The harmonisation of GAAP and GFS financial reporting in the Australian public sector: Why and how did it happen?
An agenda setting perspective

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PhD Candidate

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy
In April 2003, the Financial Reporting Council (FRC) issued a strategic direction to the AASB to develop an accounting standard that would harmonise Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) accounting for Australian public sector entities. Australia is the only jurisdiction that has developed and implemented such an accounting standard. This thesis examines how and why the FRC made the decision to issue this strategic direction in a qualitative historic case study. The main data sources are oral histories and archival and other written documents.

The thesis adopts the perspective that public sector accounting standards are essentially a type of public policy and adopts an agenda setting theoretical framework to investigate the events. Addressing previous calls for the use of a more sophisticated construct to investigate accounting agenda setting processes, the thesis develops a holistic, epistemologically and theoretically grounded framework combining existing theoretical lenses. The theoretical framework introduces discourse to the investigation of accounting agenda setting, enabling new insights into the political nature this process. The theoretical aspect of this thesis highlights the importance of considerations of institutional political and discursive elements and individual and collective actors in investigations of accounting agenda setting.

The thesis argues that policy entrepreneurs (PEs) faced problems during the preparation of the federal government budget papers for the financial year 1999/2000. They identified the idea of GAAP/GFS harmonisation as a potential solution to their problems. At that point in time, however, other issues dominated the agendas of governments and standard setters. This created a need for the PEs to engage in a strategic process to convince the standard setters to consider and act upon GAAP/GFS harmonisation. The PEs initially focused their lobbying activity on the accounting standard setting bodies. At some point in time, it became evident, however, that the Australian Accounting Standards Board (AASB) might not decide to develop a desired accounting standard. As a result, the PEs refocused their lobbying on the AASB’s oversight body, the FRC, which essentially provided the strategic direction to the AASB.

As part of the agenda setting process, the PEs had to search for a set of problems that served as a justification for their policy solution. They also created a new epistemic community that was bound by the belief that GAAP and GFS accounting principles could be harmonised and serve microeconomic GAAP and macroeconomic GFS objectives. The thesis found that the PEs were able to exploit a window of opportunity to convince the FRC of their favoured solution. FRC members from non-public sector backgrounds relied on the expertise of public-sector members and the support of the epistemic community for the project. In essence, the thesis argues that the FRC and the AASB lost control over their agendas in the GAAP/GFS harmonisation agenda setting case.

Policy implications from this research project are that the institutional independence of the FRC and the AASB should be reconsidered. In addition, the institutional arrangements for public sector accounting standards should be reflected on in the light of the lack of contribution of FRC members without-public sector experience. Last, a more formalised agenda setting project should be implemented.
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<td>AARF</td>
<td>Australian Accounting Research Foundation</td>
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<td>AAS</td>
<td>Australian Accounting Standard (pre 2000)</td>
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<td>AASB</td>
<td>Australian Accounting Standard (post 2000)</td>
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<td>AASB</td>
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<td>AC</td>
<td>Advocacy Coalition Framework</td>
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<td>ACAG</td>
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<td>AICPA</td>
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<td>ANAO</td>
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<td>ASB</td>
<td>Accounting Standards Board (UK)</td>
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<td>ASX</td>
<td>Australian Stock Exchange</td>
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<td>BEFR</td>
<td>Budget Estimates and Framework Review</td>
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<td>CLERP</td>
<td>Corporate Economic and Legal Reform Program</td>
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<td>DASF</td>
<td>Discursive Agenda Setting Framework</td>
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<td>DI</td>
<td>Discursive Institutionalism</td>
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<td>EITF</td>
<td>Emerging Issues Task Force</td>
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<td>EU</td>
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<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<td>GAAP</td>
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<td>IAD</td>
<td>Institutional Analysis and Development Framework</td>
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<td>International Financial Reporting Standards</td>
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<td>IPSASB</td>
<td>International Public sector Accounting Standards Board</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JCPAA</td>
<td>Joint Committee on Public Accounts and Audit</td>
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<td>MS</td>
<td>Multiple Streams Framework</td>
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<td>NCSC</td>
<td>National Companies and Securities Commission</td>
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<td>PD</td>
<td>Path Dependency</td>
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<td>PEQ</td>
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<td>PFI</td>
<td>Private Finance Initiative</td>
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ACKNOWLEDGMENT

This thesis would not have been possible with the immense support, goodwill and generosity of many people. I would like to express my profuse gratitude to my supervisory team including Professor Murray Scott Henderson, Associate Professor Bryan Howieson and Dr Christopher Graves. Professor Henderson provided guidance from a wealth of experience and didn’t lose faith when reading long sentences of English delivered early on with German grammar. Associate Professor Howieson, who brought me back onto the path when I’d gotten lost in the literature, always tested my conceptual framework and research questions. I would like to thank my supervisory team for their academic and personal guidance and encouragement, their trust, never-ending patience and for being there when I needed them.

The project has also benefited from other scholars who have provided feedback, guidance, inspirations and goodwill. The project would not have been possible without the support of the individuals that kindly agreed to be interviewed for this thesis, despite their busy timetables. I greatly appreciate their willingness and openness to contribute to this thesis. In particular, I would like to thank Robert Keys, who has been a kind and wise mentor.

Finally, I want dedicate this thesis to my family. To my parents Robert and Nam Kyu, who gave me the basis for being able to do this work and who are always there for me. To my favourite sister Susi, who understands what it means to write a thesis and who knows how to make me smile. To Barbara, Richard, Michael and their kids for being my Australian family. And to my partner David, who was with me and supported me throughout this journey. Thank you, I love you.
DECLARATION

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide and where applicable, any partner institution responsible for the joint-award of this degree. I give consent to this copy of my thesis, when deposited in the University Library, being made available for loan and photocopying, subject to the provisions of the Copyright Act 1968. I also give permission for the digital version of my thesis to be made available on the web, via the University’s digital research repository, the Library catalogue and also through web search engines, unless permission has been granted by the University to restrict access for a period of time.

Sabine Schürrer

Adelaide, 28 February 2014
CHAPTER 1 INTRODUCTION

1.1 INTRODUCTION TO THE RESEARCH PROJECT

Since the late 1980s, public sector accounting in many jurisdictions has undergone significant change, often as part of the so called New Public Management reforms\(^1\). Most notably was the change from cash to accrual accounting, but there were also the developments of whole of government\(^2\) financial reporting, also referred to as consolidated governmental reporting. Whilst the former has received considerable academic attention, consolidated public sector reporting has only recently emerged as a topic of debate, although some countries have experimented with consolidated accounts for some time. For example, the government of the United States of America first produced consolidated accounts in the 1970s (Chan 2009).

Australia, together with New Zealand, is considered to be a pioneer in public sector financial reporting in general (Carlin 2005; Guthrie 1998; Pallot 2001), but also in consolidated governmental reporting. New Zealand’s first whole of government accounts were published in 1993. Australia issued its first whole of government accounts in 1989 in the State of New South Wales and for the financial year 1994/95 at the Federal level. The first consolidated financial report based on accrual accounting in Australia was produced by the New South Wales Government for the financial year 1991-92 (Christensen 2003). By 2003-04 all Australian federal, state and territory Governments had adopted and implemented requirements for accrual based whole of government financial reporting.

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1 New Public Management generally describes the reform to modernize governments from the early 1980s. The main hypothesis was that private sector methods would lead to greater cost-efficiency.

2 The whole of government comprises of three sectors: the general government sector (e.g., government departments), the public financial corporation sector (financial corporations controlled by the government, e.g., The Reserve Bank) and the public non-financial corporation sector (non-financial corporations controlled by the governments, e.g., the South Australian Water Corporation).
The bases for those reports were, on the one hand, the macroeconomic statistical Framework *Australian System of Government Finance Statistics: Concepts, Sources and Methods*³ (ABS GFS Manual) provided by the Australian Bureau of Statistics (ABS 2001a) and, on the other hand, Australian Accounting Standard AAS 31 *Financial Reporting by Governments*, issued by the Australian Public Sector Accounting Standards Board (PSASB) in 1996, which was based on microeconomic focused traditional accounting principles, commonly referred to as generally accepted accounting principles (GAAP).

To date, Australia is the only country that has developed and implemented an accounting standard to integrate (or harmonise) GFS and GAAP accounting. The aim of this thesis is to investigate the circumstances that led to the development of this integrated accounting standard. Section 1.2 of this chapter describes the research problem and the research questions. In section 1.3, the justification for the study, based on a discussion of the significance of the project’s main aspects and the gap in the extant literature, is presented. Section 1.4 introduces the research design, before the structure of this thesis is outlined in section 1.5.

1.2 THE RESEARCH PROBLEM

This study investigates the following general research objective:

Why and how did GAAP/GFS harmonisation happen in Australia?

The thesis adopts a public policy perspective of public sector accounting standards and standard setting, where public policy is defined as:

“an officially expressed intention backed by a sanction, which can be a reward or a punishment [which can take the form of] a law, a rule, a statute, an edict, a regulation or an order”. (Lowi and Ginsberg 1996, p. 607)

³ The ABS GFS Manual is based on the International Monetary Fund’s (IMF) Government Finance Statistics (GFS) and the National System of Accounts 1993.
As a result, the theoretical perspective for this research is within the public policy literature and is used to focus on the agenda setting phase of the GAAP/GFS harmonisation program. This phase includes the identification of the idea in informal settings and the idea’s entrance onto the formal agenda of the decision-making bodies, which, in this case, are the Australian Accounting Standards Board (AASB) and its oversight body, the Financial Reporting Council (FRC). The agenda setting process includes the decision-making phase in which it is decided whether or not a project will be acted upon.

Initially, GAAP/GFS harmonisation was considered only at the AASB level. Progress was, however, unsatisfactory from the viewpoint of public sector constituents. As a result, these constituents’ attention moved to the FRC. In December 2002, the AASB essentially decided not to pursue GAAP/GFS harmonisation as a project. The FRC, however, overturned this decision in the same month and issued a strategic direction to the AASB to develop an accounting standard that would harmonise GAAP and GFS reporting. The initial strategic direction issued in December 2002 was reworded in March 2003 and the final strategic direction was:

“The Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.” (FRC 2002c)

The issue of the reworded strategic direction is the final event that is the focus of this thesis. The thesis considers the GAAP/GFS harmonisation agenda setting process at the AASB and the FRC level. In the end, however, it was the FRC that made the final decision and, therefore, the focus of the research study is on the FRC’s agenda.

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4 In this thesis, the term ‘GAAP/GFS harmonisation program’ is used to refer to the developments as a whole. In contrast, the term ‘GAAP/GFS harmonisation project’ is used to refer to the working project at the FRC and AASB level. For further information about the distinction refer to Chapter 7.
The research objective is broken down into three sub-questions, which are informed by the epistemological and theoretical perspective adopted here. This thesis is grounded in a social constructionist approach in a weak teleological form. This form of social constructivism assumes underlying ‘brute facts’ on which reality, culture or meaning is socially constructed. The focus of this research project is on the social construction of GAAP/GFS harmonisation as a policy idea for public sector accounting. This approach emphasises the context of the research subject. The first research question is:

1. What was the historic institutional context in which the policy idea of ‘GAAP/GFS harmonisation’ was identified?

The social constructionist perspective assumes that even the problems are social constructions. For example, Kingdon (2011, p. 109) differentiates between ‘conditions’ and ‘problems’:

“Conditions become defined as problems when we come to believe that we should do something about them”

In most circumstances, a policy idea is offered as a solution to a problem. Researchers have, however, identified that this is not necessarily the case and that policy solutions sometimes ‘float around’, looking for a problem (Kingdon 2011) or in the words of Boscarino (2009, p. 416)

“The linkage of policy solutions to problems is a strategic process whereby advocates seek to connect their solution to a highly salient problem in order to increase its chances of making it onto the governmental agenda.”

As a consequence, it is important to distinguish which problems were identified and discussed before the policy idea of GAAP/GFS harmonisation was identified, which problems were used to promote and justify the policy idea and the strategic agenda setting process in between. Question 2, therefore, asks:
2. How was the idea of GAAP/GFS harmonisation developed to gain agenda entrance at the FRC?

Being on the agenda of a decision-making body does, however, not necessarily mean that the item will be acted upon. The last research question, therefore, is:

3. Having gained admission to the FRC, how did GAAP/GFS harmonisation become a strategic direction of the FRC to the AASB?

1.3 JUSTIFICATION FOR THE RESEARCH PROJECT

The justification for a research project is the significance of the topic and a gap in the existing literature. The significance of this research project is in the uniqueness of the Australian experience as a world’s first developer and implementer of a GAAP/GFS harmonised accounting standard and in the investigation of the agenda setting phase of this project. In particular, the thesis aims to provide insights into the agenda setting process from a political science and public policy perspective. The theoretical contribution of this thesis lies in a new theoretical perspective to investigate the agenda setting process that considers the complexities of this process with a focus on the role of discourse. This theoretical perspective acknowledges that accounting is more than just a mere technical practice, but can, instead, have broader social and institutional functions (see, for example, Miller 1994, Hood 1994, Potter 2005) and any significant accounting changes or developments should be investigated in this context. The significance and the literature gap are discussed in more detail in the following sections.

1.3.1 A case study of GAAP/GFS harmonisation in Australia

One of the most important recent developments in public sector accounting is the introduction of accrual accounting. In various jurisdictions, this often occurred in combination with the adoption of alternatives to historic cost measurement. More
recent developments have been with whole of government reporting, of which GAAP/GFS harmonisation is a part.

Australia is the first and only country that has developed and implemented an accounting standard to harmonise both reporting frameworks and to serve the macroeconomic objectives of GFS reporting and the microeconomic objectives of GAAP reporting. The case has international significance, because many countries use both GAAP and GFS reporting, but as separate systems. The most recent Government Finance Statistics Yearbook provided GFS data for 133 out of 188 member countries (IMF 2013). At the same time, approximately 44 countries have adopted some form of International Public Sector Accounting Standards (IPSASs) or International Financial Reporting Standards (IFRS) for public sector reporting and more are expected to follow (Müller-Marques Berger 2012). A number of influential international bodies are currently considering or encouraging GAAP/GFS harmonisation. The International Public Sector Accounting Standards Board (IPSASB) has considered GAAP/GFS harmonisation since 2003, when a Task Force on Harmonization of Public Sector Accounting was formed “to examine ways to minimize unnecessary differences between accounting and the statistical bases of accounting” (IPSASB 2012, p. 48). A research report recommending convergence activities between IPSASB, Eurostat and the IMF followed in 2005 and IPSAS 22 Disclosure of Financial Information about the General Government Sector was issued in December 2006. In June 2011, the IPSASB took up the project again to update IPSAS 22 and consider new developments in GAAP and GFS reporting. A consultation paper IPSASs and Government Finance Statistics Reporting Guidelines was issued in October 2012 and the responses are currently being considered. The consultation paper was developed with the input of statisticians from the International Monetary Fund (IMF) and Eurostat. It stated that:
“Significant benefits can be gained from using a single integrated financial information system to generate both IPSAS financial statements and GFS reports. This will reduce GFS report preparation time, costs, and effort, while improvements can be expected in the source data for these reports, with flow-on benefits in terms of report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result.” (IPSASB 2012, p. 5)

The IMF and Eurostat have both called for an alignment of GAAP and GFS reporting.

