounting and reporting of family firms—the subfield with the substantial majority of studies (e.g., Prencipe et al., 2014)—and review 33 journal publications and three working papers (published between 2000 and 2015) with respect to subject, method, empirical models (if applicable), setting, definition of family firms, theory, and main findings. I find that prior research has almost exclusively been quantitative-empirical and has focussed on a narrow range of subjects (earnings management, disclosures, and earnings properties). Most studies have explored single country settings and listed family firms rather than private ones. Moreover, I observe that the vast majority of empirical studies have employed dichotomous definitions to differentiate family from non-family firms. Operational definitions usually pertain to the involvement approach and include the definitional elements of family ownership and the presence of family members on the management or supervisory board. These definitional elements are interpreted and applied differently, however. Several papers that examine S&P 500 family firms rely on an existing involvement-oriented classification of *BusinessWeek*, whereas only two studies employ an essence-oriented family firm definition. Regarding theorisation, I find that four of five studies are premised on agency theory which corresponds to its widespread use in accounting research in general. A few articles ground in complementary or alternative frameworks such as stewardship theory or socioemotional wealth theory, respectively. I contend that financial accounting research on family firms has been selective with respect to the choice of theory, method, empirical setting, and definition, which I describe as “interlocking effect”. Furthermore, I briefly summarise the main findings from the reviewed literature. Although a slight majority of studies show that family firms are less likely to manage earnings than non-family firms, evidence on the genuine earnings management behaviour of family firms is mixed. Family control, however, generally mitigates the effectiveness of certain corporate governance mechanisms (e.g., audit committees) in constraining earnings management. Empirical evidence on earnings properties suggests that family firms report higher quality earnings than non-family firms. Findings on (voluntary) disclosures of family firms are heterogeneous and, due to different focal points and settings, hard to reconcile. Finally, I outline several suggestions for future research which encourage the broader inclusion of subjects, settings, definitions, theoretical perspectives (involving theorisation from related disciplines) and methods.

This survey of research on financial accounting and reporting of family firms contributes to state-of-the-art articles on family business research in general (Bird et al., 2002; Chrisman et al., 2010; Debicki et al., 2009; Dyer & Sanchez, 1998; Kraus et al., 2011; Sharma, 2004; Zahra & Sharma, 2004) but also explicitly adds to related reviews on family firm accounting research (Cheng, 2014; Prencipe et al., 2014; Salvato & Moores, 2010) in several respects. First, through excluding the fields of managerial accounting auditing, this survey comes with the benefit of a more standardised and refined review of the prevailing financial accounting and reporting literature. Second, the review grounds in a more comprehensive literature base. Third, I consider additional properties of the reviewed literature, in particular, the study setting, the (left-hand) outcome variables (in case of a quantitative-empirical research model) and add a refined description of the employed family firm-definition (including alternative definitions as used in robustness checks). Finally, to present the current state of knowledge in more detail, I group the reviewed studies according to their main subjects (earnings management, earnings properties, disclosures, and other findings) and condense respective findings.

The remainder of this chapter proceeds as follows. The next section addresses idiosyncratic characteristics of family firms, respective definitions, and theoretical frameworks that have been used in family business research. Section 4.3 reviews the literature on financial accounting and reporting of family firms. Here, I first outline properties of the identified literature (subjects, methods, empirical models, and study settings) and describe how financial accounting studies have adopted family firm-specific theories and definitional approaches from the family business literature. Thereon, I summarise their main findings. Section 4.4 provides a possible explanation for the state of the art (interlocking effect) and outlines several impulses for future research. The final section of this chapter concludes.

4.2 Family firms as objects of research

In this section, I outline idiosyncrasies of family firms (focussing on those features that are addressed by family firm-specific theorisation), definitional approaches and the most common theoretical frameworks (agency theory, stewardship theory, socioemotional wealth theory, resource-based view) that have emerged within family business research in general. Because accounting research on family firms is a relatively young subfield of family business research, this section shall help to show how accounting studies have drawn from established concepts regarding definition and theorisation and, more importantly, to illustrate respective gaps.

4.2.1 Idiosyncratic features of family firms

What makes family firms unique? It is commonly understood that idiosyncrasies of family firms stem from the specific intertwining of the spheres “family” and “business” that does not exist in non-family firms (e.g., Gomez-Mejia et al., 2011; Habbershon & Williams, 1999; Tagiuri & Davis, 1996). This section briefly sketches several features that are of particular interest for family firm-specific theorisation. Because of the pivotal role of the family in family firms, a significant role is played by noneconomic factors (Prencipe et al., 2014). One central feature of family firms is that family members are emotionally attached to the business and, accordingly, strongly identify themselves with the firm and its reputation (e.g., Chrisman et al., 2007; Miller & Le Breton-Miller, 2006; Miller et al., 2008). This emotional bond has several consequences. First, family owners are inclined to maintain control over the business and, thus, hold long-term investments in the family firm. Closely related to this is the family owners’ strong desire to ensure the long-term survival of the firm and to pass it on to succeeding family generations (e.g., Berrone et al., 2012; Gomez-Mejia et al., 2011; Miller & Le Breton-Miller, 2005). In this regard, family firm management is more likely to be concerned with preserving the firm in the long-run rather than pursuing short-sighted economic goals, which impacts business decisions and respective outcomes (e.g., performance). The emphasis on intergenerational sustainability further substantiates that choosing a successor is among the most critical decisions in family business (Le Breton-Miller et al., 2004). Another core feature is the closer relationship between family owners and managers (Miller & Le Breton-Miller, 2006). Managerial positions are either held by family members or external managers that are often carefully selected and, thus, have strong ties with the family. As Prencipe et al. (2014) outline, managers strive for a long-term position in the firm (consistent with the long-term character of the business) and behave loyally towards the owner family (Miller & Le Breton-Miller, 2006). The closer relationship between family owners and (family or nonrelated) managers facilitates monitoring of managerial actions—an important trait from the perspective of agency theory. Similarly, family firms are understood to establish close and long-term relationships with their employees in general (e.g., Donnelley, 1964; Mueller & Philippon, 2011).

4.2.2 Defining family firms

Studying family businesses, especially if meant to compare them with non-family firms, usually requires a definition of and, in empirical research, operationalisation of the generic family firm. As Handler (1989: 258) notes, "[d]efining the family firm is the most obvious challenge facing the family business researcher". Given that prior literature has not reached consensus on a commonly acceptable definition and on the precise characteristics that delineate family business, this task remains anything but trivial, however. Representative for a body of family firm studies that review definitional approaches, Westhead & Cowling (1998) and Chua et al. (1999) count 12 and 21 different family firm-definitions, respectively. Prencipe et al. (2014: 367) point to not less than 90 definitions as identified in the European research report of the Austrian Institute for SME Research (2008). These operational definitions involve different elements such as the ownership stake of the (controlling) family, the presence of family members in top management or on the supervisory board, intergenerational transfer, behavioural aspects, or the self-perception as family business, which complicates reaching a commonly accepted definition.

According to Chrisman et al. (2005), extant family firm-definitions usually belong to one of two approaches: the components-of-involvement approach or the essence approach. Under the components-of-involvement approach, a family firm is defined as an enterprise in which the family is involved in such a way that it is capable of exerting controlling influence on business activities. Empirically, family involvement is operationalised considering "hard" factors, typically including the percentage of family ownership (often requiring a minimum ownership threshold or the family being the largest shareholder), one or more family members holding executive or non-executive positions, or the combination of both. The variety, in turn, suggests that there may be no uniform family firm but various characteristic types of family business, involving family-owned but third-party managed, family-owned and family-run, or family-managed firms in which the family only holds a minority stake (Chua et al., 1999; Litz, 1995). Combining operational elements of family involvement, Klein (2000) proposes a quantitative definition based on the metric of substantial family influence (SFI). SFI is calculated as the sum of the share of family ownership, the proportion of family members on the management board and the proportion of family members on the supervisory board. In her study a firm, is considered a family business if SFI is equal to or greater than one.

Adding to the mere associative character of the components-of-involvement concept, the essence approach considers family involvement a necessary, though not sufficient criterion to identify a family business. Accordingly, defining a family firm by essence further requires family involvement to translate into a unique behaviour of the firm and distinctiveness from non-family businesses. In this regard, Chrisman et al. (2005) collect several related characteristics, in detail, the family's (actual) influence on firm strategy (Davis & Tagiuri, 1989), the intention to maintain control over the company and pass it to the next generation (Litz, 1995), the existence of a family vision and the will to purse it, potentially across generations (Chua et al., 1999), or idiosyncratic resources and capabilities, referred to as firm "familiness" (Habbershon & Williams, 1999; Habbershon et al., 2003). It should be noted that both involvement and essence approach are seen as complementary (Chrisman et al., 2005) and operational definitions as non-conflicting. Chua et al. (1999), for instance, show that family ownership and/or management (family involvement) overlap with the behavioural aspects of family vision and intergenerational sustainability which would reasonably apply to the other factors as well. Accordingly, a consistent definition should include elements from both concepts.