In November 2012, the IMF Fiscal Affairs Department in collaboration with the Statistics Department released a paper entitled *Fiscal Transparency, Accountability, and Risk*, calling for the alignment of GAAP and GFS reporting. The paper argued that:

“A […] source of fiscal risk observed during the recent [global financial] crisis is divergence in the reporting concepts used in ex ante budgets and ex post statistics and accounts. […] International standard-setting bodies (such as the UN, IMF, Eurostat, and IPSASB) should work to harmonize reporting standards for budgets, statistics, and accounts” (IMF 2012, paragraphs 35 and 37).

In March 2013, the European Commission issued a report to the European Parliament “Towards Implementing Harmonised Public Sector Accounting Standards in Member States – The Suitability of IPSAS for the Member States” (European Commission 2013).

The report argued for the adoption of a common accruals based accounting system for governmental accounting in all member states. This data would feed into macro-economic fiscal reporting and:

“improve the surveillance of fiscal policies, macroeconomic policies and structural reforms to remedy the shortcomings found in existing legislation [which is based on statistical reporting; inserted by the author]. […] Fiscal transparency is necessary for macroeconomic stability and for surveillance and policy advice. Harmonised standards for public sector accounting would enhance transparency” (European Commission 2013, pp. 4-5)

In this context, information about why and how Australia decided to adopt GAAP/GFS harmonisation could be valuable in the current international debates. In particular, the Australian experience could provide insights into the issues that were used to justify the
project, arguments that were raised by different parties and the political influences that saw this project succeed.

As Australia is the first adopter of such an accounting standard there is a limited body of literature about GAAP/GFS harmonisation internationally and about the Australian experience in particular. Early arguments for linking microeconomic and macroeconomic data were made by Ruggles (1993, 1994, 1999) and Ruggles and Ruggles (1992; 1975, 1986). In practice, however, interest in the proposal was limited, possibly because the way in which data were collected, defined, recognised, measured and presented was significantly different for microeconomic and macroeconomic accounting. Whole of government reporting was initially synonymous with statistically based national accounting and was prepared on a cash basis. GAAP based whole of government accounts were introduced mostly in Anglo-Saxon and Anglo-Celt jurisdictions after the New Public Management reforms under the premise of better coordination of government activity and improved fiscal planning (Hood 2005; Pallot 1998). New Zealand, Australia and the United Kingdom and, to a lesser extent, the United States of America, Canada and Sweden were at the forefront of these developments.

The non-Australian literature considering GAAP and GFS harmonisation is typically focused on discussions of conceptual and normative issues (Heald and Georgiou 2011; Jones 2000b, 2007) or examinations and cross-country comparisons of the state-of-the-art of whole of government accounting (Brusca and Montesinos 2009; Dasí, Montesinos and Murgui 2013; Grossi 2009; Grossi and Pepe 2009; Jones 2000a, 2003, 2012; Jones and Lüder 1996, 2011; Lande 2000; Lüder 2000; Newberry 2011; Portal, Lande, Jones and Lüder 2012). While some authors argue that GFS accounting should only be used for national accounting and not at the microeconomic level (Benito, Brusca and
Montesinos 2007; Hoek 2005; Lande 2000), most agree that efforts to link GAAP and GFS reporting should be undertaken and encourage further research in this area (Dasí et al. 2013; Jesús and Jorge 2010; Jones 2000a, b; Keuning 1998; Keuning and Van Tongeren 2004; Lande 2000; Lüder 2000; Lüder and Jones 2003; Montesinos and Vela 2000).

Some jurisdictions have made efforts to link GAAP and GFS accounting and there are a limited number of descriptive studies about technical aspects of these developments. The most notable countries are the UK (Chow, Homphrey and Moll 2007, 2008, 2009; Heald and Georgiou 2009, 2011; Jones 2012), the Netherlands (Keuning 1998; Keuning and Van Tongeren 2004) and, to a lesser extent, Spain and Portugal (Fontes, Rodrigues and Craig 2005; Jesús and Jorge 2010, 2011; Marti 2006). In summary, however, change outside of Australia is lagging and standard setters and other relevant bodies are looking towards actual development (Chow et al. 2008). While this thesis does not offer insights into the development, implementation or evaluation of the GAAP/GFS harmonisation project, it provides an in-depth examination of the institutional context and the discussions that lead to the decision for GAAP/GFS harmonisation from which international policy makers can draw valuable comparisons to their cases.

Despite its significance and the current international developments, literature about the Australian GAAP/GFS harmonisation experience is limited. A number of papers provide overviews of historic developments (Walker 2011) and arguments and discussions of conceptual and technical differences between GAAP and GFS accounting and the attempts of the AASB to overcome them (Barton 2011; Day 2009; Schührer 2011; Walker 2009, 2011). Kober, Lee and Ng (2010, 2012) have attempted to assess GAAP/GFS harmonisation from a user perspective. Using questionnaires, they identified both support for and criticism of AASB 1049 and concluded that some
users were indifferent about whether GAAP or GFS should be the general accounting framework. They suggested that instead, the most appropriate definition, recognition and measurement treatments for individual items were critical. They found that users also preferred a presentation in GFS terms, which was largely reflected in AASB 1049. Kober et al. recognised a limitation of their study. It was conducted in the first year of implementation when users might be unfamiliar with the changes. In addition, the question arises whether the responses were weighted correctly. The majority of responses came from CFOs of government departments, even though AASB 1049 did not apply to them. The main users of aggregated GAAP/GFS information are probably Treasury and Finance departments and public accounts committees inside government. Other users include rating agencies, the IMF and the Worldbank. These non-government organisations were, however, not consulted.

Ryan, Guthrie and Day (2007) considered the GAAP/GFS harmonisation program as part of a study of political influences on public sector accounting in Australia. They argued that the agenda of the AASB was dominated by private sector issues. The authors commented that GAAP/GFS harmonisation was a result of pressures exerted by Heads of Treasuries (HoTs) who wrote to the FRC arguing that a GAAP/GFS harmonised standard should be developed. Further details about this process were not provided. The comment raises questions about how and why HoTs decided that GAAP/GFS harmonisation was the most important public sector issue and why the AASB did not deal with the issue to the satisfaction of public sector constituents. Most importantly, if the FRC could be convinced by only a submission from HoTs and a letter from a parliamentary committee, there are concerns about the independence and authority of the FRC and AASB and their control over their agendas.

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5 AASB 1049 is only applied to the whole of government and general government sector level, but is not applicable to entities within these sectors (AASB 1049, paragraph 2).
While a growing number of studies have elaborated upon the conceptual, technical and normative aspects of potential and actual harmonisation, there is a clear gap in the existing literature about the actual GAAP/GFS harmonisation program. In particular, there is a lack of studies that offer a theoretical analysis and explanation of the process, rather than a description of historic events.

1.3.2 A case study of agenda setting

The second main contribution of this thesis is the consideration of an agenda setting process. This approach is grounded in the perspective that public sector accounting standards are essentially a type of public policy.

Walter Lippman (1922) is widely credited as being the seminal author of agenda setting theory. He investigated the impact of the mass media on people’s opinions. Agenda setting theory was further developed by Bernard Cohen (1963) who considered the influence of the press on foreign policy in the U.S. McCombs and Shaw (1972) suggested that mass media had a strong influence on public opinion by selectively highlighting certain issues in the presidential elections in the U.S. in 1968. Since then, agenda setting research has developed into three streams. They are media agendas, public agendas and policy agendas. Cobb and Elder are widely considered to be the pioneers of research in public policy agenda setting. They (1971, p. 903) suggested that:

“the pre-political, or at least pre-decisional, processes are often of the most critical importance in determining which issues and alternatives are to be considered by the polity and which choices will probably be made.”

Different authors have defined ‘agenda’ in ways that depend on their focus in explaining the agenda setting process. For example, Cobb and Elder (1972) concentrate on the approach used to move items from the non-governmental ‘systemic’ agenda to
the governmental ‘formal’ agenda. Kingdon (1984) differentiates between ‘alternatives’, the ‘governmental agenda’ and the ‘decision agenda’. The purpose of considering alternatives is to select or ‘narrow down’ conceivable alternatives from which the decision-makers choose one to put on the governmental agenda. Kingdon (2011, p. 3) defines governmental agenda as

“the list of subjects or problems to which government officials, and people outside of government closely associated with those officials, are paying some serious attention at any given time.”

A ‘decision’ agenda is “the list of subjects within the governmental agenda that are up for decision” (Kingdon 2011, p. 4). The inclusion of a consideration of the informal processes prior to a formal agenda discussion is one of the distinguishing features of agenda setting constructs.

Kingdon further differentiates between the ‘specialised’ agenda and the ‘big ticket item’ agenda. Most accounting issues are specialised agendas and there are few ‘big ticket items’ other than, for example, the effects of the global financial crisis on the IASB’s agenda. For the purpose of this thesis, Kingdon’s classification of agendas has been adopted.

The political nature of accounting standard setting (including agenda setting) has been generally acknowledged (for example, Baskerville and Pont Newby 2002; Fogarty 1992; Fogarty, Hussein and Ketz 1994; Fogarty, Ketz and Hussein1992; Hope and Gray 1982; Howieson 2009a, b; Walker and Robinson 1993; Zeff 2006). Few authors, however, have focused on the agenda setting phase.

Walker and Robinson stress the importance of research into accounting agenda setting as it “may reveal the existence of more significant lobbying than that evident in written
submissions”. Fogarty et al. (1992, p. 36) recognise both the importance and the complexity of accounting agenda setting processes:

“[A]genda decisions form an important domain to consider in understanding standard setting. Far from a neutral effort to identify that which needs to be repaired, agenda processes reflect the same political dilemmas that pervade the balance of standard-setting. However, due to the strategic interests of the [standard-setter] and its ability to pursue its survival objectives, agenda setting cannot be thought of as a process wholly dominated by constituent wishes. Such a view is consistent with an unsophisticated notion that politics are evil. Project selection constitutes highly politicized action and merits study in that light.”

Despite the importance of agenda setting, there is a lack of research in the area (Howieson 2009a, b; Kothari, Ramanna and Skinner 2010; Walker and Robinson 1993). One possible explanation is the difficulty in observing and accessing data from these processes (Howieson 2009a).

The importance of agenda setting has been recognised by standard setters themselves. Howieson (2009a) provides an overview of current agenda setting developments and insights from the perspective of three standard setting bodies. They are the U.S. Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB) and the Australian Accounting Standards Board (AASB). Howieson’s study cites Beresford (1993), an ex-Chairman of the FASB, who highlighted the importance of the agenda setting phase:

“I continue to believe that agenda setting is the single most important decision that we make at the FASB. Yet, for all the care that goes into this process, it may be one of our least understood and least appreciated activities.”

The FASB has developed a formal set of criteria to formalise its agenda setting process (FASB 2003). However, Howieson points out that there are issues with their application and interpretation, such as the application and interpretation of the formalised criteria by individual board members and collective decisions, including weighting of and trade-offs between criteria (Howieson 2009a, p. 954). In 2011, the
IASB began a project to formalise its agenda setting processes and published a consultation paper (IASB 2011), seeking broad feedback. Comments on this paper were discussed at a number of roundtables in March 2012. A feedback document was published in the third quarter of 2012. As a result of this consultation, the IASB has now adopted a revised agenda setting process that includes initial research and a discussion paper before an agenda decision is made. The fact that these two accounting standard setting bodies have considered agenda setting is an indication of the importance of this issue.

Agenda setting for accounting standards in Australia is largely informal. The website of the AASB states that issues are identified by international or national organisations, individuals, and by the AASB itself (AASB 2012). There are, however, no criteria to guide this process. The investigation of the GAAP/GFS harmonisation agenda setting process will offer valuable information about the functionality of this informal process.

A limited number of authors have chosen an agenda setting perspective to investigate accounting change processes and even fewer have applied this perspective to public sector accounting. Ryan considered the introduction of accrual accounting in Australia (Ryan 1995, 1998; Ryan 1999; Ryan and Dunstan 1999; Ryan et al. 2000; Ryan et al. 2007). She approached these changes from an agenda and standard setting perspective based on public policy literature. This thesis is an extension of Ryan’s work, both with respect to the developments in Australian public sector accounting and public sector accounting agenda setting.

Ryan (1998) and Howieson (2009b) have identified a need for more sophisticated theoretical frameworks to investigate such processes. This thesis answers these calls by developing and adopting such a framework to discover how and why GAAP/GFS
harmonisation happened in Australia. In particular, there were two critical events at the level of the standard setting bodies. First, the AASB decided not to pursue GAAP/GFS harmonisation as a project at its December 2002 meeting. Second, only one week later, the FRC, the AASB’s oversight body, overrode this decision and provided a broad strategic direction to the AASB to develop an accounting standard that would harmonise GAAP and GFS reporting. As a result of this strategic direction, the AASB developed accounting standard AASB 1049. The focus of this thesis is on the decision-making processes of the FRC, as it was the FRC’s decision that paved the way for the development of the harmonised accounting standard. The consideration of GAAP/GFS harmonisation by the AASB is, however, also considered to provide a context for the FRC’s strategic direction.

1.4 METHODS AND THE DEFINITION OF THE BOUNDARIES OF THE RESEARCH PROJECT

This study is a qualitative in-depth case study about the agenda setting process for GAAP/GFS harmonisation in Australia. Qualitative in-depth case studies are particularly suited for unique or exploratory cases (Eisenhardt and Graebner 2007, p. 27; Yin 2009, p. 47) or where privileged or unusual access to data is available (Davis, Eisenhardt and Bingham 2007). While findings from qualitative case studies are not usually generalisable, the quality of the research is assessed by its trustworthiness and usefulness (Lincoln and Guba 1985). To ensure trustworthiness and usefulness, a number of tools are used throughout the research project. These include a holistic research design which ensures that epistemology, theoretical assumptions and methods used to collect, analyse and interpret data are coherent.

The main data sources are in-depth interviews with key participants of the GAAP/GFS harmonisation agenda setting process who were identified through interviews and
document analysis. The interviews are supplemented with publicly accessible and internal documents for triangulation purposes. The data is analysed using descriptive and interpretive coding and coding for overarching themes (Braun and Clarke 2006; King and Horrocks 2010; Langdridge 2004) assisted by NVivo software.

The research project considers the period from 1991, when GFS reporting was introduced into the Australian public sector, until 2003, when the FRC issued the revised strategic direction to the AASB to develop a GAAP/GFS harmonised accounting standards. The development, implementation or evaluation of the resulting accounting standard and its application are beyond the scope of this thesis.

1.5 STRUCTURE OF THE THESIS

Chapter 2 is a review of the literature of prior agenda setting studies. The focus of the review is the models, theories and frameworks to identify the most suitable model to investigate the GAAP/GFS harmonisation agenda setting process. Chapter 3 reviews public policy models, theories and frameworks and the accounting agenda setting studies that have used them. Based on this review and assessment, Chapter 4 develops a new theoretical framework to address the limitations of the previous theoretical lenses.

Chapter 5 provides an overview of the research design used in this thesis. It explains the application of the case study method, including the definitions and boundaries of the case and the approach to data collection and data analysis. It also includes a discussion of how the quality of the research project is ensured.

Chapter 6 outlines the identification of the key individual actors of the GAAP/GFS harmonisation agenda setting process, before Chapters 7 and 8 present the findings of the case study. Chapter 7 addresses research question 1. It presents the background to the GAAP/GFS harmonisation agenda setting project, from the emergence of potential
issues to when GAAP/GFS harmonisation was identified as a potential policy solution. Chapter 8 considers research questions 2 and 3. It discusses how and why GAAP/GFS harmonisation was rejected by the AASB and how it gained agenda entrance at the FRC and was finally the subject of a strategic direction of the FRC to the AASB.

Chapter 9 summarises the main findings of this thesis and discusses the managerial policy implications of the research project. It also assesses the application of the theoretical construct used to investigate the GAAP/GFS harmonisation agenda setting process and identifies its limitations and contributions. The chapter concludes with a call for future investigations of agenda setting processes arising from this thesis’ case study investigation.
CHAPTER 2  A REVIEW OF THEORIES AND MODELS EXAMINING AGENDA SETTING IN ACCOUNTING IN EXISTING LITERATURE

2.1  INTRODUCTION

As a step to identify the most suitable theory to examine the GAAP/GFS harmonisation agenda process, this chapter reviews the constructs (models, theories and frameworks\(^6\)) that have been used to explain agenda setting processes in prior accounting studies. After the discussion of each construct, the contents of the relevant studies are also briefly reviewed. Most of the studies are case studies. A comparison of the cases is often difficult, as the cases are typically selected due to their uniqueness. However, with a growing number of investigations of agenda setting processes, patterns might emerge and further contribute to the development of agenda setting theory. In addition, the review of the case studies might provide valuable information about the strengths and weaknesses of past experiences and so inform accounting agenda setting practices.

Ryan (1995) identified a lack of institutional consideration in studies examining accounting agenda setting. Since then, there have, however, only been few accounting agenda setting studies. Howieson (2009b) has reviewed these published studies until 2009 and identified a lack of sophisticated theories and models that capture the complexities of financial accounting agenda setting processes. This review was based on Robinson’s (2000) categorisation of public policy models, theories and frameworks in accordance of their focus. Robinson identified four types of constructs that are widely used in agenda formation research:

- actor-centred;
- problem-centred;

\(^6\) There is some discussion about what constitutes a public policy frameworks, theory or model (for more details refer to Kay 2005, Ostrom 2007 or Kingdon 2011). This discussion is outside the scope of this thesis and the word ‘construct’ is used as an overarching term.
- non-decision; and
- exogenous constructs.

Robinson’s structure is also used in this thesis to order its literature review. The categories and the constructs allocated to each category are explained in Figure 2.1.

**Figure 2.1: Summary of Constructs of Agenda Setting**

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition</th>
<th>Model</th>
</tr>
</thead>
</table>
| Actor-centred             | The agenda is set either by the actions of actors within the core decision making process (i.e., insiders) or by those outside via the application of pressure for political change | • Agenda building framework (Cobb and Elder 1972; Cobb, Ross and Ross 1976)
                                                                                     | • Regulatory space (Hancher and Moran 1989)                            |
| Problem-centred           | The agenda is set by the evolution of a problem, which demands some form of response. | • Accounting Cycles                                                  |
| Non-decision making       | Patterns of agenda setting reflect insights from theories of non-decision making | • Three dimensions of power (Lukes 1974)                              |
| Exogenous frameworks      |                                                                           | • Advocacy coalition framework (Sabatier and Jenkins-Smith 1988)     |
                                                                                     | • Multiple streams framework (Kingdon 1984)                            |

The first three categories are considered in this chapter. The ‘newer generation’ of more sophisticated public policy constructs are reviewed in Chapter 3.

The aim of the literature review in this and the following chapter is to identify the most suitable model to investigate the GAAP/GFS harmonisation agenda setting process. While Robinson’s categorisation is useful to structure public policy constructs, it is not sufficient to allow for their assessment. As a result, the literature review in this thesis has adopted a number of criteria to allow for such an assessment, based on criteria that have previously been used by authors of public policy literature. This includes a consideration of the ontologically and epistemologically integrated to provide for sound
academic analysis (Crotty 2003). The constructs will, therefore, be assessed with respect to their broad ontological and epistemological perspective (for example, rationality, history, social constructionism). While no judgements are made about which epistemological perspective is best, the assessment considers whether (1) the construct addresses epistemology or ontology, and (2), whether the theoretical assumptions are coherent with the epistemological or ontological perspective.

Other criteria have been developed by Simon (1957), Schlager (1995, 2007), Schlager and Blomquist (1996), Hall and Taylor (1996), Zahariadis (1998), Kay (2005), Sabatier (2007a) and Capano (2009). In particular, more recent studies by Zahariadis (1998), Schlager (2007), Capano (2009) and Schmidt (2010) are drawn on to establish the criteria, which relate to the following main areas:

- the boundaries and scope of the framework, theory or model;
- the perspective on policy change;
- individual actors;
- collective actors;
- institutions; and
- the relationship between actors and institutions.

The relationship between actors and institutions is also referred to as the ‘structure-agency dilemma’. It is concerned with the interrelationship between individuals and structures and, in particular, to what extent actors are limited by existing structures or have the agency to critically reflect and change them. Structure is defined as the recurrent patterned arrangements which influence or limit the available choices and opportunities (Barker 2005, p. 448), whereas agency refers to the capacity of individuals to act independently and to make their own free choices.
In summary, the alternative constructs will be assessed on the following characteristics:

1. What is the scope of the construct and how well is it suited to explain agenda setting processes?
2. Does the construct clarify its epistemological perspective?
3. Does the construct consider and clarify the following fundamental elements of change processes and their underlying epistemological and theoretical assumptions:
   a. change, including causes of change, different types of change and progression of change;
   b. institutions and/or structures;
   c. individual and collective actors, with specific respect to the level of agency; and
   d. the relationship between structures/institutions and agency.
4. Are the underlying theoretical assumptions of the individual elements compatible with the broad epistemological perspective?
5. Is the construct suited for application in the context of a qualitative single case study?

The literature review extends Ryan’s and Howieson’s reviews by providing an in-depth analysis of the epistemological and theoretical aspects of prior accounting agenda setting studies. The analysis and assessment of the constructs is a first step to address the calls from both Ryan (1995, 1998) and Howieson (2009a) to identify a sophisticated and holistic theoretical prism, through which agenda setting processes in general, and the GAAP/GFS harmonisation agenda setting process in particular, can be examined in their complexity and entirety.
2.2 ACTOR CENTRED STUDIES

2.2.1 Three approaches to agenda building

In classic democratic theory, participation of the public is assumed to be necessary for a working democracy. Political science researchers, however, identified the classic democratic theory/reality divide where “democratic governments continue to flourish and provide reasonable satisfactory governance for their citizens” (Milbrath 1965, p. 143), despite the lack of popular competence, popular interest or participation (Milbrath 1965). From this discussion emerged the theory of democratic elitism or ‘modern democratic theory’ (1971). In this model, individual (rather than collective or mass) participation is not a negative, and democratic elitism or technocracy is a reflection of a sound governing system and confidence in the government (Cobb and Elder 1971, p. 895). However, this ‘modern’ democratic theory results in three ‘crises’. There is:

- a prescription crisis (i.e., modern democratic theory does not offer the normative goal of classic democratic theory),
- a crisis of relevance (i.e., modern democratic theory is descriptive and explanatory, but does not provide guidelines for social change or political direction), and
- a crisis of research guidance (i.e., while modern democratic theory directs attention to important and under-researched issues, it tends to dictate research priorities and prescribe the type and range of phenomena under consideration) (Cobb and Elder 1971, p. 897-900).  

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7 For a brief overview of other relevant authors refer to Cobb and Elder (1971, p. 894).
8 Researchers have attempted to address these issues in different ways. For example, Bachrach (1967) addressed the prescriptive crisis by revitalising and giving new meaning to the participation of both the social and individual value of citizens’ involvement. Post-behavioralist or neo-traditionalists systematically examined contemporary issues and tried to offer guidance without having the desired level of knowledge in practice. Cobb and Elder (1971, pp. 901-904) address the research crisis.
Cobb and Elder (1971, p. 906) addressed the research guidance crisis and concluded that questions about how an agenda is built and who participates in the process are critical to examine why ‘democratic’ processes continue to work without the participation of the wider public. They differentiated between a general systemic agenda (also referred to as ‘public agenda’) and a formal agenda on an organisational level. The systemic agenda includes all issues that are perceived as important by the members of a community. The formal agenda deals only with issues explicitly being considered by decision-makers (Cobb et al. 1976, p. 126).

The authors identified three biases that are important when researching agenda building processes. First, the formal agenda prioritises older items and the decision makers themselves are biased. Second, the systemic agenda is influenced by legitimacy issues. Third, the legitimacy of a group is enhanced by the status and community standing of its members (Cobb and Elder 1971, p. 909). Cobb and Elder (1971) identified four chronological stages of the agenda-building process. They are: (a) problem initiation, (b) problem specification, (c) issue expansion, and (d) agenda entrance.

Based on the behaviour of different actors throughout the four stages Cobb, Ross and Ross (1976) identified ‘three approaches to agenda building’ to explain “the ways in which different subgroups in a population become aware of and eventually participate in, political conflicts whether the issues are initiated by groups in the general public or by political leaders” (p. 126). These three approaches are the ‘outside initiative’ approach, the ‘mobilization’ approach and the ‘inside access’ approach. They are presented in Figure 2.2.

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9 The remainder of this thesis refers to Cobb and Elders (1971) and Cobb et al.’s (1976) integrated model as the “three approaches of agenda building”.
### Three Approaches of Agenda Building

<table>
<thead>
<tr>
<th>Phase</th>
<th>Issue initiation</th>
<th>Issue specification</th>
<th>Issue expansion</th>
<th>Agenda entrance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside initiative</td>
<td>Articulation of a grievance in very general terms by a group outside the formal government to the public domain through popular support</td>
<td>General grievance translated into specific demands in a variety of ways</td>
<td>Outside groups need to create sufficient pressure or interest to attract attention of decision makers</td>
<td>When issue is included on formal agenda</td>
</tr>
<tr>
<td>Mobilisation</td>
<td>Institutions and political leaders seek to move issues from formal agenda to public agenda to obtain support</td>
<td>When decision makers communicate (announcement) that issue is on formal agenda</td>
<td>From formal to public agenda through elucidation and specification, to make it 'palatable' to public</td>
<td>When issue is transferred to public agenda</td>
</tr>
<tr>
<td>Inside access</td>
<td>Within group of initiators</td>
<td>Within group of initiators</td>
<td>Only to few groups selectively considered important to the passage and implementation of policy</td>
<td>When item is included in formal agenda (if possible with minimum number of changes)</td>
</tr>
</tbody>
</table>

The strength of Cobb and Elder’s and Cobb et al.’s three approaches to agenda building is their comparatively easy application to actual events. The approaches provide a useful framework to structure events and to explain the approaches of different actors. Cobb and Elder attribute some level of agency to their actors, as they are assumed to be able to bring about change in various forms. However, their model does not consider where this agency comes from or by what it is limited. It also does not consider the motivation of its actors. For example, the model does not stipulate whether actors are driven by rationality, self-interest, beliefs, or values, or to what extent they are limited by or can influence existing structures. Institutional factors are also not considered further. A summary of the characteristics of the construct is provided in Figure 2.3.

Cobb and Elder’s and Cobb et al.’s three approaches to agenda building model can be classified within the stages heuristics approach, which divides public policy processes...
in discrete stages. Sabatier (2007b, p. 7) summarises some limitations of stages heuristics:

1. “It is not really a causal theory since it never identifies a set of causal drivers that govern the policy process within and across stages. […]"
2. The proposed sequence of stages is often descriptively inaccurate. […] (Namakura 1987).
3. The stage heuristic has a very legalistic, top-down bias in which the focus is typically on the passage and implementation of a major piece of legislation. […] (Hjern and Hull 1982; Sabatier 1986).
4. The assumption that there is a single policy cycle focused on a major piece of legislation oversimplifies the usual process of multiple, interacting cycles involving numerous policy proposals and statutes at multiple levels of government. […]”

With these overly simplistic assumptions, the model neglects the complexities of real world examples, including feedback or learning effects and the larger institutional background. The simplified theoretical considerations also reflect a lack of epistemological integration as no assumptions are specified with regard to the motivations and level of agencies of the actors or how institutions or structures impact on the public policy process or can be changed by actors. In addition, the model does not specify an epistemological perspective. In summary, the simplistic perspective on public policy change and the lack of such considerations diminishes the model’s analytical and explanatory powers. Sabatier (2007a, p. 7) concludes bluntly: “The stages heuristic has outlived its usefulness and needs to be replaced with better theoretical frameworks”.

**Figure 2.3: Summary ‘Three Approaches of Agenda Building’**

<table>
<thead>
<tr>
<th>Scope of framework, theory or model</th>
<th>Agenda setting stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epistemological perspective</td>
<td>Not considered</td>
</tr>
<tr>
<td>Cause of change</td>
<td>Not considered</td>
</tr>
<tr>
<td>Type of change (incremental or radical)</td>
<td>Not considered</td>
</tr>
</tbody>
</table>
Cobb and Elders’ three approaches to agenda setting’ should be seen as an early attempt to explain agenda setting processes. It is concluded that Cobb and Elder and Cobb et al.’s model is inadequate for the purpose of this thesis. Nevertheless, it has been used by others to analyse accounting agenda setting. These studies are discussed in the following section.