In a third approach, Astrachan et al. (2002) combine elements of family involvement and essence to construct a continuous scale of family influence, the F-PEC scale. It includes three distinct dimensions: family power, experience and culture. Whereas power relates to the typical operationalisation of family involvement (ownership, governance and management), experience takes account of the generational stage of the firm. It is argued that generational transfer adds considerable, yet with each succession decreasing, business experience to the family and the firm. The culture dimension captures the overlap of family and business values as well as the family's commitment to the business. Accordingly, the F-PEC scale not only integrates different theoretical and methodological approaches, but also overcomes the dichotomous nature of the aforementioned definitional attempts as it maps a continuum of family influence (Holt et al., 2007 with a refined approach). Notably, there has been no dominant definitional attempt in family business research, i.e., studies in the field have involved various approaches and definitional elements (e.g., Harms, 2014).

4.2.3 Theoretical frameworks of studying family business

4.2.3.1 Agency theory

Agency theory, which belongs to new institutional economics (Coase, 1937), is the most widely used theoretical paradigm in family business research. Basically, agency theory addresses conflicts of interest that result from the relationship between two parties, a principal (e.g., shareholder) who delegates work to an opportunistic utility-maximising agent (e.g., manager) under asymmetric distribution of information (Jensen & Meckling, 1976).

Applying agency theory in family firm research is premised on two different types of agency conflicts, in particular, the central agency conflict that arises from the separation of ownership and management (Type I agency problem; Fama & Jensen, 1983b; Jensen & Meckling, 1976) and conflicts between controlling family owners and minority shareholders (Type II agency problem; Claessens et al., 2002; Morck & Yeung, 2003). It is argued that owner-manager agency problems are less prevalent in family firms for two main reasons. First, family firms have less dispersed ownership structures in which the family is usually the largest shareholder. In this context, Demsetz & Lehn (1985) and Shleifer & Vishny (1997) suggest that large shareholdings, or concentrated ownership, are associated with a more effective monitoring of outside managers by controlling family owners and reduced agency costs, accordingly. This notion finds further support in the fact that family owners, due to their long-term involvement in the firm, have better (less costly) monitoring abilities as well as a sustainable interest in the preservation of the firm and its reputation across generations (Cheng, 2014). Second, when management and family ownership overlap, managers' interests are understood to be aligned with those of other shareholders ("alignment" effect), thus, reducing incentives for opportunistic behaviour and Type I agency costs, accordingly (Fama & Jensen, 1983a, 1983b; Hope, 2013; Jensen & Meckling, 1976; Schulze et al., 2002; Schulze et al., 2001).

While family firms, compared to non-family businesses, are expected to face less severe Type I agency problems they may be more prone to agency conflicts between controlling family owners and non-controlling minority shareholders. The latter would arise from the powerful position of controlling family owner-managers who have incentives to and are capable of expropriating wealth to the detriment of other shareholders (Fama & Jensen, 1983b; Morck et al., 1988; Shleifer & Vishny, 1997). This phenomenon is commonly referred to as managerial "entrenchment" or, simply, the entrenchment effect (Demsetz, 1983; Weisbach, 1988). In agency theory-based accounting research on family firms, both effects are generally understood to be opposing. Wang (2006), for instance, argues that the alignment of interests would lead to higher quality earnings because family owner-managers have fewer incentives to opportunistically manage accounting earnings, whereas entrenchment would reduce earnings quality because managers dilute earnings to expropriate private benefits.

4.2.3.2 Stewardship theory

Another theoretical approach to studying family businesses that is rooted in sociology and psychology, is stewardship theory (Le Breton-Miller et al., 2011; Miller & Le Breton-Miller, 2006; Miller et al., 2008). The term stewardship involves human caring, generosity, loyalty and responsible devotion towards a social group or institution (Donaldson, 1990; Le Breton-Miller et al., 2011). Stewardship theory grounds in a more humanistic model of man and understands agents, in this context referred to as "stewards", to be intrinsically motivated by altruistic motives rather than by purely economic self-interest—as suggested by agency theory (e.g., Corbetta & Salvato, 2004; Donaldson & Davis, 1991). In particular, stewards are characterised by a high level of personal commitment, service to others, a strong orientation towards the principal, and higher order needs such as self-actualisation or achievement (Davis et al., 1997; Donaldson, 1990; Donaldson & Davis, 1991). As summarised by Le Breton-Miller et al. (2011), stewardship would arise among parties that have stable relationships, that significantly interdepend and interact, and that share a similar social network (Bordieu, 1986; Nahapiet & Ghoshal, 1998; Putnam, 2000). These conditions are expected to typically occur in family firms in which managers develop a strong identification with and loyalty towards both the family and the family business (Miller & Le Breton-Miller, 2005; Miller et al., 2008).

Although stewardship theory contradicts the notion of an opportunistic agent, the alignment of interests between family principals and managers would typically depend on their actual attitude towards the business (self-serving agent vs. altruistic steward). Regarding the question whether family managers are agents or stewards, Chrisman et al. (2007) find for a sample of 208 US private family firms that family owners monitor family managers and compensate them with incentives. The results are supportive of the presence of agency rather than stewardship relationships. Le Breton-Miller et al. (2011) argue that the prevalence of agency or stewardship behaviour depends on the degree to which the business and its key executives are embedded in the family. Accordingly, stewardship-theorised empirical research could either model family embeddedness (e.g., Le Breton-Miller et al., 2011) or consider the "true" nature of the manager. Whereas stewardship theory has been prominently used in various disciplines of family firm research (either as an exclusive theoretical framework or in combination with agency theory; Madison et al., 2015 with a review), it has been scarcely embraced in the financial accounting arena so far. In this regard, family firm accounting studies more simply associate the status of being a family firm with the general prominence of stewardship behaviour (e.g., Prencipe et al., 2011).

4.2.3.3 Socioemotional wealth theory

A relatively new theoretical approach in the field of family business research that builds upon behavioural agency theory (Gomez-Mejia et al., 2000; Wiseman & Gomez-Mejia, 1998), is the concept of socioemotional wealth (SEW) (Berrone et al., 2012; Cennamo et al., 2012; Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2007; Le Breton-Miller & Miller, 2013; Miller & Le Breton-Miller, 2014). The term socioemotional wealth (also referred to as socioemotional endowment) collectively denotes non-financial utilities and affective values that family owners derive from the family business. As Gomez-Mejia et al. (2007) summarise, these aspects involve the capacity to exercise authority, the fulfilment of needs for belonging, affect and intimacy, the preservation of family values and of the social capital of the family business across generations, as well the ability to behave altruistically towards family members (using firm resources). SEW theory suggests that family owners balance decisions against the background of their impact on socioemotional endowment. Because family owners are highly averse to a loss of SEW, this also implies that they are willing to take measures that decrease economic value if affective endowment is at risk (Berrone et al., 2012). Gomez-Mejia et al. (2014) point out that the desire to protect SEW may entail positive externalities such as a proactive stakeholder engagement (Cennamo et al., 2012) but may also promote self-serving behaviours of family owners to the detriment of other shareholders (Kellermanns et al., 2012).

Whereas the SEW concept has found use in several studies on strategic decisions of family firms, SEW-based theorisation in financial accounting research on family firms is still the exception. From the SEW perspective, accounting can be seen as one measure towards preserving (or accumulating) socioemotional endowment. In this regard, Gomez-Mejia et al. (2014) provide an analytical framework that links the financial reporting behaviour of family firms (earnings management and voluntary disclosure) to two dimensions of SEW (family control and influence, family identity). The authors posit, for instance, that family firms are more likely to engage in earnings management and less likely to provide voluntary disclosures if the SEW dimension of family control and influence is the main reference point.

4.2.3.4 Resource-based view

The resource-based view (RBV) is a theoretical approach from the field of strategic management that has been used to explain differences in firm performance (Barney, 1991, 2001; Penrose, 1959; Rumelt, 1984; Wernerfelt, 1984). In this regard, RBV asserts that competitive advantages of firms and, thus, superior performance, stem from their capabilities to create valuable, rare, inimitable and non-substitutable tangible or intangible resources (e.g., Barney, 1986, 1991; Peteraf, 1993; Teece et al., 1997). In the family firm context, Habbershon & Williams (1999) argue that family involvement originates a unique bundle of resources and capabilities (referred to as "familiness") that are distinctive to a family firm (also, Habbershon et al., 2003). Similarly, Sirmon & Hitt, 2003 (2003) frame five unique resources that may provide competitive advantages over non-family firms: human capital, social capital, patient financial capital, survivability capital, and governance structure and costs. Competitive advantages of family firms arise from the fact that family managers evaluate, acquire, shed and leverage these resources differently.