2.2.2 Studies using the three approaches to agenda building

Walker and Robinson (1994) used the three approaches of agenda building model to investigate whether cash flow accounting by the public sector “should be admitted to the formal rule-making agenda - or retained, or dropped” (Walker and Robinson 1994, p. 121) during the years 1982 to 1991 in Australia. They argued that there was competition between different regulatory bodies with conflicting agendas for cash flow accounting. The National Companies and Securities Commission’s (NCSC)¹⁰, the Accounting Standards Review Board (ASRB) and the Australian Accounting Standards Board (AASB) were public sector actors promoting cash-flow statements from the mid-

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¹⁰ The NCSC was the governmental Australian statutory rule making body for companies and securities regulation at the time. It is the predecessor of the Australian Securities an Investment Commission.
1970 onwards. In the private sector, the accounting professions-sponsored Australian Accounting Research Foundation (AARF) supported a fund based reporting regime. The Australian Stock Exchange (ASX) was identified as another main player in the study.

Walker and Robinson found that the agenda setting process for cash flow accounting in Australia reflected the three approaches to agenda building. The NCSC’ issue of a green paper in 1983 was found to simulate the ‘mobilisation’ model, as it brought cash flow accounting to the attention of a number of regulatory bodies. The authors suggested that the NCSC had a history of influencing financial reporting regulation by requiring information from listed companies. As a result, the authors argued that the NCSC constituted competition for AARF (Walker and Robinson 1994, p. 134). While initial attempts by the NCSC to mobilise the public for cash-flow reporting failed, the study argued that public opinion was different later, potentially due to international developments and corporate failures. The ASRB’s approach was reflected the inside-access model, as the ASRB tried to persuade the Ministerial Council through direct access to “proclaim […] cash statement provisions” (Walker and Robinson 1994, p. 134).

The study argued that while government agencies initiated the debate about cash flow statements and debated a regulatory solution, the authoritative standard was eventually issued by the professions-regulated AARF. Public sector involvement with accounting standard setting constituted a threat for AARF and lobbying activity led to a merger of the ASRB with AARF in the private sector sphere. The merged entity was renamed AASB in 1991, who published an accounting standard that reflected the policy solution favoured by the government agencies and the ASX (cash flow statements), rather than the solution preferred by AARF and AARF staff (funds statements). The authors
argued that, in essence, the standard setting body managed to retain its standard setting authority, but lost control over its agenda. The initial approach by AARF was seen as the ‘inside initiative’ model’, as the main drivers for funds statements were AARF staff, despite the professions’ preference for cash flow statements. The authors argue that ASX’s publication of its proposals as part of a package for continuous disclosure in the late 1980 can be likened to the ‘outside’ approach (Walker and Robinson 1994).

Howieson (2009b) has suggested that the Walker and Robinson’s study offers valuable insights into agenda formation. For example, they show that agenda formation is “the result of a complex interaction between regulatory entities and others for dominance within the regulatory space” (2009b, p. 26). The theoretical framework, however, does not capture all of the dynamics presented in the study. The three approaches to agenda building appear to describe rather than analyse the process. The potential of this model as an integrated, explanatory theory is untested. As a result of the limitations of the theory, the Walker and Robinson study neglects a closer consideration of the characteristics and motivations of the key actors and leaves the full potential of the analysis unexplored. Considering that many of their findings appear to relate to the fight for regulatory power, a supplementary construct might have provided for additional analysis.

Walker and Robinson’s study is one of the first studies to highlight the importance of technical staff in the accounting standard setting process. While AARF staff view did not prevail, the authors suggest that their resistance meant a delay in the adoption of cash flow statements in Australia. The clarification of data sources and a more through description of the research methodology might have further contributed to the analysis of the events presented in their study. For example, while the study notes the use of semi-structured interviews, it is not apparent what addition information was collected
from this source making an evaluation of the research methodology difficult. Overall, however, Walker and Robinson’s study makes an important contribution to the accounting agenda setting literature as it considers the complexities of this process.

Klumpes (1994) also used the three approaches to agenda building. He considered the “rule-making contest between the accounting profession (the profession) and an alliance of pension industry interest groups (the ‘alliance’) over the introduction of different forms of regulation (accounting standards versus legislative-backed rules) relating to pension fund accounting” (Klumpes 1994, p. 140). The study highlights how the alliance dominated the agenda formation process (Howieson 2009b, p. 29). Klumpes argued that from a government’s perspective, the debate about pension funds is consistent with the ‘outside initiative’ model. He suggested that the alliance ultimately prevailed over the accounting profession for a number of reasons:

- The actuaries had a technical advantage over the profession;
- The proposed accounting changes were too radical (adoption of full fair value accounting);
- The alliance had greater access to government (due to public policy encouragement of privately funded retirement provisions); and
- There was a potential misjudgement by the profession and the standard setters of the role and power of the government agency Insurance and Superannuation Commission (ISC), who ended up developing the respective regulations.

Klumpes’ findings are consistent with the four phases of the agenda formation process. However, the match with the ‘outside initiative’ approach is less convincing. For example, it is not clear which party represented the ‘outside initiative’ approach (the alliance or the professions?), or what is meant by “from a government’s perspective” (Klumpes 1994, p. 140). Klumpes’ study also might have benefited from a more in-
depth theoretical, rather than the mere descriptive application. While, in comparison to the Walker and Robinson’s study, the motivations of the interest groups were outlined in more detail, Klumpes’ study would have further benefited from a clarification of the data sources as it is difficult for the reader to assess the completeness, and hence, the quality of the study. The use of interview data might have provided further insights, as many aspects of the processes under investigation are often not documented in writing.

Klumpes’ 1995 study considered the agenda formation process for accounting for Australian life insurance. The study argued that the actuarial profession used an ‘inside access’ approach to incorporate their actuarial based ‘margin of services’ method onto the government’s formal agenda, rather than allowing the accounting standard setters to develop accounting based principles for the treatment of life insurances at the time. The study matched the events to the four stages of agenda building. Klumpes (1995, p. 4) suggested that the events under consideration reflect the ‘inside access’ model.

The two Klumpes studies have many similarities and the limitation noted for the first study is also applicable here. Another limitation for the 1995 study is recognised by Klumpes himself. The study does not address the question of why the actuarial profession was able to dominate the agenda setting process for accounting for life insurances. Both Klumpes studies contribute by providing a convincing historical account of the interests and proposals of the actuarial profession versus those of the accounting profession and fit well with the phases and approaches identified by Cobb and Elder’s and Cobb et al..

Jones, Rahman and Wolnizer (2004) considered the adoption of International Accounting Standards (IASs) and the introduction of market value accounting\(^\text{11}\) in

\(^\text{11}\) It is assumed that the authors refer to an adoption of fair value accounting, however, for the purpose of this review the terminology of the paper will be retained.
Australia. The focus of their study was the institutional restructuring of accounting standard setting arrangements as part of the Corporate Law and Economic Review Program (CLERP 1) reforms. The authors (2004, p. 382) identified, compared and contrasted the approaches of the accounting professional bodies (the profession) and the Government and examined the reasons why the government’s proposals succeeded over the profession’s. They argued that the professions’ actions reflected the ‘mobilization’ approach, while the government prevailed using an ‘inside access’ approach, despite widespread opposition from the professions, the business community and academics (Jones, Rahman and Wolnizer 2004, p. 394). The authors’ explanations are as follows:

- The professions’ campaign (including the Peirson Report (1990) commissioned by the AARF was silent on the quality of financial statements and suggested a U.S. style independent Board with full time members.
- The AARF’s proposals failed because the Attorney-General’s department did not want to give away law-making authority to a private sector body such as AARF (1995).
- The implementation of an U.S. like accounting standard setting structure “was incompatible with the Government’s agenda for accounting reform: internationalization of accounting standards and the introduction of market value accounting. The Government’s reform agenda is substantial. That offered by the accounting profession was institutionally cosmetic, giving no promise of an improved accounting and better quality financial reporting” (Jones et al. 2004, p. 391).

The authors suggested that the last point, in combination with the ‘inside access’ approach allowed minimal public debate and were the most important reasons for the success of the government’s proposal. In addition, the government’s proposal addressed both the quality of financial statements and the introduction of international accounting standards. As a result of the government’s restructuring, the study argued that the government through Treasury increased its influence over accounting standard
setting. In addition, the government was able to implement far reaching changes through the implementation of CLERP, such as the abandonment of historical cost accounting and the introduction of market value accounting (Jones et al. 2004, p. 399).

The study raises a number of unanswered questions. For example, it is silent on the motivation of the government to adopt international accounting standards. While the official reasons for the CLERP reforms are listed, the study would have benefited from going beyond the official version, especially since the study refers to a comment by McGregor (1995) who suggested that the government was not prepared to give away law making ability. Other questions include: ‘How did the government come to this position?’, or ‘Why would the introduction of market value accounting have been incompatible with the proposal of the profession for a U.S. FASB-style standard setting board?’ The findings of the study were potentially limited by its data and interviews with ‘witnesses’ and key individuals might have provided further insights. The findings of the study also suggest that a closer consideration of institutional factors, such as regulatory power, would have provided greater explanatory value. The limitations of the study are closely connected to the limitations of Cobb and Elders’ three approaches of agenda building and are compounded by a descriptive application of the three approaches of agenda building.

2.2.3 Regulatory space

Hancher and Moran (1989) used the concept of regulatory space as an analytical instrument to explain regulatory processes. Hancher and Moran propose an alternative to the private-public dichotomy of regulatory capture, in which public sector regulatory agencies created in the public interest are ‘captured’ by private sector lobbying groups that dominate regulatory processes, an action assumed to be illegitimate (Hancher and
Hancher and Moran (1989) argued that this assumption does not hold true in many instances and proposed instead that organisations compete for power, irrespective of whether they are actors in the private or the public sphere. They emphasised the importance of the institutional context of such power struggles, by including the dimensions of ‘time’ and ‘space’ in their theory. Hancher and Moran (1989, p. 277) suggested that the boundaries of ‘space’ are defined by “the range of regulatory issues subject to public decision”, leading to four consequences:

- The space is available for occupation.
- The space can be unevenly divided between actors.
- There are general and specific concepts of regulatory space.
- Regulatory space is an image and can as such be augmented by similar images, making it an ‘arena’, i.e., a delineated space.

In the centre of regulatory processes is a play for power and the relationships between organisations in an economic, regulatory, and political institutional context, which they refer to as ‘place’ (pp. 278-279). Place is composed of national peculiarity, historical timing, organizational structure and interdependence. The authors emphasised the importance of ‘place’ as an issue that is not ‘obviously’ in a particular domain (e.g., does regulation of work belong to ‘industrial relations’ or ‘economic management’). Further, they distinguished between ‘technical’ and ‘political’ issues, typically resulting in ‘low’ and ‘high’ politics of regulation. This difference is crucial in determining which party controls the regulatory process (Hancher and Moran 1989, p 293). The characteristics of the construct are summarised in Figure 2.4.

12 Examples of applications of regulatory capture in an accounting setting context include Walker (1987), Mitchell at al. (1994), Roberts and Kurtenbach (1998) or Cortese and Irvine (2010). As these studies focus on the standard setting process, rather than agenda setting, they are outside the scope of this literature review.
In this thesis, regulatory space is classified as an actor-centred framework, as it focuses on power plays by organisational actors. It includes a consideration of institutional elements and considers the classical elements of agency versus structure that result in a more complete consideration of changes in regulatory public policy. However, regulatory space neglects the characteristics, role and motivation of individual players. For example, it does not identify the influences on the behaviour of its actors nor does it further delineate the boundaries of their actions. In addition, it does not explain how specific problems emerge, are created or how they make their way onto an agenda. The theory is particularly suited to situations where different organisational actors compete for regulatory power, such as during times of restructuring or when new items appear in the public space. It does, however, not specifically consider the emergence of or other reasons for policy change. Regulatory space is, therefore, not used in this study.

Figure 2.4: Summary ‘Regulatory Space’

<table>
<thead>
<tr>
<th>Scope of framework, theory or model</th>
<th>Power play of actors in regulatory environment as function of time and place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epistemological perspective</td>
<td>Not explicitly defined, portraying elements of structuralism and social constructionism</td>
</tr>
</tbody>
</table>
| Cause of change                     | • External  
  o Ambiguity in/empty ‘regulatory space’  
  o Situation of crisis  
  • Regulation is costly, organisation that controls resources will dominate regulatory space |
| Type of change (incremental or radical) | Not specified |
| Change progression                   | Non-linear (due to implicit interdependence between organisations) |
| Perspective on institutions          | Consideration of various institutional elements, (national peculiarity, historical timing, organizational structure and interdependence) |
### Motivations of actors

<table>
<thead>
<tr>
<th>Motivations of actors</th>
<th>Power (considered on collective/organisational level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of agency of actors</td>
<td>Assumed ability to influence, but not considered further</td>
</tr>
<tr>
<td>Relationship between agency and structure/institutions</td>
<td>Prevalence of structure, informal links and the institutionalisation of such links</td>
</tr>
<tr>
<td>Are underlying theoretical assumptions compatible with epistemological outlook?</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Suited for qualitative case study research?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

#### 2.2.4 Studies using regulatory space

Young (1994) used ‘regulatory space’ theory to explain agenda setting by the FASB in accounting for loan fees, accounting for leases, depreciation and contribution accounting for non-profit organisations. She addressed the limitations of regulatory space in the motivation of decision-making of individuals by adding the concept of ‘logic of appropriateness’ (March and Olsen 1989) to her theoretical framework.

As part of the development of new institutionalism¹³, March and Olson (1989) contrast the ‘logic of consequences’ with the ‘logic of appropriateness’. According to the ‘logic of consequences’, actions are the consequences of a rational actor’s self-interest and preferences. However, this does not sufficiently explain situations, where an actor’s behaviour does not seem to adhere to this logic. As an alternative, a sociological explanation, the ‘logic of appropriateness’ suggests that actors’ behaviour is influenced by norms and rules within a regulatory institutional environment (March and Olsen 1989). In a ‘logic of appropriateness’ scenario, the agent/actor does not identify alternatives, preferences, etc. as in the rational choice model, but assesses how the situation/environment influences the agent to come to a conclusion about the appropriate behaviour in accordance with norms and rules. In Young’s opinion, the

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¹³ For a more detailed consideration of new institutionalism, please refer to Chapter 4.
‘logic of consequences’ “understate[s] the importance of societal expectations about the role and purpose of the standard-setter to all facets of the standard-setting process, including agenda formation” (Young 1994, p. 104).

Young found that in all three cases considered by the FASB “accounting problems are not simply there. Instead, these problems are constructed by the occupants of regulatory space” (Young 1994, p. 103). Accounting change is a product of the institutional environment, including organisation actors (the FASB, the Securities Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA)), regulation (pre-existing accounting standards) and norms (conceptual framework, etc.). The standard setters do not simply react to environmental pressures, but are part of its creation and the “appropriateness of standard-setting is inextricably linked to the development of accounting problems” (Young 1994, p. 104). Young concludes that

“[t]he studies in this paper illustrate that an understanding of accounting standard-setting cannot be separated from an understanding of the role of accounting claims and expectations about standard-setters that construct a regulatory space for accounting change.”

Young’s study is firmly embedded in a sound theoretical framework. Some contributions of Young’s (1994, pp. 85-86, 88) study are summarised by Howieson (2009b, p. 13):

- “her model acknowledges the complexity of the processes by which accounting issues are admitted to the technical agenda and by which standards are formulated. […]"
- models of the regulatory process which concentrate on which parties “dominate” the process ignore the plurality of accounting standards setting, particularly in countries like the U.S., U.K., and Australia;
- as her model seeks to identify the role of political, cultural, and technical conditions in standard setting, it offers the possibility of understanding how issues may find their way on to the technical agenda even though they may not be perceived as current “crises”; and
- the actions of accounting standard setters can be understood in a multi-factorial sense (i.e., beyond the more commonly accepted narrow focus of self-interest),
when account is taken of expectations about the role and purpose of the standard setter.”

In addition, by supplementing regulatory space with the ‘logic of appropriateness’, Young addresses an important limitation of regulatory space theory by considering the role, motivation and institutional context of actors. Her study considers the classical structure-agency debate, drawing on elements of social institutionalism. The study is firmly embedded within a social constructivist framework and provides sound in-depth academic analysis. In summary, Young’s study is a significant contribution to research of the accounting agenda setting process.

2.2.5 Other actor-centred studies

Other actor-centred studies include Johnson and Swieringa’s (1996) study about the agenda setting process for the U.S. FASB statement No. 115 Accounting for Certain Investments in Debt and Equity Securities and Hodges and Mellet’s (2002) investigation of the UK’s standard setting process for accounting for the Private Finance Initiative (PFI). Neither study use an explicit theoretical construct, but are reviewed here for the sake of completeness.

Johnson and Swearing used a historical descriptive approach to consider the discussions that led to the decision of the FASB to develop an accounting standard for investment in debt and equity instruments. The authors described that in the context of the opening of global financial markets in the mid-1980s the existence of out-dated accounting principles led to unregulated speculative practices in investment portfolios and eventually to regulatory concerns. The authors suggested that external pressures from the SEC and the Accounting Standards Executive Committee led to a rushed decision by the FASB to develop FASB Statement No.115. The authors argued that the FASB might have been equipped to deal with new agenda issues occurring from ‘repairs and
maintenance’ or ‘refinements of existing statements, but was not as well equipped to make agenda decisions with respect to ‘sea change’ or newly emerging issues (Johnson and Swieringa 1996, p. 165).

Johnson and Swieringa’s study is an early consideration of accounting agenda setting and should be seen in this context. Swieringa’s experience as a FASB member is reflected in the pragmatic approach of this paper. Many elements of public policy constructs are considered, including motors of change, regulatory concerns and political pressures. They are, however, not considered in a coherent structure, but rather in a descriptive, heuristic manner. Further, the role of individual actors is neglected. Nonetheless, Johnson and Swieringa’s study offers an important contribution to the accounting agenda setting literature, as it was one of the first studies to recognise the importance and political nature of this phase of accounting standard setting and to highlight many deficiencies in this process.

Hodges and Mellett (2002) investigated the standard setting process for accounting for the UK’s PFI.\footnote{What in the UK is called private finance initiative is in other countries also referred to as public private partnerships (or PPP) or service concession arrangements.} They compared their empirical case study with elements of an accounting standard setting process identified by Walker and Robinson (1993) who identified six elements of the agenda setting process in the United States, the UK and Australia. Walker and Robinson’s model is a simplified description of these stages, with no further theoretical consideration. As such, it is not further discussed as a theoretical lens. Only the empirical application relating to the first element about agenda entrance by Hodges and Mellet (2002) is considered here for the sake of completeness.

“in the absence of professional consensus, accounting for PFI was seen as a major cause of the delays in completion and approval of some PFI contracts. Therefore the establishment of formal accounting rules for PFI would promote the importance of accounting advice and reduce the risk of delay or non-completion of such contracts” (2002, p. 137).

However, there is no clear evidence for this assertion (Hodges and Mellett 2002). They (2002, p. 137) further suggested that “the examples in [their] paper provide some support to a view that the emergence of an issue onto the agenda of a rule-making body is multi-faceted and contingent upon political and environmental issues.” Their conclusion is consistent with those of previous studies, that competing regulatory agencies will defend and expand their role (2009b, p. 46). Hodges and Mellett’s study would have benefited from the use of different data sources such as interviews. In line with the model chosen for their study, the findings are also descriptive.

2.3 PROBLEM CENTRED MODELS

2.3.1 Accounting Cycles

Nobes (1991) suggested that changes in accounting standard setting are due to a cyclical pattern in the ‘degree of standardisation’, which is defined as the limited choice in accounting methods available to firms. As the model is factored around accounting issues, it is classified as problem-centred. Nobes (1991) derived his model from Mumford’s (1979) observations about the development of inflation accounting in the UK and applies these observations to inflation accounting, accounting for research and development, deferred tax, mergers and goodwill. His starting point is an unregulated, non-uniform practice. Change is initiated by two forces:
(i) “a ‘downward force’ which acts against standardisation, and
(ii) an ‘upward force’ which promotes standardisation” (Nobes 1991, p. 265).

Nobes (1991, p. 266) proposed that the downward force is exerted by managers, motivated mainly by:

“their view of the effect of earnings figures on their compensation through any effects on share prices, perceptions on management’s success, vulnerability to takeover, and directly on bonuses. […] The opposing upward force is provided by the independent mindedness of individual senior members of the profession, using conventional accounting logic on particular controversies”.

The causes of the cyclical behaviour are:

(i) “A start point of low standardisation;
(ii) Energy introduced by criticism or economic events, international comparison, etc.;
(iii) A pro-standardisation force in the form of senior members of the profession supported by government, press and international influence (the standardisation involves insistence on the use of income-reducing practices under some or all circumstances);
(iv) An anti-standardisation force in the form of management, supported by some professional firms which serve them; management’s motivation is in all cases to preserve flexibility and in most cases to avoid income-reducing requirements.”

Nobes’ model has been criticised on a number of issues. For example, Skerratt and Whittington (1992) question the existence of the cycles, the meaning of patterns in standardisation, and the existence of benchmarks. Other authors have criticised the assumed roles and motivations of actors (2010; Gordon and Morris 1996; Skerratt and Whittington 1992) They suggest that the variety of attitudes and behaviours of stakeholders is wider than assumed by Nobes and that other influences make it difficult to draw parallels between examples. As a result, they conclude that the model lacks sophistication. Sabatier (2007a, p. 7) suggests that cycles make very little sense in examining public policy processes in general, because such a presentation “oversimplifies the usual process of multiple, interacting cycles involving numerous policy proposals and statutes at multiple levels”.
There are additional reasons why this model has limited suitability to investigate accounting agenda setting processes. First, the model does not or only partially considers critical factors in the agenda setting process. This includes institutional factors such as political, institutional, regulatory or economical influences. Second, the role and motivations of the main actors are simplistic and only explained within a for-profit context. As a result, the level of agency of actors and their relationship with existing institutions and structures is not considered. In the light of these criticisms, the model is not chosen to investigate the GAAP/GFS harmonisation agenda setting process. A summary of the construct is provided in Figure 2.5.

**Figure 2.5: Summary ‘Accounting Cycles’**

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Not considered, but inherent rational/positivist assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause of change</td>
<td>External factors (low standardisation, criticism or economic events, international comparison, pro- and anti-standardisation forces)</td>
</tr>
<tr>
<td>Type of change (incremental or radical)</td>
<td>Not considered, however, only applied to incremental change</td>
</tr>
<tr>
<td>Change progression</td>
<td>Cycles</td>
</tr>
<tr>
<td>Perspective on institutions</td>
<td>Not considered</td>
</tr>
<tr>
<td>Motivations of actors</td>
<td>Self-interest, rationality, utility maximisers</td>
</tr>
<tr>
<td>Level of agency of actors</td>
<td>Assumed influence, but not further considered</td>
</tr>
<tr>
<td>Relationship between agency and structure/institutions</td>
<td>Not considered. However, rational choice assumptions typically do not allow for high levels of agency</td>
</tr>
<tr>
<td>Are underlying theoretical assumptions compatible with epistemological outlook?</td>
<td>yes</td>
</tr>
<tr>
<td>Suited for qualitative case study research?</td>
<td>Limited suitability due to epistemological perspective</td>
</tr>
</tbody>
</table>
2.3.2 Studies using the accounting cycle


Nobes’ (1992) applied his model in his study of the Accounting Standards Committee’s (ASC, the predecessor of the U.K Accounting Standard Board) development of an accounting standard for goodwill. The study identified the starting point of the accounting cycle as the late 1970s, when there was a great variety of practices for accounting for goodwill. The stimulus for action was an awareness of this diversity of practice. During this time, the US had finalised regulations, and the European Commission had published drafts of directives about accounting for goodwill. In addition, there was an increase in takeover activity resulting in an increased generation of goodwill. As a result, the ASC was “spurred into action” (Nobes 1992, p. 144). The remainder of the study relates to the standard setting process for the accounting standard on goodwill.

The study’s value as an investigation of agenda setting is limited. The application of the accounting cycle model to this case was not undertaken in depth and also highlighted a number of deficiencies of the model. There was no identification and discussion of the differing interests of participants in the agenda setting context. The only forces identified were the starting point of the discussion as a “low degree of standardisation” and the development of documents at the U.S and the European level. The study did not make a convincing argument about identifying and applying the concept of ‘degree of standardisation’. In addition, the study did not consider the actors’ motivation, their level of or the limitations to the level of agency in a larger
theoretical context. As a result, the application of the accounting cycle model was
descriptive and of limited explanatory ability. The contribution of this study should be
seen in the context of standard, rather than agenda setting.

Gordon and Morris (1996) adapted Nobes’ framework to explain variations in
standardization across six Australian exposure drafts about equity accounting between
1968 and 1995. Their aim was “to explain why the Australian accounting profession
has deliberated for so long over equity accounting” (p. 154). Gordon and Morris
identified the first element of the cycle in the late 1960s when a variety of practices
were identified in a survey (Standish 1972). They suggest that energy inputs were
triggered “when, during the late 1960s, some holding companies chose not to
consolidate their loss-making subsidiaries by selling down their holdings from just
above 50 per cent to 50 per cent or less of the issued ordinary shares”. A series of
newspaper articles published in 1967 and 1968 were critical of the practice, but a
Sydney accounting firm allegedly supported the manipulation of companies’
consolidated accounts (Gordon and Morris 1996, p. 161). Eventually, public pressure
causcd the standard setters “to issue a pronouncement on de-consolidation of
subsidiaries” (Zeff, 1973, p. 38).

Gordon and Morris made valuable observations about the interests of different
participants in the agenda setting process for equity accounting and the upwards and
downwards forces. The study, however, demonstrates the difficulties in classifying the
motivations of individual actors as forces. For example, members of the standard
setting board could represent both forces, as they had varying backgrounds. In the
Gordon and Morris study, contrary to Nobes’ classification, business and management
represent upward forces. In addition, the study fails to acknowledge that different
forces or actors may have different levels of influence on the accounting cycle. This can
be traced back to the deficiencies of the model. Last, while the study considers the influence of institutions on the agenda setting process, including regulatory (legal impediments), technical (developments in equity accounting overseas) and political (pressure from press) factors, their classification as an upwards or downwards force is simplistic and questionable. The consideration of such elements from an institutional perspective would provide for a more sophisticated discussion that recognises the complexities of the interrelationships of these elements.

Burrows and Rowles (2010) compared the standard setting for inflation accounting in Australia and the U.K during 1973 and 1985. They argued that the interest in inflation accounting in the UK would have decreased irrespective of the level of inflation and that “social, economic and political differences, particularly in relation to the role of taxation, caused divergence between inflation-accounting cycles in Australia and the UK” (Burrows and Rowles 2010, p. 3). The differences arose because inflation accounting in Australia was linked to taxation, while the UK assumed a separation between accounting and tax treatments.

Burrows and Rowles recognised that the attitudes and motivations of management in Australia were more varied than suggested by Nobes, as they were subject to differing and conflicting incentives, such as tax savings and increased profits. As with previously discussed studies, the use of interview data might have provided a better data source to substantiate their arguments. As the study only considered the motivation of collective actors, interviews might have also provided a database for a consideration of individual actors.

Burrows and Rowles conducted a comparative case study using a positivistic approach, which resulted in some inconsistencies. For example, while supporting the generalizability of the accounting cycle model, Burrows and Rowles highlighted that
differing socio-economic and political environments between the UK and Australia made comparisons and generalisations difficult. While the Australian government “became a conspicuous ‘upward’ force in inflation accounting” the UK government played a more neutral and reactive role (Burrows and Rowles 2010, pp. 10-11). The study also highlighted a limitation in the assumption of low levels of standardisation. The authors argued that historical cost accounting already provided a high level of standardisation at the time of the agenda setting phase. While the authors recognise the importance of the institutional environment, its influence is not considered in a systematic manner.

2.4 NON-DECISION MAKING MODELS

2.4.1 Three dimensions of power

Lukes’ model of the three dimensions of power analyses the behaviour of actors through the power they exert through non-decision making. It considers alternatives that do not make it onto an agenda and the respective power games that influence this process. Lukes critiqued the traditional one-dimensional, or pluralist, view of power as too simplistic. The one-dimensional view considers observable conflict between parties in a decision-making context. He argued that this view of power “involves a focus on behaviour in the making of decisions on issues over which there is an observable conflict of (subjective) interests, seen as express policy preferences, revealed by political participation” (Lukes 1974, p. 15; emphasis in original).