As noted before, RBV gives prominence to the impact of (family) firm-specific resources on firm performance. Despite its prominent role in the management literature, it has, to the best of my knowledge, not been used as a theoretical framework in financial accounting research so far. One reason might be that RBV offers no clear prediction as to whether and how specific capabilities would affect financial accounting behaviour. Moreover, most (internally generated) resources (e.g., human capital) and, in particular, distinctive resource processing (e.g., Sirmon & Hitt, 2003) are usually not mapped through financial accounting. Accordingly, it is not surprising that RBV has played no role in financial accounting research on family firms thus far.

4.3 Financial accounting and reporting of family firms

4.3.1 Literature collection

This section provides a state of the art of research on financial accounting and reporting characteristics of family firms. For this purpose, I collect and review 33 journal publications and three working papers that explore financial accounting in a family firm setting[36]. All identified studies were published between 2000 and 2015. Unlike prior survey articles on family firm accounting research (Prencipe et al., 2014; Salvato & Moores, 2010), I abstain from cov-

[36] To identify the relevant literature, I screened all peer-reviewed journals that are included in the EBSCO Host, JSTOR and ScienceDirect databases. Working papers were collected from the Social Science Research Network (SSRN).

ering the domains of managerial accounting and auditing for the benefit of a more standardised and refined review of the prevailing financial accounting literature[37]. Consistent with Salvato & Moores (2010), I exclude studies on family firm performance (Mazzi, 2011 for a review) and studies on tax aggressiveness of family firms (Chen et al., 2010; Steijvers & Niskanen, 2014)—although these usually employ financial accounting figures. In line with Prencipe et al. (2014), I further exclude accounting studies on privately held firms that do not explicitly address financial accounting issues of family firms. TABLE 9 displays the reviewed literature.

My review of the 36 studies on financial accounting and reporting of family firms focuses on the following aspects: the subject of the study, the theoretical framework applied, the main findings, and, explicitly adding to prior literature surveys, a description of the setting, of the (left-hand) outcome variables (in case of a quantitative-empirical research design), and a refined view on the operational definition of family firms (including alternative approaches in terms of robustness checks). In the following two sections, I first outline these properties in more detail and then describe the main findings of the reviewed literature, arranged by four clusters (earnings management, earnings properties, disclosures, and other findings).

4.3.2 Properties of the reviewed studies

4.3.2.1 Subjects, empirical models and settings

Of all 36 studies on accounting and reporting issues in family firms, 14 (38.9 %) devote to earnings management, nine (25.0 %) examine (voluntary) disclosures, and seven (19.4 %) relate to earnings properties (or, synonymously, earnings quality) of family firms[38]. Three articles (8.3 %) combine different subjects, whereas one study each (2.8 %) deals with accounting conservatism, value relevance, and accounting restatements in a family firm context. In terms of method, all papers are quantitative empirical-archival studies using uni- and multivariate analyses, with the exception of Gomez-Mejia et al. (2014) who conduct a verbal-analytical study on the link between SEW and financial reporting decisions of family firms. Khan et al. (2013) empirically examine voluntary disclosures of 14 Fiji listed firms, but do not

[37] At present, this review has the broadest literature base. Prencipe et al. (2014) identify 22 published articles on financial accounting issues, of which 18 were published in or before 2013 (the submission date of their manuscript was June 2013) and four were included because they got published in the same special issue of *European Accounting Review* (September 2014). Of the additional 14 papers that I review, six were published in 2013 or later, three are working papers, and five were included presumably due to a different screening method.

[38] Several earnings quality studies involve empirical metrics that are used to identify earnings management behaviour (e.g., income smoothing). Because earnings quality is usually seen as an aggregate phenomenon, I do not separate respective findings on single earnings management-metrics from the general earnings quality context.

TABLE 9
Research on financial accounting and reporting of family firms

Study	Subject	Theoretical framework	Outcome variables	Sample	Operational definition of family firm (or family control)	Main results
Achleitner et al. (2014)	Earnings management	SEW	*REM:* abnormal level of discretionary CFO, expenses and production cost; *ABEM:* Abnormal accruals	German listed firms (1998–2008)	Two variables: 1. % family ownership (cont.) 2. Family member on management or supervisory board or holds at least 25 % voting rights (dichot.)	Family firms engage less in REM but more in ABEM. REM and ABEM appear to be substitutes, however, only when family firms report relatively high levels of REM
Al-Akra & Hutchinson (2013)	Voluntary and mandatory disclosure	Agency	Voluntary and mandatory disclosure checklist	Jordanian listed firms (2002, 2004)	At least 20 % family ownership and involvement in the top management (dichot.)	Family firms provide less voluntary disclosures but comply more with mandatory disclosure requirements, following the 2002 Jordanian Securities Act
Ali et al. (2007)	Earnings properties, management forecasts, disclosure	Agency	*Earnings quality:* discretionary accruals, predictability of CF, earnings persistence, ERC; likelihood of quarterly earnings forecasts; voluntary disclosures of corporate governance practices	S&P 500 (1998–2002)	*Business Week*-Classification (2002): Founder and/or descendants positioned in top management or board or among the companies' largest shareholders (dichot.)	Family firms exhibit better earnings quality, are more likely to inform about poor earnings through management forecasts but disclose less about corporate governance practices, which is more prevalent in family firms with founder CEO rather than descendant CEO
Bardhan et al. (2015)	Mandatory disclosure	Agency	Disclosure of material weaknesses in the control over financial reporting (section 404, SOX)	S&P 500 (2003)	*Business Week*-Classification (2003): Founder and/or descendants positioned in top management or board or among the companies' largest shareholders (dichot.)	Family firms are more likely to disclose material weaknesses (poorer internal control). The effect is more pronounced in family firms with dual-class shares
Bona et al. (2007)	Earnings properties	Agency	Discretionary accruals, predictability of CF	Spanish listed firms (1997–2009)	At least 10 % family ownership and family ownership is represented on the board (dichot.)	Family firms have less discretionary accruals and a higher predictability of cash flows than non-family firms
Cascino et al. (2010)	Earnings properties	Agency	Accrual quality, earnings persistence and predictability, smoothness, value relevance, timeliness and conservatism	Italian listed firms (1998–2004)	At least 50 % voting rights are held by a family blockholder and at least one member of the controlling family holds a managerial position (dichot.)	Family firms show a higher level of accrual quality, less persistent, more predictable and smoother earnings, higher value relevance, a slightly higher timeliness but do not significantly differ in terms of conservatism

(Continued)

TABLE 9—*Continued*
Research on financial accounting and reporting of family firms

Study	Subject	Theoretical framework	Outcome variables	Sample	Operational definition of family firm (or family control)	Main results
Chau & Gray (2010)	Voluntary disclosure	Agency	Disclosure index (Meek et al., 1995)	Hong Kong listed firms (2002)	% family ownership (cont.)	Low levels of family ownership (25 % or less) are negatively associated with voluntary disclosures whereas at higher ownership levels, the disclosure volume increases. Disclosures are positively associated with the appointment of an independent chairman
Chen et al. (2008)	Voluntary disclosure	Agency	Likelihood of management forecast (alternative proxy: conference calls)	S&P 1500 (1996–2000)	Founders or family members are key executives or directors or blockholders (dichot.); *robustness check*: % family ownership (cont.)	Compared to non-family firms, family firms are less likely to provide management forecasts, regardless of these convey good or bad news
Chen et al. (2014)	Conservatism	Agency	Non-operating accruals (Givoly & Hayn, 2000)	S&P 1500 (1996–2005)	Founders or family members are key executives or directors or blockholders (dichot.), focus on non-CEO family ownership	Conservatism is positively associated with non-CEO family ownership, but not in family firms with founder-CEOs
Chen & Jaggi (2000)	Mandatory disclosure	Agency	Comprehensiveness of mandatory disclosures (Wallace & Naser, 1995)	Hong Kong listed firms (1993–1994)	At least 10 % family ownership and at least one family member on the board (dichot.)	Independent (non-executive) directors positively affect the comprehensiveness of mandatory disclosures; the association is weaker for family firms
Ding et al. (2011)	Earnings properties	Agency	Earnings informativeness, persistence of transitory loss components, discretionary accruals	Chinese listed firms (2003–2006)	At least 10 % family ownership (dichot.)	Chinese family firms disclose less informative earnings, are less conservative and show higher discretionary accruals
Ebihara et al. (2012)*	Earnings properties	Agency	Accrual quality, predictability of CF, earnings persistence, ERC	Japanese listed firms (2006–2008)	At least 10 % family ownership and a family board member with executive authority (dichot.); further distinction between executive authority of founder or descendant	Family exhibit higher accruals quality than non-family firms, but not in firms where the founder has executive authority. Predictability of CF is negatively associated with family firm-status

(Continued)

TABLE 9—*Continued*
Research on financial accounting and reporting of family firms

Study	Subject	Theoretical framework	Outcome variables	Sample	Operational definition of family firm (or family control)	Main results
Fan et al. (2012)	Earnings properties	Asset-based view	(Unsigned) discretionary accruals, timeliness of loss recognition	Firm successions in Hong Kong, Singapore and Taiwan (1987–2005)	Succession in family firms: A succession takes place when a family member or unrelated professional is appointed to the position of chairman; distinction of the type of predecessor (founder or non-founder)	Succession family firms have lower unsigned discretionary accruals and more timely loss recognition in the year of and five years after the succession. The effect is larger for successions that involve founder predecessors
Gomez-Mejia et al. (2014)	Earnings management, disclosure	SEW	*Verbal-analytical study*	–	–	Financial reporting decisions depend on the dominant SEW-principle. Focussing on "Family Control and Influence" families are more likely to undertake earnings management and to provide less voluntary disclosure and, vice versa, if "Family Identity" is more prominent
Ho & Wong (2001)	Voluntary disclosure	Agency	Importance-adjusted relative disclosure index	Hong Kong listed firms (1997–1998)	% family members on the board of directors (cont.)	The proportion of family members on the board is negatively associated with the extent of voluntary disclosure
Jaggi & Leung (2007)	Earnings management	Agency	Discretionary accruals	Hong Kong listed firms (1999–2000)	% family members on the board of directors (cont.)	Family members on the board of directors weaken effective monitoring of earnings management through audit committees
Jaggi et al. (2009)	Earnings management	Agency	Discretionary accruals, accrual quality	Hong Kong listed firms (1998–2000)	% family ownership (cont.)	The proportion of independent directors is negatively associated with the magnitude of discretionary accruals. This relationship is moderated by family ownership (control)
Jara & Lopez (2011)	Earnings management	Agency	Discretionary accruals (three models)	Listed firms from 9 EU-countries (1996–2000)	Largest shareholder is an individual or a family (dichot.); further variables for family status of second- and third-largest shareholder (dichot.)	In family firms, contest for control (of second and third largest shareholder) reduces discretionary accruals. Higher ownership of a second or both a second and third family shareholder increase earnings management

(Continued)

TABLE 9—*Continued*
Research on financial accounting and reporting of family firms

Study	Subject	Theoretical framework	Outcome variables	Sample	Operational definition of family firm (or family control)	Main results
Jiraporn & DaDalt (2009)	Earnings management	Agency	Discretionary accruals	S&P 1500 (1994–1999)	Founder and/or descendants positioned in top management or board or among the companies' largest shareholders (dichot.)	Family firms show less discretionary accruals
Kamran & Shah (2014)	Earnings management	Agency	Discretionary accruals	Pakistan listed firms (2003–2010)	% family ownership (cont.)	Family ownership is positively related to discretionary accruals
Khan et al. (2013)	Voluntary disclosure	Agency	Voluntary disclosure index	Fiji listed firms	Incidence of family ownership (dichot.)	Fiji family owned firms provided less voluntary disclosures (no statistical inference)
Kvaal et al. (2012)*	Earnings management	Various	Discretionary accruals	Norwegian limited liability companies (2000–2007)	At least 50 % family ownership (dichot.)	Private Norwegian family firms manage earnings downward unless under financial distress. These effects are more pronounced in family firms with a family CEO, but mitigated by the existence of independent board members and attenuate with firm age
Leung & Clinch (2014)*	Earnings management, market liquidity around IFRS adoption	Agency	Earnings smoothing, frequency of small positive earnings and large losses; market liquidity (aggregated measure)	Hong Kong listed firms (2004–2006)	Two or more members of controlling families are directors or managers (dichot.)	Economic consequences around IFRS adoption (decrease of earnings smoothing, increase of market liquidity) is less pronounced in family-controlled firms
Pazzaglia et al. (2013)	Earnings management	SEW	Discretionary accruals	Italian listed firms (1995–2008)	At least 10 % family ownership (dichot.); distinction between acquired and non-acquired family firms, family CEO as control variable	Acquired family firms show more discretionary accruals than created or inherited (non-acquired) firms. In acquired family firms a non-family CEO and in non-acquired firms a family CEO increases earnings quality
Prencipe & Bar-Yosef (2011)	Earnings management	Agency	Abnormal working capital accruals	Italian listed firms (2003–2004)	At least 50 % family ownership or family controls strategic decisions (dichot.)	EM is lower in family-controlled companies, but the presence of independent directors is less effective in reducing earnings management

(Continued)

TABLE 9—*Continued*
Research on financial accounting and reporting of family firms

Study	Subject	Theoretical framework	Outcome variables	Sample	Operational definition of family firm (or family control)	Main results
Prencipe et al. (2011)	Earnings management	Agency, stewardship	Earnings smoothing	Italian listed firms (2004)	At least 50 % family ownership family is able to appoint the majority of directors on the board (dichot.); *robustness check*: 30 % family ownership (dichot.), % family ownership (cont.)	Family firms are less likely to smooth earnings and even less when CEO and board chairman are family members
Prencipe et al. (2008)	Earnings management	Agency, stewardship	R&D cost capitalisation	Italian listed firms (2001–2003)	At least 50 % family ownership or family controls strategic decisions (dichot.)	In family firms, the negative association between R&D cost capitalisation and profitability is less pronounced than in non-family firms. Unlike in non-family firms, debt covenants are an earnings management-motive
Stockmans et al. (2010)	Earnings management	SEW	Discretionary accruals	Flemish private firms (2001, survey-collected)	At least 50 % family ownership, perceived as family firm by the CEO, unlisted and medium-sized (dichot.)	Later-generation family firms perform less upward earnings management than first-generation family firms when confronted with both negative pre-managed earnings and earnings that fall below last year's reported earnings
Stockmans et al. (2013)	Earnings management	Agency	Discretionary accruals	Belgian private firms (2003, survey-collected)	1. At least 50 % family ownership and family managed or 2. at least 50 % family ownership, not family managed, but perceived as family firm by the CEO or 3. less than 50 % family ownership, family managed, perceived as family firm by the CEO at least 50 % ownership by venture capital/investment company (dichot.)	Conditional on the presence of agency conflicts between controlling and non-controlling shareholders, the proportion of outside directors and CEO duality in private family firms has a constraining effect on earnings management
Sue et al. (2013)	Accounting restatements	Agency	Restatement properties (occurrence, initiation, duration and pervasiveness)	Taiwanese listed firms (1996–2006)	Founder and/or descendants positioned in top management or board or among the companies' largest shareholders (dichot.)	For family firms, the likelihood of accounting restatements is positively associated with the divergence of control and cash flow rights and low integrity (negative media coverage)

(Continued)

TABLE 9—*Continued*
Research on financial accounting and reporting of family firms

Study	Subject	Theoretical framework	Outcome variables	Sample	Operational definition of family firm (or family control)	Main results
Tong (2007)	Earnings properties	Agency	Discretionary accruals, earnings smoothness, propensity to small positive earnings surprises and restatements, earnings informativeness	S&P 500 (1992–2003)	*Business Week*-Classification (2003): Founder and/or descendants positioned in top management or board or among the companies' largest shareholders (dichot.)	Family firms have "better" earnings quality, i.e., they show less discretionary accruals, report fewer small positive quarterly earnings, exhibit higher earnings informativeness, are less likely to restate their earnings but not differ from non-family firms in earnings smoothing
Wang (2006)	Earnings properties	Agency	Abnormal accruals, earnings informativeness, persistence of transitory loss components	S&P 500 (1994–2002)	Two variables: 1. Founding family members on the board or in top management (dichot.) 2. % family ownership (cont.)	Founding family ownership is associated with lower abnormal accruals, greater earnings informativeness and lower persistence of transitory loss components. The effect is non-linear
Wan-Hussin (2009)	Voluntary disclosure	Agency	Early adoption of FRS 114 (segment disclosures)	Malaysian listed firms (2002)	% family members on the board of directors (cont.)	Companies with a higher proportion of family members on the board are more likely to adopt FRS 114 early
Weiss (2014)	Mandatory disclosure	Agency	Disclosure of material weaknesses in the control over financial reporting (SOX equivalent of Israeli SEC)	Israeli listed firms (2010)	Two variables: 1. Two or more members of controlling families are directors or managers (dichot.) 2. % family ownership (cont.)	Family firms are less likely to disclose material weaknesses in internal control on average; material weaknesses reduce earnings quality more in family firms than in non-family firms; investors find the respective performance implications more serious in family firms
Yang (2010)	Earnings management	Agency	Discretionary accruals	Taiwanese listed firms (2001–2008)	% family ownership (dichot.); distinction of family and non-family CEO	In family firms, the level of discretionary accruals is positively related to family insider ownership and the existence of non-family CEOs, whereas family CEOs decrease earnings management
Zhao & Millet-Reyes (2007)	Value relevance	Agency	Stock price (clean surplus-model)	French listed firms (1994–1998)	% family ownership (cont.); further distinction of bank ownership	Book value (earnings) carries a greater weight for family-owned (bank-owned) firms

TABLE 9 illustrates subject, main theoretical approach, outcome variables, operational definition of family firms, and main results of 36 studies on financial accounting and reporting issues in a family firm context. Working papers are indicated by an asterisk (*). Full bibliographical details are provided in the list of references.

draw statistical inferences from their rather small sample. As in prior literature reviews, not a single experimental, model-analytical or qualitative study on financial accounting and reporting in the family firm context was found.