Lukes also criticised the two-dimensional model of power, suggested by Bachrach and Baratz (1970). They argue that power involves both decision making and non-decision making, with a decision being “a choice amongst alternative modes of action” (Bachrach and Baratz 1970, p. 39) and a non-decision being “a decision that results in suppression or thwarting of a latent or manifest challenge to the values of interests of
the decision maker” (Bachrach and Baratz 1970, p. 40). Lukes attacked the two-dimensional view because it qualifies behaviour, it assumes that actual/observable conflict is necessary to exert power\(^\text{15}\), and that non-decision-making power only exists where there are grievances which are denied entry into the political process in the form of issues (Lukes 1974, pp. 21-24).

Instead, Lukes suggested that unobservable behaviour is a third dimension of power. He referred to this third dimension as ‘latent conflict’, where, for example, power is exerted by exclusion from the decision making process. Lukes assumes a broad view of agency, where “agents can have power that they never exercise, and they can have power the effects of which they do not intend” (Hayward and Lukes 2008, p. 7). The exertion of power, therefore, includes ideological power and the responsibility for unintended consequences.

The non-decision making model has been criticised by Bilgrami (1976), Polsby (1980) and Hayward (2008). Polsby questioned Lukes’ methodology by asking “How can one study, let alone explain, what does not occur?”, “What right has a researcher to select a non-issue above another?”, “What right has a researcher to judge an issue as a non-issue when the community itself does not regard it as important?”, “Is the researcher not guilty of greater methodological bias than the methodology he or she is criticising?”, “What right has any researcher to assign a ‘real’ class or social interest on any social grouping when the class or social interest in question disagrees with the analyst?”, or “Why should a researcher be better equipped to evaluate the interest of these groups than they are themselves?” (Polsby 1980, pp. 95-97). Lukes (1974, p. 39) responded

\(^{15}\) One of Lukes’ (1970, p. 23) examples to demonstrate his critiques of this concept is that “it is highly unsatisfactory to suppose that power is only exercised in situations of such conflict. To put the matter sharply, A may exercise power over B by getting him to do what he does not want to do, but he also exercises power over him by influencing, shaping or determining his very wants. Indeed, is it not the supreme exercise of power to get another or others to have the desires you want them to have – that is, to secure their compliance by controlling their thoughts and desires?”
partially that simply because it is difficult to show power relationships, it cannot be concluded that they are non-existent. However, Robinson (2000, p. 45) insisted that it remains difficult for researchers to find issues that were not identified as such. Another area of controversy revolves around the structure-agency dilemma of Lukes’ assumptions. Hayward argued that Lukes’ agent-centric focus leads to a neglect of the role of structures in power relationships (Hayward and Lukes 2008). Lukes, however, argues that the agentic focus is important to avoid system-blaming by agents in power (Hayward and Lukes 2008).

Despite the criticisms, Lukes’ non-decision making model provides a holistic and critical consideration of agenda setting processes within a social, political, economic institutional or power-related context. While it does not specify an epistemic perspective, Lukes’ approach considers all relevant elements that influence decision-making processes or non-decision making processes. Its suitability for this thesis hinges mainly on two issues. First, Lukes’ focus is on non-decision making, whereas GAAP/GFS harmonisation was the result of a decision. Second, Lukes’ model is most suitable to investigate ‘hidden’ power relationships with respect to the powerless. In an accounting context, this could mean parties that are excluded from the decision making process or issues that do not enter the agenda. GAAP/GFS harmonisation, however, was an alternative that was actioned upon and the FRC, the focus of the investigation, was the party responsible body for providing the strategic direction for the project. As a consequence, the model has not been chosen to explain the events in this thesis. The characteristics of Lukes’ model are summarised in Figure 2.6.

Figure 2.6: Summary ‘Three Dimensions of Power’

<p>| Epistemological/theoretical perspective | Not specified; identifies, however, its position in the structure agency debate |</p>
<table>
<thead>
<tr>
<th>Cause of change</th>
<th>Focus on continuity, why change does not occur: (unobservable) exclusion from decision-making and even decision-identification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of change (incremental or radical)</td>
<td>Not applicable, focus on continuity</td>
</tr>
<tr>
<td>Event progression</td>
<td>Not applicable, focus on continuity</td>
</tr>
</tbody>
</table>
| Perspective on institutions\(^\text{16}\) | - Linking structure and agency: Agency is tied within and upon structures  
- The more actors can influence structures the more powerful they are (Hayward and Lukes 2008, p. 12)  
- Agents have to critically reflect on existing structure and assume responsibility for their actions despite structures |
| Motivations of actors | Not considered |
| Level of agency of actors | High level of agency, especially in powerful agents (source of power is located within actors; however, limitation of agency by existing structures is recognised |
| Relationship between agency and structure/institutions | Focus on agency, recognises the role of structures as limiting agency. |
| Are underlying theoretical assumptions compatible with epistemological outlook? | Yes |
| Suited for qualitative case study research? | Yes |

### 2.4.2 Studies using three dimensions of power

Weetman (2001) used Lukes’ (1974) three dimensions of power approach to examine the lobbying activity during the development of FRS 3 *Reporting of Financial Performance* by the UK Accounting Standards Board (ASB). The study considered the time between the publication of the exposure draft (FRED 1) and the resulting accounting standard, FRS 3. Only the arguments that relate to agenda formulation are reviewed here.

\(^{16}\) Rather than talking about ‘institutions’, Lukes speaks of social ‘structures’, which include constraints, opportunities, roles, norms (Hayward and Lukes 2008, p. 12) in the tradition of Durkheim (1952, 1982).
The study argued that the ASB influenced which items were dealt with by controlling agenda entrance by non-action. For example, the discussion paper was sent by the ASB only to selected organisations. The analysis of written responses to FRED 1 showed that the ASB only addressed four of eleven issues identified in the response letters. In addition, the study questioned the ASB’s claim to be user-oriented because the changes made to FRED 1 were to avoid confusion for users. In contrast, the study argued that the ASB had a vested interest in making the development of this particular accounting standard a success and that this was the reason why the issue was chosen. Weetman (2001, p. 88) concluded that institutional arrangements and the subjectivity of decision makers were determining factors in the consideration of the accounting agenda.

There are a number of limitations to this study. First, the study’s interpretation of the absence of change as an indication of non-action (and hence exertion of power) is questionable. Considering the effort that has typically taken place prior to the publication of an exposure draft, including the development of a consultation paper, the lack of change might be an indication of a functioning consultation process or the high quality of work prior to the issue of the exposure draft. More valid is the proposition that the selective distribution of the discussion paper prior to the development of FRED 1 could be considered as an exertion of power. However, it could also be argued that it is sensible to seek initial feedback from technical experts. In addition, the distribution of the issues paper to 340 participants does not appear to be very selective, as there were 89 respondents (only 14 respondents more than to the discussion paper). Unfortunately, the study does not comment on how this selection was made or the cross-over between the respondents to the discussion paper and to FRED 1. Overall, the study does not offer a systematic or theoretical explanation of the real motivations of the ASB (2009b, p. 44) and would have benefitted from a more in-depth application of Lukes’ construct.
As Howieson (2009b, p. 44) identifies, in-depth interviews with key players would have offered more direct evidence and a better basis for the use of Lukes’ model.

2.3 SUMMARY: TRADITIONAL CONSTRUCTS AND STUDIES OF ACCOUNTING AGENDA SETTING

The literature review compared previous studies of accounting agenda setting and discussed their strengths and weaknesses. The focus of the review was to identify the most appropriate construct for the investigation of the GAAP/GFS harmonisation agenda setting case. The constructs in this chapter were classified into actor-centred, problem-centred and non-decision making models.

The review of subjects of the case studies found that the constructs are mostly applied to in-depth single case studies, with few examples of comparative or multiples case studies of accounting agenda setting. This can be seen as a sign of the early stages of research in this area and the exploratory nature of it. The review also highlighted the specific circumstances of each agenda setting case and the only comparative case study reviewed (Burrows and Rowles 2010) confirmed the difficulties of comparisons. Efforts to develop generalizable theoretical assumptions and hypotheses may be too early at this stage. Instead, the review suggests that the application of holistic and more sophisticated constructs to a larger body of case studies are more appropriate. Findings from in-depth case studies will contribute by providing insights into this under-researched area of accounting research and to the development of a larger body of literature from which more generalisable information can be derived.

The review of the constructs found that many of the theories and models focus on some aspects (actors, problems, non-decision making) while neglecting others. As a result, they offer a limited basis for analysing and explaining agenda setting processes.
The review also showed that many constructs did not specify epistemological or underlying theoretical assumptions. In particular, the three approaches to agenda setting and the accounting cycle framework were found to be heuristic and oversimplified and did not allow for an analysis of the complexities of agenda setting processes. The concepts of regulatory space and three dimensions of power offer better theoretical analytical potential. Despite this potential, both concepts were rejected for the following reasons. The strength of regulatory space lies in agenda setting investigations where competing regulatory bodies are the focus of the investigation. While on initial consideration, regulatory issues might have been important factors of the GAAP/GFS harmonisation agenda setting case, the research question is on the agenda setting process of only the FRC. The Lukes’ three dimension of power approach was rejected because it is most suited to investigate non-action due to hidden power relationships. GAAP/GFS harmonisation was, however, acted upon. A summary and overview of the findings with respect to the models, theories and frameworks reviewed in this chapter is provided in Appendix 1.

The review of the case studies highlighted the deficiencies of the constructs they had applied. A number of studies reported on elements that were not included in the construct they were using. As a result, the studies did not offer a coherent theoretical analysis of the agenda setting processes and the complexities that are associated with the interrelations of the elements remained largely uncaptured. This highlighted the need for a more complete construct to investigate agenda setting processes. The review also found that on top of the limitation of the constructs, their application sometimes occurred in a superficial and descriptive manner. As a result, the studies did not fully exploit the full explanatory or analytical potential of the constructs. An exception to
this general criticism is Young’s (1994) case study about FASB’s agenda setting process, in which she offered an in-depth application of regulatory space by adding the institutional theory concept of ‘logic of appropriateness’.

The review further outlined the importance of data from interviews or observations for investigations of agenda setting. A number of the studies reviewed in this chapter did not offer many insights into the more complex relationships or motivations of actors, many of which did not obtain interview data. While some studies noted the interests of collective actors, the interests and role of individual actors was often neglected. This neglect can partially be attributed to the constructs that were used, which failed to address the role of individuals. It can also be attributed to the fact that individual’s actions and motivations are often much less documented, especially in the early stages of agenda setting which are mostly conducted in an informal arena. Interviews or observations are an important source of data for agenda setting investigations. A summary and overview of the findings with respect to the case studies reviewed in this chapter is provided in Appendix 2.

In summary, the literature review confirms observations made by Ryan (1995) and Howieson (2009b), that there is:

- Only a limited body of accounting agenda setting literature; and
- a lack of sophisticated and holistic models, theories and frameworks used in the accounting agenda setting literature.

In addition, the review found that these theories and models were sometimes superficially applied, resulting in descriptive, rather than analytical investigations. The variety of constructs used in the limited number of accounting agenda setting studies can be viewed as an indication of the immaturity of the research area. As a
consequence, the next chapter reviews more developed constructs from the realm of public policy to identify a more holistic and sophisticated framework to investigate the GAAP/GFS harmonisation agenda setting process.
CHAPTER 3  A REVIEW OF PUBLIC POLICY MODELS, THEORIES AND FRAMEWORKS

3.1 INTRODUCTION

The review in Chapter 2 of literature of accounting agenda setting processes identified a lack of sophisticated, holistic and epistemologically and theoretically embedded framework, theories and models. The aim of this chapter is to identify a more advanced construct to examine and analyse the Australian GAAP/GFS harmonisation agenda setting process. One focus of the review in this chapter is the epistemological and theoretical embeddedness of the elements of the theories and models, including institutional considerations, which will allow for a deeper, more complete and explanatory analysis of the processes (Crotty 2003). A second focus is the consideration of institutional elements, which have been widely identified as significant elements in the processes of policy change or lack of change.

A number of authors have advocated a consideration of institutional factors in explaining financial accounting change (Christensen and Parker 2010; Hopwood and Miller 1994; Hopwood 1992; Miller 1994; Potter 2005; Ryan 1995, 1998, 1999; Young 1994). In the broadest sense, institutional theories investigate the way institutions interact and affect society (Hall and Taylor 1996, p. 939). Scott (2005, p. 460) defines institutional theory as follows:

“It considers the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behaviour.”
Different forms of institutional theory identify and explain institutions differently. Originally, social scientists considered formal institutions of the government and the states, such as organisations and regulations (Weber 1920-1921).\textsuperscript{17}

New institutional theory has influenced a variety of research areas. In organisational studies, for example, research based on new institutional theory attempts to explain the emergence and survival of institutions on an organisational level. In contrast, institutional considerations in the area of public policy focus on the governmental level, attributing more emphasis to politics and the public and the role of existing structures and institutions. There are overlaps, for example, where large international organisations are considered. For the purpose of this thesis, the constructs considered in more detail are from the realm of public policy, because public sector accounting agenda and standard setting can viewed as a public policy process.

Public policy has been defined as “an officially expressed intention backed by a sanction which can be a reward or a punishment [...in the form of a] law, a rule a statute, an edict, a regulation or an order” (Lowi and Ginsberg 1996, p. 607). In Australia accounting standards have the force of law.\textsuperscript{18} Whilst the likening of accounting agenda and standard setting in Australia to public policy processes is appropriate for both private and public sector accounting standard setting, it is particularly suitable for Australian public sector accounting standard setting processes. This is due to the similarities with the conventional context of public policy setting which is the proximity and direct involvement of the government and its policy and political actors.

\textsuperscript{17} For reviews of early institutional theory, see Bill and Hardgrave (1981), Hodgons (1994) or Scott (2001).

\textsuperscript{18} It is important to note that each Commonwealth, State and Territory has the authority to decide whether they adopt the respective accounting standards.
New institutionalism in political and public policy science has been differentiated into three traditional forms. They are rational choice institutionalism (RI), historical institutionalism (HI) and sociological institutionalism (SI) (Busch, Lasarzik and Heiling 2009; Hall and Taylor 1996). This categorisation can also be applied to public policy theories, as they evolved from institutional theory.