The predominant quantitative-empirical and narrow thematic focus of the surveyed literature suggests that financial accounting research on family firms has been strongly inspired by the general “mainstream” in accounting research. Accordingly, the respective empirical models ground in concepts that are well-established in the field. In this regard, earnings management in family firms is usually examined by estimating discretionary accruals (Ball & Shivakumar, 2005; Dechow et al., 1995; Givoly & Hayn, 2000; Jones, 1991; Kothari et al., 2005), or, with respect to real earning management activities (Achleitner et al., 2014), abnormal levels of cash flow from operations and discretionary expenses (Roychowdhury, 2006), and earnings smoothness (various measures). Prencipe et al. (2008) focus on one specific accrual component, i.e., research and development cost capitalisation. Studies on the earnings properties of family firms further involve a variety of different accounting- and market-based proxies, such as accrual quality (Dechow & Dichev, 2002), earnings response coefficients, the predictability of future cash flows, earnings persistence or the (asymmetric) timeliness of loss recognition (e.g., Dechow et al., 2010; Francis et al., 2004 for overviews). Voluntary disclosures of family firms and their compliance with mandatory disclosure requirements are often measured by continuous disclosure indices or checklists, which partially ground in instruments from prior literature (e.g., Chau & Gray, 2010 with reference to Meek et al., 1995). Further disclosure studies with different focal points exist: Ali et al. (2007) examine the likelihood of management earnings warnings and disclosures on corporate governance practices, Weiss (2014) and Bardhan et al. (2015) focus on the disclosure of material weaknesses in the control over financial reporting, Chen et al. (2008) use management forecasts as a proxy for voluntary disclosures, whereas Wan-Hussin (2009) study the voluntary adoption of the Malaysian reporting standard on segment disclosures as an indicator of corporate transparency. Chen et al. (2014), who study the impact of founding family ownership on accounting conservatism, use non-operating accruals (Givoly & Hayn, 2000) as the main proxy for conservatism; the metric does not differentiate between conditional and unconditional conservatism, however (e.g., Beaver & Ryan, 2005; Gassen et al., 2006).

Regarding the country and firm settings of the 35 empirical studies, I first observe that all except Jara & Lopez (2011) are single country studies. The majority of these are settled in Asia (14; 41.2 %; China, Fiji, Hong Kong, Malaysia, Pakistan, Singapore, Taiwan), eleven (32.3 %) examine family firms in European countries (Belgium, France Germany, Italy, Nor-way, Spain), seven studies (20.6 %) employ a US setting, and two papers (5.9 %) are settled in the Middle East (Israel, Jordan). Among the Asian and European cluster, most of the studies are settled in Hong Kong (seven) and Italy (five), respectively. The only cross-country study (Jara & Lopez, 2011) utilises data on family ownership in nine European countries. It is understandable that in the relatively young field of family firm accounting research, empirical studies would start with exploiting (familiar) single country settings because there is no need to control for institutional differences. In addition, the identification of family firms can be tailored to the respective setting (see 4.3.2.2).

Second, I observe that almost all empirical studies exploit data from listed companies (32; 91.4 %) with the exceptions of Kvaal et al. (2012), Stockmans et al. (2010) and Stockmans et al. (2013) who examine Norwegian, Flemish and Belgian private companies, respectively. The predominant focus on listed firms may stem from reasons of data availability and a wider choice of empirical accounting metrics that can be employed. Moreover, a public firm setting seems to integrate well with agency theorisation in family firm accounting research. I outline these arguments in more detail in section 4.4.

4.3.2.2 Definitional heterogeneity

With respect to the employed operational definitions of family firms, financial accounting research seems to reflect the general heterogeneity of definitional approaches, although within narrower boundaries. First, almost all reviewed accounting studies utilise definitions that ground in the components-of-involvement approach. Definitional elements of family involvement typically include (a minimum threshold) of family ownership and/or the presence of founders or family members on the management or supervisory board. Notable exceptions are Stockmans et al. (2010) and Stockmans et al. (2013) who, in addition to family ownership and management, classify a firm as a family business only if understood by the CEO as such. More refined, essence-oriented definitions have found no use in the reviewed financial accounting literature, however. Second, 29 studies (80.6 %) rely on dichotomous definitions that differentiate family from non-family firms; seven papers (19.4 %) focus on individual elements of family involvement that are measured continuously (e.g., Yang, 2010, regarding the percentage of family members on the board of directors). Third, the majority of articles identify family firms based on collected ownership data, whereas few rely on available classifications. With regard to the latter, Ali et al. (2007), Bardhan et al. (2015) and Tong (2007), all examining US listed family firms, employ the extant classification of *BusinessWeek*, according to which approximately a third of the S&P 500 companies (177) are family firms (Weber et al., 2003). The respective definition was, in turn, adopted from Anderson & Reeb (2003)[39].

As stated above, the reviewed literature commonly identifies family involvement on the basis of a family ownership threshold and/or the presence of family members on the board of directors. Whereas three-quarter (27) of the studies use either one of the two criteria (usually family ownership) to identify family firms, six papers (17.1 %) require both criteria be fulfilled. The identification strategy of Stockmans et al. (2013) involves three different combinations (two of them adding the perception as family firm). Fan et al. (2012) and Gomez-Mejia et al. (2014) work in a given family firm context that requires no further definition. Out of the 36 reviewed studies, only five employ an alternative family firm definition, either by research design (Achleitner et al., 2014; Wang, 2006; Weiss, 2014) or as robustness test (Chen et al., 2008; Prencipe & Bar-Yosef, 2011).

Notably, the criteria of family ownership and board presence are interpreted (and applied) quite differently in the reviewed literature. The minimum threshold of family stock ownership applied to identify family firms, for instance, varies significantly across studies[40]. It is usually set at a higher level in (country) settings where ownership structures are less disperse, suggesting that different thresholds are necessary to account for different institutional characteristics (similarly, Prencipe et al., 2014[41]). The second definitional criterion— family presence—is also formulated differently. Several studies require at least one family member holding a managerial position to identify a family firm (Achleitner et al., 2014; Cascino et al., 2010; Chen & Jaggi, 2000; Ebihara et al., 2012), whereas others refer to family members in the plural (e.g., Chen et al., 2008; Leung & Clinch, 2014; Weiss, 2014 and those studies based on the *BusinessWeek* classification). Still others are less specific and speak of family involvement in the top management (Al-Akra & Hutchinson, 2013) or the family's ability to control strategic decisions (Prencipe et al., 2008).

Although research on financial accounting of family firms is almost exclusively premised on the components-of-involvement approach, it still shows a remarkable heterogeneity in the interpretation and operationalisation of respective definitional criteria. In this regard, dif-

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[39] Anderson & Reeb (2003) define a business as family firm if the founder and/or its descendants are positioned in the top management or among the board, or are among the company's largest shareholders.

[40] Bona et al. (2007), for instance, require a threshold of 10 % to differentiate Spanish family firms, whereas Cascino et al. (2010) use a minimum level of 50 % in the Italian setting (likewise, Prencipe & Bar-Yosef, 2011; Prencipe et al., 2011; Prencipe et al., 2008). Intriguingly, Pazzaglia et al. (2013), who also employ a sample of Italian listed firms, set a 10 % (ultimate) ownership threshold, which is understood to be consistent with international studies on corporate ownership (esp., Anderson & Reeb, 2003; Morck & Yeung, 2003).

[41] The authors exemplify that a 5 % ownership threshold (which, in the US context, points to sufficient ownership concentration) would misclassify all Italian listed firms as family firms because the average level of ownership of the major shareholder in Italy is around 58 %.

ferent minimum thresholds of family ownership may be reasonably useful to account for the specific institutional characteristics of the chosen (empirical) setting. By contrast, the subtleties in assessing family influence through the presence of family members among the board—in conjunction with the, thus far, limited knowledge about the internal validity of different definitional approaches and the respective sensitivity of empirical results—impedes the comparability and synopsis of research findings.

4.3.2.3 Adoption of family firm theories

As TABLE 9 suggests, the by far most commonly used theoretical paradigm to underpin financial accounting and reporting behaviour of family firms is agency theory. Out of 36 studies, 30 (83.3 %) are premised on agency theorisation alone, which corresponds to the widespread use of agency theory in accounting research in general (e.g., Prencipe et al., 2014; Salvato & Moores, 2010). These articles usually address the effect of an alignment between family owners' and managers' interests (Type I agency problem) and the effect from potential conflicts of interest between controlling family and minority shareholders (entrenchment; Type II agency problem) on the subject of choice. Because the alignment and the entrenchment effects are understood to have an opposing impact on accounting behaviour, agency theory-based studies—in particular those that compare family firms to non-family firms—formulate contrary (e.g., Ali et al., 2007) or non-directional hypotheses (e.g., Cascino et al., 2010); others hypothesise the prevalence of either one of both effects (e.g.; Ding et al., 2011). Usually, the aggregate impact of interest alignment and managerial entrenchment is seen as an ultimately empirical issue.

Notably, alternative theoretical approaches to studying family firm accounting have received relatively little attention in the reviewed literature. Stewardship theory, for instance, is only addressed in the earnings management studies of Prencipe et al. (2008) and Prencipe et al. (2011), however, merely as a supplementary perspective to the (dominating) agency framework. Four articles have recently adopted the relatively new theoretical perspective of SEW preservation in family firms (Achleitner et al., 2014; Gomez-Mejia et al., 2014; Pazzaglia et al., 2013; Stockmans et al., 2010), which allows a more refined view on accounting choices of family firms. Stockmans et al. (2010), for instance, posit and empirically support that, conditional on poor firm performance, first-generation family firms engage more in upward earnings management than later-generation family firms because the attachment to SEW is expected to be strongest in the founding stage. As family firms are, compared to non-family firms, generally more concerned with the preservation of wealth over time, Achleitner et al.

(2014) predict that family firms would engage less in earnings management practices that negatively affect their firm value. The authors show that, in line with their conjecture, German listed family firms exhibit less real earnings management but more earnings-decreasing accrual-based earnings management.

Two studies provide more pointed theoretical viewpoints that are tailored to the respective scope. Fan et al. (2012) argue that in the course of family firm successions, specialised assets (such as reputation and social or political networks; e.g., Fan et al., 2008) dissipate, which will change business procedures, firm contracting and corporate governance. Accordingly, stakeholders are expected to demand (and the successor to adopt) more outsider-based financial reporting that translates into higher quality earnings. Exploring family firm successions in Hong Kong, Singapore and Taiwan, Fan et al. are able to support this notion. In their working paper, Kvaal et al. (2012) collect a variety of earnings management-related hypotheses from related frameworks and idiosyncratic features of family firms. These involve incentives to keep firm wealth and control in the family, the role relationship lending, interest alignment, the impact of independent board members and the generational stage of the firm.

4.3.3 Summary of main findings

4.3.3.1 Earnings management

As the literature review suggests, earnings management is the most widely studied topic in financial accounting research on family firms. To outline the respective findings, I arrange earnings management studies into three groups, i.e., studies that focus on the original earnings management behaviour of family firms, papers that examine as to whether and how family firm status impacts the effect of certain corporate governance mechanisms on earnings management, and studies with other focal points.

Empirical evidence on the genuine earnings management behaviour of family firms is mixed. Several studies suggest that family firms are significantly less likely to manage earnings than non-family firms. Jiraporn & DaDalt (2009) show that S&P 1500 family firms exhibit less discretionary accruals, Prencipe & Bar-Yosef (2011) find lower abnormal working capital accruals among Italian family-controlled companies, Prencipe et al. (2011) illustrate that Italian family firms have less smooth earnings, and Prencipe et al. (2008) find the negative association between R&D cost capitalisation and profitability in Italy to be less pronounced for family firms. By contrast, Kamran & Shah (2014) and Yang (2010) provide evidence that in Pakistan and Taiwan, respectively, earnings management increases with the level of family ownership, which is supportive of the entrenchment argument under agency theory. Consistent with their conjecture that private family firms are more eager to understate their financial performance than non-family firms, Kvaal et al. (2012) find Norwegian private family firms to engage more in downward earnings management unless under financial distress. Finally, Achleitner et al. (2014) show that German listed family firms engage less in real earnings management (REM) but more in accrual-based earnings management activities (ABEM) than non-family firms. Moreover, they seem to treat REM and ABEM as substitutes, which is understood to be consistent with family firms' incentives to preserve SEW.

Studies from the second cluster explore the impact of family control on the relation between corporate governance characteristics and earnings management. The respective findings suggest that family involvement generally mitigates the effectiveness of certain corporate governance mechanisms in constraining earnings management. In particular, Jaggi & Leung (2007) find that, among Hong Kong listed firms, the presence of family members on the board of directors weakens the effective monitoring of earnings management through audit committees. In the same setting, Jaggi et al. (2009) demonstrate that, whereas board independence generally attenuates earnings management, this effect decreases with increasing family ownership. Stockmans et al. (2013) show that, conditional on the presence of agency II conflicts, outside directors constrain earnings management of Belgian private firms.

Further earnings management studies have different focal points. In a European cross-country setting, Jara & Lopez (2011) demonstrate that in family-owned firms, contestability of family control by the second- and third-largest non-family shareholder[42] is negatively associated with earnings management. The findings suggest that non-family blockholders are capable of mitigating opportunistic behaviour of family owners and their respective expropriation of private benefits. By contrast, earnings management increases if the second-or third-largest shareholder is another family member. Employing the SEW perspective, Stockmans et al. (2010) show that founder-generation Flemish private family firms are more likely to engage in upward earnings management than later-generation family firms because their attachment to SEW is presumed to be higher. Leung & Clinch (2014) provide evidence that the decrease of earnings smoothness around IFRS adoption of Hong Kong listed firms is less pronounced among family controlled firms.

4.3.3.2 Earnings properties

Empirical studies on the properties of accounting earnings employ a variety of accounting-based and/or market-based metrics (e.g., Dechow et al., 2010). Respective findings are usual-

[42] Contestability of control is measured as the sum of ownership of the second- and third-largest shareholder relative to the ownership stake of the largest shareholder.

ly condensed into a summary statement on earnings quality (also referred to as accounting quality). Whereas the term quality is, *per se*, neutral, earnings quality builds upon the basic idea that high (low) quality earnings reflect the underlying economics of the business in a more (less) faithful and predictable way.

Empirical evidence suggests that family firms generally report higher quality earnings than non-family firms. In particular, Ali et al. (2007) expose higher earnings quality of S&P 500 family firms on the basis of four earnings attributes (discretionary accruals, predictability of cash flows, earnings persistence, and earnings response coefficients). Similarly, Wang (2006) finds that, on average, founding family ownership of US firms is associated with higher earnings quality (abnormal accruals, earnings informativeness, and persistence of transitory loss components). This effect is nonlinear, however. When family ownership exceeds certain levels (58–68 %, depending on the metric), family firms report lower quality earnings, which may point to either an entrenchment effect on the supply of earnings quality or an alignment effect on the demand for earnings quality[43]. Bona et al. (2007) observe that Spanish listed family firms exhibit less discretionary accruals and a higher predictability of cash flows than non-family firms.

Further studies provide mixed evidence with respect to individual metrics but conclude that, in the aggregate, family firms still exhibit higher earnings quality. Cascino et al. (2010), for instance, find that Italian listed family firms report less persistent and smoother earnings, whereas they exhibit a higher accrual quality, earnings predictability and value relevance. There are similar findings for Japanese listed family firms (Ebihara et al., 2012; lower predictability of cash flows) and S&P 500 family firms (Tong, 2007; no difference in earnings smoothing).

Ding et al. (2011) contrast the previous results and show that Chinese listed family firms report less informative and conservative earnings and have higher discretionary accruals than non-family firms.

Finally, Fan et al. (2012) put earnings quality into a transgenerational perspective and find that, after a succession, family firms report higher quality earnings (lower unsigned discretionary accruals and more timely loss recognition), which is understood to result from a shift towards more outsider-based financial reporting.

[43] Among the reviewed literature, Wang (2006) explicitly differentiates between the supply of and demand for accounting information. Wang notes that it is unclear whether higher earnings quality stems from family firms' demand for greater earnings quality or their supply of higher quality earnings. He states that, in this regard, his study is limited to identifying a mere empirical association.

4.3.3.3 Disclosures

Studies on the disclosure practices of family firms address various issues such as the extent of voluntary disclosures, compliance with mandatory disclosure requirements and particular disclosure elements (e.g., disclosures on corporate governance). Because of different focal points, institutional settings, and methods, respective findings are hard to reconcile. All disclosure studies are unified by being premised on agency theory, however.

One cautious tenor of the results is that family firms seem to engage in disclosure practices that are consistent with the prevalence of an alignment of interests between family owners and managers. How the alignment effect translates into voluntary disclosures, is seen differently, however. One argument is that, under an alignment of interests, there is less demand for voluntary disclosures. In this regard, Al-Akra & Hutchinson (2013), Chen et al. (2008) and Khan et al. (2013) find that family firms provide less voluntary disclosures than non-family firms. By contrast, Ali et al. (2007) observe that US family firms are more likely to warn about poor earnings through management forecasts. Wan-Hussin (2009) shows that Malaysian listed family firms are more inclined towards greater reporting transparency through the early adoption of the Malaysian Financial Reporting Standard 114 *Segment Reporting* (2001) in full.