In accordance with the research question, only theories that include the agenda setting stage of the policy process are considered. Agenda setting is the initial stage of public policy and has been described as “the process by which problems and alternative solutions gain or lose public and elite attention” (Birkland 2005, p. 109). The focus of public policy agenda frameworks is on how choices are made and what causes change or continuity. Sabatier (2007b), Schlager (1995, 2007), Capano (2009) and Zahariadis (1998) provide overviews of the most significant and widely used theories. The specific theories and models reviewed in this chapter are:

- Path-Dependency (PD) (Hall 1993; Hall and Taylor 1996; Thelen 1999; Thelen and Steinmo 1992); and Punctuated Equilibrium (PEQ) (Baumgartner and Jones 1993), representing HI;
- Social Construction Framework (Ingram, Schneider and DeLeon 2007) representing SI; and
- Advocacy Coalition Framework (AC) (Sabatier 1986, 1991a, b; Sabatier and Jenkins-Smith 1988, 1993; Sabatier and Weible 2007), and the Multiple

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19 Sabatier (2007b) identifies another stream of the public policy area, i.e., the network approach. This approach, however, constitutes more of “an analytical toolbox than a theory” (Adam and Kriesi 2007, p. 146). It focuses on actors, potentially neglecting institutional arrangements. It emerged out of interorganisational, as well as the agenda setting literature. Policy networks or assumptions made about groups, are part of the more holistic theories presented in this chapter. As such as, the network approach is not presented separately.

The review of public policy theories and models in this chapter follows this categorisation, starting with rational institutionalism, followed by historical institutionalism and sociological/organisational institutionalism. The criteria used in Chapter 2 to compare and assess the theories and models are also used here. These criteria are:

1. What is the scope of the construct and how well is it suited to explain agenda setting processes?
2. Does the construct clarify its epistemological perspective?
3. Does the construct consider and clarify the following fundamental elements of change processes and their underlying epistemological and theoretical assumptions:
   a. change, including causes of change, different types of change and progression of change;
   b. institutions and/or structures;
   c. individual and collective actors, with specific respect to the level of agency; and
   d. the relationship between structures/institutions and agency.
4. Are the underlying theoretical assumptions of the individual elements compatible with the broad epistemological perspective?
5. Is the construct suited for application in the context of a qualitative single case study?
Reviews of relevant accounting agenda setting studies follow the discussion of the respective theory or model. The chapter concludes with a summary of the strengths and weaknesses of the reviewed models and studies, identifying the most suitable theory for the purpose of this thesis.

3.2 PUBLIC POLICY CONSTRUCTS BASED ON RATIONAL CHOICE ASSUMPTIONS

Theories of RI that are used to explain public policy processes include economic theory, game theory, transaction cost theory, social choice theory, covenant theory, public goods theory and common pool theory.\(^\text{20}\) RI theories are “a family of frameworks focusing on how institutional rules alter the behaviour of intendedly rational individuals motivated by material self-interest” (Sabatier 2007a, p. 8). Common to these theories is the assumption of rational, opportunistic utility maximisers (Williamson 1985), “pursuing relatively simple material interests” (Sabatier and Weible 2007, p. 194). This assumption is grounded in a positivist economic epistemology, typically leading to the use of quantitative methods. RI views politics as a series of collective action dilemmas. Prominent examples are the ‘prisoner’s dilemma’ or the ‘tragedy of commons’, where decision-making is the result of the behaviour of actors who use a strategic calculus that considers other actors’ strategic calculus. From these assumptions it follows that certain institutions are created and exist because they bring more benefit than others.

IAD was developed by Kiser and Ostrom in 1982, where they attempted to integrate the perspectives of different disciplines into one common institutional framework (Ostrom 2007, p. 21). The IAD framework identifies “an action arena and the resulting patterns of interactions and outcomes and the evaluation of these outcomes” (Ostrom 2007, p. 27). Action arenas are social spheres that consider action situations based on seven

\(^{20}\) A review of all these theories is not appropriate for this thesis because not all of them are relevant to the thesis.
elements as a set of dependent variables. They are (1) participants, (2) positions, (3) outcomes, (4) action-outcome linkages, (5) the control that participants exercise, (6) information, and (7) the costs and benefits assigned to outcomes. Further, assumptions about actors are made in four areas (Ostrom 2007, p. 28):

1. “the resources that an actor brings to a situation;
2. the valuation actors assign to states of the world and to actions;
3. the way actors acquire, process, retain and use knowledge contingencies and information; and
4. the processes actors use for selection of particular courses of action.”

The model allows for in-depth theoretical analysis by providing a second set of variables to examine the factors that influence the structure of an action arena. They are (Kiser and Ostrom 1982, as cited in Ostrom 2007, p. 28):

“(1) the rules used by participants to order their relationship, (2) the attributes of the states of the worlds that are acted upon in these arenas, and (3) the structure of the more general community within which any particular arena is placed.”

The IAD is a multi-tier conceptual map and the problems under consideration can be operational, on a policy level or a constitutional level. As the IAD is a framework in which different theories can be applied, it allows for different assumptions about its actors, such as narrow forms of rationality (as, for example used in game theory or neoclassical economic theory) which assume unlimited computational capability and full economic utility maximising behaviour. IAD, however, also allows for concepts of bounded rationality, where information is costly and actors are assumed to have limited processing capabilities. Ostrom (2005) has previously applied the concept of ‘fallible learners’ within the IAD framework, where learning individuals react to institutional incentives. Figure 3.1 provides a visual summary of the IAD.
IAD has been widely applied in combination with common pool resource theory (Ostrom 2007). Common pool resource theory attempts to explain “the conditions that support self-governance on the part of citizens” subject to institutional arrangements (Schlager 2007, p. 297). As a consequence, its application has typically focused on local and regional settings and encompasses the entire public policy process, however, without a focus on agenda setting. A common pool resource has similar characteristics to a public good, but is not an endless resource, resulting in the danger of being overused or depleted. Common examples are water and forests. As accounting standards can be seen as a public good. Once established, they are not subject to overuse of congestion, and common pool resource theory is not an appropriate theory to investigate the Australia GAAP/GFS harmonisation agenda setting experience.

RI provides the most specified and precise consideration of decision-making processes which are typically more soundly and more easily ontologically and epistemologically embedded than HI or SI theories and models. While it can explain how institutions come to exist, RI has been criticised for being functionalist (“it explains the origins of an institution largely in terms of the effects that follow from its existence”), intentionalist (“it tends to assume that the process of institutional creation is a highly
purposive one, largely under the control of actors who correctly perceive the effects of the institutions they establish and create them precisely in order to secure these effects”) and voluntarist (“[it tends] to view institutional creation as a quasi-contractual process marked by voluntary agreement among relatively equal and independent actors - much as one might find in a ‘state of nature’”) (Hall and Taylor 1996, p. 952).

RI has been further criticised for its emphasis on rational, self-interested utility maximisers with fixed preferences and its neglect of a number of factors influencing the public policy process, such as altruistic, normative or cultural motives for its actors. RI theories can explain simple settings and are often employed in laboratory and experimental research (Ostrom 2007). However, their application in settings that try to capture the complexities of change processes is less suited. RI has also been criticised for seeing rationality as instrumental where material interests are separated from ideas (Boudon 2003; Schmidt 2008). In addition, RI is often associated with an objective, positive ontology, which assumes that there are absolute truths or realities that can be observed. Ostrom (2007, p. 33) acknowledges that the prediction of outcomes is difficult in field settings. This significantly diminishes the value of IAD in single case studies. These assumptions and ontological perspectives make RI unsuitable to investigate GAAP/GFS harmonisation. The common characteristics of RI theories are summarised in Figure 3.2.

Figure 3.2: Summary ‘Rational Institutionalism’

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Rationalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause of change</td>
<td>Utility maximising behaviour of actors</td>
</tr>
</tbody>
</table>

21 For further information see, for example, Cook and Levi (1990) or Mansbridge (1990).
<table>
<thead>
<tr>
<th>Type of change (incremental or radical)</th>
<th>Not considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change progression</td>
<td>Interdependent</td>
</tr>
<tr>
<td>Perspective on institutions</td>
<td>• Stable,</td>
</tr>
<tr>
<td></td>
<td>• Utility functions</td>
</tr>
<tr>
<td></td>
<td>• Modify individual rational expectations and behaviour</td>
</tr>
<tr>
<td>Motivations of actors</td>
<td>• Self-interested utility maximisation</td>
</tr>
<tr>
<td></td>
<td>• Rational or boundedly rational</td>
</tr>
<tr>
<td>Level of agency of actors</td>
<td>Low, as actors are motivated by self-interest (external force)</td>
</tr>
<tr>
<td>Relationship between agency and structure/institutions</td>
<td>Structural prevalence, agency limited, as actors actions are determined by maximisation personal benefit</td>
</tr>
<tr>
<td>Are underlying theoretical assumptions compatible with epistemological outlook?</td>
<td>Yes</td>
</tr>
<tr>
<td>Suited for qualitative case study research?</td>
<td>No</td>
</tr>
</tbody>
</table>

### 3.3 PUBLIC POLICY CONSTRUCTS FOCUSING ON HISTORICAL FACTORS

HI researchers define institutions as “formal and informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy” (Hall and Taylor 1996, p. 938). HI researchers can take different epistemological perspectives to explain change and the relationship between institutions and actions. Some use rationalist assumptions, while others use social constructivist assumptions (Hall and Taylor 1996, pp. 939-940; Schmidt 2010). An important element of HI theories is the consideration of power (as identified by Lukes (1974) and described in Chapter 2) and in particular how power is distributed across social groups by examining access to decision-making processes (Hall and Taylor 1996, pp. 939-940; Steinmo 1993). The most distinguishing feature of HI, however, is the role of the historical context. HI researchers argue that any change is limited by the historical institutional context.
PD and PEQ represent two streams of HI. (Capano 2009; Kay 2005; Schmidt 2010). PD explains that future policy choices are constrained by history, in the sense that:

“At every step along the way there are choices – political and economic – that provide…real alternatives. Path dependence is a way to narrow conceptually the choice set and link decision-making through time. It is not a story of inevitability in which the past neatly predicts the future.” (North 1999, pp. 99-99)

PD has been criticised for adopting a limiting perspective of the historical context and its focus on institutional constraints that explain stability rather than change (Schmidt 2010). It has also been criticised because of its focus on small, incremental changes, rather than more fundamental changes (Bell 2011; Schmidt 2008). However, HI researchers acknowledge that institutions are not the only forces that influence decision-making processes. They also consider the role of ideas or beliefs, overlapping with SI.

PEQ addresses the limitation of PD to the extent that it allows for major changes at what it calls ‘critical junctures’ (Baumgartner and Jones 1993). It:

“accounts for system-level patterns of decisions or policy adoptions surrounding a policy subsystem. The patterns are characterised by long periods of incrementalism punctuated by periods of major policy change and generated by the interaction of boundedly rational people in institutional settings characterised by parallel and serial information processing” (Schlager 2007, p. 297).

The patterns are explained by the generation of interest, policy image and venues. It puts a limit on the agency of individual actors. More recently, HI researchers have turned to the use of ideational approaches that allows for more agency of actors (Bell 2011). PEQ, therefore, attenuates the limiting nature of history, but still emphasises it as the main influencing factor of change or continuity. Both PD and PEQ do not traditionally focus on agenda setting, but rather on public policy change processes overall. For these reasons PD and PEQ are not used to investigate the GAAP/GFS harmonisation agenda setting process. The common features of HI theories are summarised in Figure 3.3.
Figure 3.3: Summary ‘Historical Institutionalism’

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Varied (from rationalism to social constructivism), but with focus on history</th>
</tr>
</thead>
</table>
| Cause of change             | • Historical events (PD)  
                              | • External crisis, partisan change, conflict (PEQ) | |
| Type of change (incremental or radical) | Incremental (PD) and radical (PEQ) |
| Change progression          | • Non-linearity (PD)  
                              | • Disconnected linearity (PEQ) | |
| Perspective on institutions | • Stable,  
                              | • Utility functions  
                              | • Modify individual rational expectations and behaviour |
| Motivations of actors       | • Self-interested utility maximisation  
                              | • Rational or boundedly rational | |
| Level of agency of actors   | Low, as actors are motivated by self-interest (external force) | |
| Relationship between agency and structure/institutions | Structural prevalence (Capano 2009, p. 20); focus on historic structures and institution that limit agency. | |
| Are underlying theoretical assumptions compatible with epistemological outlook? | Yes |
| Suited for qualitative case study research? | Yes |

3.4 PUBLIC POLICY CONSTRUCTS OF SOCIOLOGICAL INSTITUTIONALISM

As a response to the emergence of theories focusing more on individuals, such as behavioural or rational choice theory, SI theories developed mainly in organisation theory. They attempted to address the criticisms and limitations of RI and HI by arguing that neither efficiency/rationality considerations nor historical paths are the determining factors in decision-making processes, but that cultural specific forces are (Hall and Taylor 1996, p. 947). They widened the definition of institutions, including, for example, socially constructed norms and rules (Meyer and Scott 1983), symbols, cognitive scripts, morals and culture (Hall and Taylor 1996, pp. 947-948). By adopting
this wider perspective of institutions, SI frameworks, theories and models aim to capture the complexity of decision-making and change processes.

SI is typically based on the social construction epistemological assumption that there is no single view of reality and that social science, therefore, has to be interpretive (Mannheim 1936). Reality, including problems or groups, is politically and socially constructed (Kuhn 1970; Rochefort and Cobb 1994). How institutions originate or change in SI is explained through a legitimisation process (also referred to as ‘logic of appropriateness’ or ‘social appropriateness’). Legitimacy of an institution is a precondition for its survival. It needs to be “valued within a broader cultural environment” (Hall and Taylor 1996, p. 949).

The relationship between institutions/structures and actors is explained by a two-way process. Actors are influenced by, but can also influence normative institutions by reflecting and approaching issues in a cognitive manner. This is where the social constructivist epistemological perspective is most evident and actors are provided with a higher level of agency than in RI or HI. Actors in SI are or can be purposive, goal-oriented or rational. SI researchers claim, however, that all these drivers are socially constructed.

SI theories applied in politics and public policy research have developed organisational research and societal research. Meyer and Scott (1983) in the “societal sector” and DiMaggio and Powell (1983) in the “organizational field”, are commonly cited as the seminal authors of new institutional theory in organisational research. Mayer and Scott’s work was influenced by public policy research and community ecologists (Scott 2007). Hence, there is significant overlap in their understanding of change processes and SI public policy change literature. In DiMaggio and Powell’s organisational perspective, the objective of institutions is to survive. This happens via a process of
isomorphism or the adoption of the new institution by a growing number of entities that ensure its survival. Isomorphism occurs because of three forces, which are of coercive, normative or mimetic nature. This social organisational perspective of institutional theory has been widely applied in studies investigating financial accounting change. No study has specifically considered agenda setting and they are, therefore, not further reviewed here.