To provide a more refined view on the boundaries between agency I and II conflicts, Chau & Gray (2010) examine the association between the extent of voluntary disclosures (Meek et al., 1995) and the level of family ownership of Hong Kong listed firms. The results show that at moderate levels of family ownership (25 % or less), i.e., under the expected prevalence of the alignment effect, the extent of voluntary disclosures is relatively low because there is less demand for voluntary disclosures. At higher ownership levels (more than 25 %) family controlled firms provide relatively more voluntary disclosures. This is consistent with the conjecture that, under the scenario of managerial entrenchment, family controlled firms supply more voluntary disclosures to allow effective monitoring by outside shareholders. In addition, the impact of family ownership on voluntary disclosures is mitigated by the appointment of an independent chairman. By contrast, Ho & Wong (2001) predict and illustrate that voluntary disclosures of Hong Kong listed firms are negatively associated with the number of family members on the board (a surrogate for family ownership). One possible explanation for this contrary result is that family presence is only one of four corporate governance attributes that are examined simultaneously; the others involve the proportion of independent directors, the existence of an audit committee, and CEO duality.

Evidence on family firms' compliance with mandatory disclosure requirements is mixed. Al-Akra & Hutchinson (2013) argue that non-compliance may entail reputational losses that especially family firms seek to avoid and show that Jordanian family firms comply more comprehensively with mandatory disclosure requirements than non-family firms. Moreover, in response to the enhanced disclosure requirements of the 2002 Jordanian Securities Law, the "compliance gap" between family and non-family firms has increased. Chen & Jaggi (2000) find that, among Hong Kong listed firms, independent non-executive directors positively affect the comprehensiveness of disclosures; the association is weaker for family-controlled firms, however. Consistent with their findings, the authors posit that family control may either impede directors' independence and their respective influence on the comprehensiveness of financial information or that controlling family members have a lower demand because they direct access to such information. Bardhan et al. (2015) provide evidence that S&P 500 family firms are more likely to disclose material weaknesses in their internal control over financial reporting (required under Section 404 of the Sarbanes-Oxley Act; SOX). These findings are understood to be in line with the entrenchment argument, i.e., family owners would establish weaker internal controls over financial reporting to expropriate private benefits. By contrast, Weiss (2014) finds that Israeli listed family firms are associated with fewer material weaknesses (the Israeli rule is equivalent to SOX), which suggests that the alignment effect is, on average, stronger than the entrenchment effect. As few Israeli companies report severe weaknesses, the latter may not always be the case, however.

4.3.3.4 Other findings

Three of the reviewed financial accounting studies relate to other than the aforementioned subjects. Regarding accounting conservatism, Chen et al. (2014) conjecture that family owners prefer conservative financial accounting to reduce litigation and agency costs. In support of this prediction, they find that, among S&P 1500 family firms, conservatism is positively associated with a non-CEO family ownership. This relation, however, is attenuated by the presence of founder CEOs, most likely due to an interest alignment between founder CEOs and shareholders. Sue et al. (2013) examine the properties of accounting restatements by Taiwanese listed firms and find that family and non-family firms do not significantly differ in the propensity to issue accounting restatements. However, the likelihood of financial restatements of family firms is positively related to the divergence between controlling shareholders' control rights and cash flow rights, and the extent of negative media coverage (a proxy for firm integrity). These determinants are insignificant for non-family firms. In addition, accounting restatements of family firms are more extensive. The results suggest that Taiwanese family firms are inclined to commit more severe accounting infringements to conceal private control benefits. Exploring the information content of book value and earnings, Zhao & Millet-Reyes (2007) find that for French family-owned firms, the book value of equity is, compared to bank-owned firms, of greater value relevance than reported earnings. This finding is understood to be consistent with the notion that family-controlled firms have fewer incentives to report timely and relevant earnings because information asymmetries between family owners and managers are resolved through inside communication.

4.4 Discussion and suggestions for future research

As the findings from the literature review have shown, prior research on financial accounting and reporting of family firms has been dominated by empirical-archival, family involvement-oriented, and agency theory-based studies with a rather narrow range of subjects (earnings management, earnings quality, and disclosures). Whereas the prevalence of quantitative-empirical studies applies to financial accounting research in general, I contend that financial accounting research on family firms reflects a relatively stable "interlocking" of theory, method, and operational definition of family firms that seems unique in this field. In this section, I first outline the interlocking effect from the starting point of theorisation to provide one possible explanation for the state of the art in family firm accounting research. In the second part of this section, I provide several suggestions how future research may broaden our understanding of financial accounting and reporting issues in the family firm context.

From the perspective of agency theory, any study that aims to address the opposing effects of interest alignment and entrenchment would ideally require sufficient variation in the level of family ownership and/or the incidence of family management across firm observations. In this regard, suitable data is more likely to be found among listed rather than (relatively smaller) private firms with less dispersed ownership structures and, frequently, an identity of owners and managers. Exploiting a listed firm setting, in turn, would facilitate the identification of a non-family control group if the study is designed to be comparative. More importantly, listed firm settings usually come with the benefit of better data availability which simplifies the selection (and computation) of left-hand variables to be examined, including capital market-based metrics, such as (asymmetric) earnings timeliness (e.g., Francis et al., 2004). In addition, more comprehensive data on ownership and board structure fits well with employing involvement-based, dichotomous family firm definitions or continuous measures (e.g., percentage of family ownership). By contrast, defining family firms by essence would presumably require the collection of additional survey-data, which is not only costly and time-consuming, but could also come with methodical problems such as low response rates or response biases. A good example of the respective complexity is Stockmans et al. (2010). In their study on earnings management of Flemish private firms, data on firm characteristics was collected through a survey of 8,367 Flemish companies in 2001, of which 896 (10.7 %) responded; due to further data requirements the final sample was reduced to 132 family firms.

Taken together, I conclude that one explanation for the, thus far, dominant “type” of family firm-study in financial accounting (empirical-archival, involvement-oriented, and agency-based) could be the fact that theorisation, method and definition form an interlocked and rather stable research framework. In the relatively young field of accounting research on family firms, this interrelation seems to make studying family firms more accessible to accounting scholars. It should be noted, however, that a few of the reviewed studies have already pushed these boundaries by adopting alternative theories (e.g., Achleitner et al., 2014), utilising essence-oriented family firm definitions (Stockmans et al., 2010, 2013), exploiting private firm settings (*idem*), or using a different (verbal-analytical) method (Gomez-Mejia et al., 2014).

Although much has been achieved, it is evident that research on financial accounting and reporting of family firms still faces vast opportunities with regard to the richness of subjects, settings, definitional subtleties, theoretical approaches, and research methods. Eventually, this gives rise to the question how future research in this field could (and should) move forward. Following the aforementioned aspects, I will outline several avenues for future research that make no claim to be exhaustive, however.

Given that prior empirical research on financial reporting of family firms has provided results that are hard to compare due to different settings, metrics, and focal points (e.g., disclosures) and that are, to some degree, still conflicting (e.g., earnings management), a natural avenue for future research might lie in contributing further evidence on extant subjects. For instance, it would be interesting to examine how earnings management activities of family firms differ across various institutional settings, to investigate whether different institutional properties (e.g., legal protection) affect the observed relation between real and accrual-based earnings management of family firms, whether the general tenor of better earnings quality remains robust, or to provide further evidence on (voluntary) disclosure practices of family firms. In addition, there are various subjects that have received little or no attention so far such as accounting choices in family firms. Moreover, Prencipe et al. (2014) and, similarly, Salvato & Moores (2010) note that there is a lack of capital market-based research so far that explores how differences in (the quality of) accounting information between family and non-family firms affect market valuation and, consequently, market liquidity or cost of capital.

The prevalence of research on listed family firms—that also applies to others field of business research (e.g., Carney et al., 2015)—points to another gap, i.e., the lack of evidence on accounting and reporting of private family firms. One may argue that listed family firms only represent a small subset of the family business universe that, through the choice to go public, were willing to accept significant formal changes in corporate governance, first and foremost, regarding ownership structure (e.g., Ehrhardt & Nowak, 2003). By contrast, private family firms (the majority of family businesses) lack capital market pressures, are understood to value secrecy and privacy (Alderson, 2012) and, thus, are subject to different reporting incentives than public family firms. In this regard, accounting research on private firms in general may provide valuable impulses that could be transferred to the family context (e.g., Burgstahler et al., 2006). It should be noted, however, that exploring a private family firm setting may have the disadvantage of poor data availability (see above) and complicates the identification of non-family control firms. The latter may, in turn, encourage research among different types of (private) family firms (Westhead & Howorth, 2007 for a typology of private family firms) rather than a comparison to non-family firms based on dichotomous distinctions.

With respect to the operational definition of family firms, future accounting research might take two different directions. One evident avenue lies in the broader application of operational family firm-definitions that involve definitional components of essence (see 4.2.2). A near choice, for instance, would be to examine accounting phenomena along the continuous F-PEC scale and its subscales, which would require the (costly) collection of supplementary survey-data, however. On the other hand, even within the narrower boundaries of the involvement approach, operational family firm-definitions have varied among prior accounting studies. In this regard, Prencipe et al. (2014) believe that researches should properly clarify and justify the adopted definition and elaborate on the generalisability of their findings to facilitate the comparability of results.

Similarly, financial accounting research on family firms could considerably benefit from embracing a broader range of theoretical perspectives. As the literature review suggests, family firm-specific approaches such as SEW, or the complementary view of stewardship theory have provided interesting hypotheses and insights into accounting behaviour of family firms but are, by contrast to agency theory, still underrepresented. Moreover, accentuating emotional values such as loyalty, affection, love, or sentimentality that stem from kinship, psychology (but also other social science disciplines) may provide further useful theoretical impulses to study the idiosyncrasies of family firms. With regard to the former, Nicholson (2008: 74), for instance, argues that "[e]volutionary psychology can augment agency theory by providing an expanded conception of human nature, giving a more complete account of human interests and a more detailed construction of the processes of human rationality". Accordingly, he outlines three features that are unique to family firms: genetic identity, intergenerational transmission, and wildcard inheritance. Further literature focuses on family firm-related psychological dimensions such as psychological ownership (e.g., Bernhard & O'Driscoll, 2011; Mahto et al., 2014; Pierce et al., 2001) or the psychology of family firm succession (e.g., Handler & Kram, 1988; Kaye, 1996; Tagiuri & Davis, 1996 with further references on both aspects). In this regard, it would be very interesting to see whether financial accounting studies could benefit from implementing respective theoretical impulses and, accordingly, from opening up to an interdisciplinary conduct of research.

The last (and probably most important) suggestion for future research is to consider the use of research methods other than quantitative-empirical. As shown before, there has been a lack of experimental, formal-analytical, and, in general, qualitative-empirical work in financial accounting research on family firms so far. It is evident that future research faces manifold opportunities here. Analytical models might provide insightful predictions on various accounting phenomena, which, in turn, could be empirically tested. Experimental settings may allow to isolate certain treatment effects of interest, for instance, the dichotomy between family and non-family firms, the managers' attitude (agent vs. steward), the generational stage of the firm (founder vs. heir), or others (similarly, Prencipe et al., 2014) and could, in turn, fit well with psychology-based theorisation[44]. Finally, qualitative research might help to attain a deeper understanding of the genuine reporting behaviour(s) of family firms, for instance, through tailored surveys and/or interviews. In this regard, Salvato & Moores (2010) argue that questions focusing on how certain accounting phenomena (e.g., accounting choices, earnings management) unfold in family firms, are better addressed through longitudinal case studies and field studies of family firms rather than quantitative approaches. Moreover, qualitative research might help to move away from the associative (and non-causal) nature of prior quantitative-empirical studies towards a more refined understanding of what "really" drives accounting and reporting of family firms.

[44] See Libby et al. (2002) for an illustration experimental studies in financial accounting research.

4.5 Conclusion

Family firms are of considerable economic importance and a prevalent type of business in numerous economies worldwide. Intriguingly, accounting research has only recently begun to discover family firms as a unique setting of (empirical) research.

To condense respective findings and to provide guidance for future research in this relatively young field, this chapter provides a state of the art of the literature on financial accounting and reporting of family firms. For this purpose, I review 33 journal publications and three working papers with respect to subject, method, empirical models (if applicable), setting, family firm-definition, theory, and main findings. For the benefit of an in-depth review, I abstain from including studies on managerial accounting and auditing of family firms. The literature review suggests that financial accounting research has focussed on a narrow range of subjects (earnings management, disclosures, and earnings properties) so far. Prior work has almost exclusively been quantitative-empirical and has focused on listed family firms in single country settings. Operational definitions largely pertain to the involvement approach and include the definitional elements of family ownership and family presence on the management or supervisory board. Moreover, the vast majority of studies are premised on agency theory, whereas only few employ complementary or alternative approaches such as stewardship theory or SEW. I contend that the dominant study type and, thus, the state of the art in financial accounting research on family firms stems from a relative stable interlocking of theory, method and empirical operationalisation. Regarding individual subjects, I find that evidence on disclosures and earnings management in family firms is heterogeneous. Family control, however, seems to attenuate the effectiveness of corporate governance mechanisms in constraining earnings management. Moreover, family firms generally seem to exhibit higher earnings quality than non-family firms.

The literature review concludes with several (non-exhaustive) suggestions for future research which are premised on evident gaps between financial accounting research and family business research in general as well as potential avenues from the accounting arena itself. In particular, I argue that future research may benefit from a refinement of existing evidence or the inclusion of unexplored subjects (e.g., market-based research). From the perspective of empirical research, a very natural suggestion relates to exploiting private family firm settings. Regarding the identification of family firms, future studies might consider employing essence-oriented definitions and/or elaborating on the validity of prior definitional attempts. I further argue that financial accounting research might benefit from opening to alternative theoretical perspectives, for instance, from the field of psychology. My final and, presumably, most important suggestion is to consider a broader range of methods in studying accounting behaviour of family firms. In this regard, qualitative work in particular might overcome the associative nature of prior quantitative-empirical studies and provide a deeper understanding of what “really” drives family firm accounting.

Chapter 5

Concluding Remarks

This doctoral thesis presents three studies on German accounting history, on the internal sphere of private accounting standard setting of the IASB, and on the state of art of financial accounting and reporting research on family firms.

Chapter 2 explores the impact of accounting internationalisation on the contracting-oriented German accounting system from a historical-institutional perspective. Providing an in-depth case study, we illustrate how accounting internationalisation has triggered balancing acts between a path-dependent preservation of the traditional contracting role and a moderate move towards valuation-based international benchmarks. These balancing endeavours are accompanied by several contracting implications. We conclude that the continuing (valuation) impact of the IFRS will set off further adjustments in the German institutional setting. Because of the persistent institutional characteristics of the German credit-insider economy, these processes will presumably take more time. Notably, institutional persistency and the related notion of path-dependent processes cast doubt on the idea that accounting systems will globally converge to a uniform accounting and contracting system. However, further research is necessary to broaden our understanding of the impact of IFRS on contracting in the code-law area, of related changes and frictions in the historically developed institutional setting, and of evolutionary balancing processes.

Chapter 3 sheds light on the internal sphere of private accounting standard setting of the IASB, in particular, the dynamics of board discussions and (tentative) decisions, the role of arguments brought forward in these debates, and the respective contributions of individual IASB and staff members. For this purpose, we conduct a content analysis of audio playbacks of 14 IASB meetings on the amendment of IAS 19 *Employee Benefits* (2011) between November 2008 and February 2010. We identify a set of 205 categories, embodying 1,993 codings in total, which we arrange into four main categories: project elements, arguments, references and governance. At the project element level, we first expose the chronology of IASB discussions and decisions and then highlight how individual participants affected board debates and respective decisions. Regarding argumentation, we find that conceptual arguments played a relatively greater role than specialised or consistency arguments. Findings from the reference main category suggest that agenda papers, involving staff summaries and recommendations, were a dominant source of information for board members. IASB members occasionally argued from the perspectives of particular constituents or examples but only scarcely referred to their personal or professional background. Finally, we outline the prominent role of the chairman in leading the IASB meetings, on the intermediary role of technical staff and on general observations regarding board-staff relations, language proficiency, and the board meetings' discussion culture.

It should be emphasised that our findings need to be interpreted cautiously. Above all, our observations are restricted to the sphere of board meetings. Accordingly, we fail to identify opinion making and interactions between board and staff members outside of the IASB meetings at hand. Moreover, even within the internal meeting sphere, observability could be an issue because participants may feel no need to reveal their position if it has already stated by someone else or may involve in discussions at certain points of time only. Even if board members remain silent, they still influence decisions through their vote, however. Although we believe that exploring board meeting audio playbacks provides novel and valuable insights into the black box of IASB standard setting, further research may add to our results. Exploiting complementary sources, particularly surveys and interviews of IASB and staff members, seems promising to reappraise our interpretations. Further comparative research based on the vast amount of (audio) material provided by the IASB (or other standard setters) may contribute to our understanding of the role of key players in the due process, group formation, argumentation, and references as well as governance aspects. This could also embrace other dimensions of IASB discussions that have not yet been analysed in depth, such as power, the style of negotiation and communication, or rhetoric.

Chapter 4 provides a state of the art of the literature on financial accounting and reporting of family firms. For this purpose, I review 33 journal publications and three working papers with respect to their subject, method, empirical models (if applicable), setting, family firm-definition, theoretical framework, and main findings. The literature review suggests that financial accounting research on family firms has, in general, been a "non-pluralistic" subfield so far. In this regard, I point to several (non-exhaustive) suggestions for future research which are premised on evident gaps between financial accounting research and family business research in general as well as potential avenues from the accounting arena itself. First, future research may benefit from a refinement of existing evidence or the inclusion of unexplored subjects (e.g., market-based research). From the perspective of empirical research, another suggestion relates to exploiting private family firm settings. Regarding the identification of family firms, future studies might consider employing essence-oriented definitions and/or elaborating on the validity of prior definitional attempts. Moreover, financial accounting research might adopt different theoretical perspectives. In line with the general call for methodical pluralism in accounting research (see chapter 1), my final suggestions is to consider a broader range of methods in studying accounting behaviour of family firms. In particular, qualitative work seems promising to explore the genuine accounting and reporting behaviour of family firms in more depth.

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