SI researchers consider the motivations of actors from three main perspectives (Amenta and Ramsey 2010). In one view, actors seek legitimacy through status organizations or peers they perceive to be more legitimate (DiMaggio and Powell 1983; Hood 2005). In a second view, actors are motivated by substantive (cognitive and normative) policy concerns (Schmidt 2008) but are ambiguous in their preferences and the desired goals (Cohen, March and Olson 1972; Kingdon 2011), as there are boundedly rational individuals. In the third perspective, actors might be ‘epistemologically dependent’ on other actors, such as groups of experts or early adopters, to achieve legitimacy on both a cognitive and normative level in epistemic communities (Haas 1992) or by adopting ‘global governance’ standards and regulation (Lüder 2009; Lüder and Jones 2003).

As GAAP/GFS harmonisation was a ‘first mover’ event, mimetic and coercive forces are less likely to have had significant influence, making DiMaggio and Powell’s SI version less helpful. More promising are the concepts proposed by Cohen, Kingdon and Haas. In particular Kingdon’s multiple streams’ model, which is based on Cohen et al.’s garbage can model, was specifically modified for investigating agenda setting in the context of public policies. While Kingdon’s multiple streams framework has many SI characteristics, it has been classified as a framework of eclectic epistemology (Zahariadis 1998). It is, therefore, reviewed in more detail in section 3.5 below.
More recently, social construction researchers have brought together institutional theory with interest group theory (pluralism) and concluded that “policy affects politics” (Ingram et al. 2007, p. 95). As they focus on how existing institutions might inform changes, SI researchers often consider diffusion processes. An example of a public policy diffusion theory is the Social Construction Framework (SCF).

The SCF, as associated with Ingram, Schneider and deLeon (2007, p. 93), specifically assumes that “public policy makers socially construct target populations in positive and negative terms and distribute benefits and burdens so as to reflect and perpetuate these constructions.” Their work focuses on the identification of target populations and how they are constructed in, and impacted by, the public policy process and public policy makers to answer questions, such as:

“How is it that, while every citizen is nominally equal before the law, policy design tends to distribute mainly benefits to some people while almost punishing others? Why is it that some policies are perpetuated and even enlarged, despite their failure to achieve policy goals? How is it that some negatively constructed groups are able to gain a more positive social construction and better treatment by policymakers, whereas others do not? And why and how does it happen that policy designs sometimes depart from the typical reproduction of power and social construction to introduce change in institutions, power relationships, and the social construction of target groups?” (Ingram et al. 2007, p. 93).

Target populations are contrasted with policy communities or interest groups. Target populations are constructed by policy makers for certain purposes, and are a result of policy making, rather than its origin. VanDeMark (2006, p. 30), for example, states that:

“focusing on target populations redirects attention from organized interest groups and their relationship to policy making to how policy itself exerts influence on those who participate in the policy-making process as well as those who gain and lose as the result of a specific policy”.

Research using the SCF focuses on the impact of the positive or negative social construction on a target group. This includes whether a target group is perceived positively or negatively, and the effect of this social construction on different stages of
the public policy process, such as participation in the public policy process, the allocation of benefits and burdens and the initiation of policy change (Ingram et al. 2007, pp. 114-117). As it stands, Ingram et al.’s SCF is, therefore, better suited to evaluate public policy outcomes with respect to the groups affected, rather than agenda setting. A summary of the SCF is presented in Figure 3.4.

Figure 3.4: Summary ‘Social Construction Framework’

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Social construction, target groups as explanatory elements of policy design and policy change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause of change</td>
<td>Not clearly defined, interdependent relationship between policy design, actors and policy outcome, including both exogenous (resource, institutions, culture) and endogenous (interpretive) factors and impacts</td>
</tr>
<tr>
<td>Type of change (incremental or radical)</td>
<td>Both</td>
</tr>
<tr>
<td>Change progression</td>
<td>Non-linear</td>
</tr>
<tr>
<td>Perspective on institutions</td>
<td>Wide, including historic and political elements (degenerative politics and professionalised or expert politics)</td>
</tr>
<tr>
<td>Motivations of actors</td>
<td>Not identified</td>
</tr>
<tr>
<td>Level of agency of actors</td>
<td>High</td>
</tr>
<tr>
<td>Relationship between agency and structure/institutions</td>
<td>Interdependent, with focus on agency and context</td>
</tr>
<tr>
<td>Are underlying theoretical assumptions compatible with epistemological outlook?</td>
<td>Yes</td>
</tr>
<tr>
<td>Suited for qualitative case study research?</td>
<td>Yes</td>
</tr>
</tbody>
</table>
3.5 PUBLIC POLICY CONSTRUCTS WITH ECLECTIC EPISTEMOLOGIES

3.5.1 The advocacy coalition framework

AC attempts “to explain policy change within a policy subsystem over relatively long periods of time.” (Schlager 2007, p. 298). It is based on three “foundation stones”:

“(1) a macro level assumption that most policymaking occurs among specialists within a policy subsystem but that their behaviour is affected by factors in the broader political and socioeconomic system; (2) a micro-level “model of the individual” that is drawn heavily from social psychology; and (3) a meso-level conviction that the best way to deal with the multiplicity of actors in a subsystem is to aggregate them into “advocacy coalitions”. These foundations, in turn, affect our dependent variables, belief and policy change, through two critical paths: policy oriented learning and external perturbations” (Sabatier and Weible 2007, p. 189).

AC considers the main elements of the public policy process. It takes into account actors (both individuals and groups), institutional factors and the relationship between these elements. As an inter-organisational theory, AC assumes that policymaking is best organised in specialised groups (Sabatier and Weible 2007, p. 192). The assumption that behaviour is affected by the political and economic systems demonstrates institutional considerations. Schlager (2007) suggests that AC could be improved by more attention to institutional factors.

AC’s eclectic epistemology is reflected in its consideration of individual actors. They are assumed to be boundedly rational actors with clear preferences (Zahariadis 1998), reflecting a rational choice epistemology. They are also constructive and persuasive policy makers within the limits of the social constructs of identity and meaning (beliefs) (Majone 1989; Schneider and Ingram 1997). In contrast to RI, AC “assumes that normative beliefs must be empirically ascertained and does not a priori preclude the possibility of altruistic behaviour” (Sabatier and Weible 2007, p. 194), reflecting a social construction epistemology. Sabatier and Weible (2007, P. 194) summarise this duality:
“Following March and Olson (1996) the AC recognizes two systems of normative reasoning: A “logic of appropriateness”, in which right behaviour means following rules, and “a logic of consequences”, in which right behaviour involves maximising good consequences. It’s the classic conflict between sociologists and economists” (Sabatier and Weible 2007, P. 194).

AC has been criticised because it suggests that major changes are primarily caused by external rather than internal events, which are usually associated with minor changes (2009, p. 24). In this regard, it reflects a HI perspective.

At the same time, AC adopts a social construction perspective when it comes to group identification by highlighting the importance of ideas and beliefs. The social construction perspective is also reflected in the assumption that unstable/flexible institutional factors are not necessarily limiting, but can be changed by the agency of actors. But even within the assumptions about coalitions, AC has been criticised for its eclectic epistemology. While it assumes that coalitions are bound by belief systems (a constructionist, ideational approach22), it does not view these beliefs as the drivers of change, but as an ‘adhesive’ binding together of advocacy coalitions that are factors of stability rather than change (Weible, Sabatier and McQueen 2009). This view limits the agency of actors or ideas and results in a conclusion that radical change can only be caused by exogenous factors. This is in direct conflict with social construction approaches.

AC is particularly suited to examine and explain public policy processes where groups with different belief systems compete. While different belief systems might play an important role in the GAAP/GFS harmonisation agenda setting process, such as economists’ beliefs versus accountants’ beliefs, focusing on this area might neglect

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22 In reaction to exclusively material or institutional explanations of policy change, institutional scholars have put forward ideational approaches (Béland 2009) to explain policy change. Parsons (2002, p. 48) defines ideas in a narrow way as “claims about descriptions of the world, causal relationships, or the normative legitimacy of certain actions”. In combination with cultural symbols and discursive frames, they constitute ideational processes that enable individuals to ‘give meaning’ to their world (Parsons 2007; Steinmetz 1999).
other relevant issues, such as the fight for time and resources and competition with alternative policy issues that are outside belief systems. Despite the centrality of coalitions bound by belief systems and its eclectic epistemology, AC is a serious contender to examine the agenda setting process of GAAP/GFS harmonisation, as it provides a holistic and theoretically developed structure for the analysis of public policy processes. The characteristics of AC are summarised in Figure 3.5.

### Figure 3.5: Summary ‘Advocacy Coalition Framework’

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Eclectic (rational choice assumptions, historic considerations, as well as social construction assumptions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause of change</td>
<td>Predominantly external factors</td>
</tr>
<tr>
<td>Type of change (incremental or radical)</td>
<td>Both</td>
</tr>
<tr>
<td>Change progression</td>
<td>Linear</td>
</tr>
</tbody>
</table>
| Perspective on institutions | • Unstable  
|                            | • Depend on coalition strategy and socioeconomic conditions  
|                            | • Wide definition of institutions which are limiting, but changeable                          |
| Motivations of actors      | • Belief systems  
|                            | • Boundedly rational choice  
|                            | • Clear preferences                                                                              |
| Level of agency of actors  | Medium to high (agency attributed to actors, but limited by historic and other institutional factors) |
| Relationship between agency and structure/institutions | Constantly linking structure and agency (Capano 2009, p. 20)                                   |
| Are underlying theoretical assumptions compatible with epistemological outlook? | Yes                                                                                           |
| Suited for qualitative case study research? | Yes                                                                                           |
3.5.2 The multiple streams framework

MS (Kingdon 1984, 2011) is the only theory that focuses specifically on decision making in public policy agenda setting. MS is based on the ‘garbage can’ model, originally developed in the discipline of organisational choice within social institutionalism by Cohen, March and Olsen (1972). They consider organisations as “organized anarchies”, with the general properties of problematic preferences (not clearly defined), unclear technology (members do not understand the organisation’s processes), and fluid participation (participants drift in and out of decision making). Organised anarchies are “a collection of choices looking for problems, issues and feelings looking for decision situations in which they might be aired, solutions looking for issues to which they might be the answer, and decision makers looking for work” (Cohen et al. 1972, p. 2).

Kingdon (1984) adapted the garbage can model and applied it to agenda setting processes by the U.S. federal government. MS attempts to explain why certain policy ideas are adopted but others are not through a consideration of alternatives and how they survive in the three highly fluid and independent streams of politics, policy and problems.23

MS’ starting point is the ‘primeval soup’24, in which policy communities float different ideas (alternatives), which they try out on others in both formal and informal situations. MS argues that ideas need to fulfil certain criteria to survive when competing against each other. By identifying technical feasibility, value acceptance and anticipation of future constraints as criteria for survival, MS explains why some ideas make it onto a

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23 Capano (2009, p. 21) argues a prevalence of the political stream, as MS views policy as a constant target of political influence.

24 The term ‘primeval soup’ refers to the similarities of the policy process and processes of biological natural selection of molecules in the “primeval soup” before life came into being” (Kingdon 2011, pp. 116-117), reflecting a ‘hard science’ positive epistemology.
policy agenda and others do not. However, the concept of ideas and alternatives is not clearly developed in MS. For example, it does not define how these ideas emerge and does not further elaborate on the level of agency it assumes for its actors. As MS is based on the garbage can model, which is a social construction theory, it is appropriate to interpret elements of MS through a social construction lens. On the other hand, with its assumptions about the boundedly rational individual, MS borrows from positive, rational choice traditions.

MS attributes an important role to individual actors called policy entrepreneurs (PEs), who are highly knowledgeable and recognised key individuals. They are manipulators of information with the aim of controlling the ambiguity of their environment (Hoyt and Garrison 1997; Zahariadis 2007). They ‘soften up’ the policy community, decision makers and other participants in the agenda setting process. They then ‘couple’ the three independent streams, so that the environment is ready to allow an issue onto the agenda when a ‘window of opportunity’ arises. Those ‘opportunities for a launch’ are only open for a short time and actors are under time pressure. PEs are influenced and limited by institutional arrangements (Capano 2009; Kingdon 2011, p. 230), which are not considered in detail. In contrast to AC, MS appears to provide a higher level of agency to individual and communal actors by assuming an active role for PEs in the agenda setting process (Zahariadis 1998).

Like AC and the garbage can model, MS assumes boundedly rational actors. However, instead of explaining the motivation and behaviour of actors through a belief system, Kingdon’s considerations of the individual reflects Simon’s (1957) version of the

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25 In fact, through the assumption that change is brought about by active coupling by policy entrepreneurs, rather than chance, Kingdon addresses an important criticism of the garbage can model (2001).
bounded rational individual as a ‘satisficer’, with unclear goals. This assumption of unclear goals means that MS’ bounded rational actors cannot undertake a cost/benefit analysis as in RI.

MS suggests three reasons for the individual behaviour of policy entrepreneurs. They are (1) to promote of personal interest and their values, (2) to affect public policy, or (3) because they are “policy groupies” (Kingdon 2011, p. 122). Compared to the boundedly rational individual of AC, MS’s view of the individual is narrower and more aligned with traditional rational choice motivations, as it focuses on personal gain, and does not explicitly consider altruistic behaviour.

An important addition by Kingdon to the garbage can model is the “policy community of specialists [...] which concentrates on generating proposals” and who “are scattered both through and outside of government” (Kingdon 2011, p. 117). The extent of the fragmentation of the policy communities’ influences affects the stability of the agenda (Kingdon 2011, p. 121). Where policy communities are tight-knit, agendas are more stable. Major changes are more likely in fragmented policy systems (Kingdon 2011; Zahariadis 2007). “Collective choices are not merely the derivatives of individuals, but rather the combined result of structural forces and internal processes that are highly context dependent” (Zahariadis 2003, p. 437). Compared to AC’s concept of coalition, the criteria to identify these policy communities are poorly developed and the principles for collective action and collective choice are not specified in detail. For example, MS has not developed criteria that identify policy communities. Schlager noted that of the public policy constructs in her review, MS pays the least amount of attention to

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26 MS’ and Simon’s assumption also differ with respect to serial processing capacity:

“Whereas Simon in general imposes a certain rational [serial] order on the process of policy making, theorizing from the micro to the macro level, multiple streams attempts to uncover [parallel] rationality, theorizing from the macro to the micro.” (Zahariadis 2007, p. 68).
collective action (Schlager 2007). Instead, its focus on the individual explains “the
great man of politics”, who cannot control events, but anticipates and bends them to his
favour (Schlager 2007, p. 302).

MS does not specify the type of change under investigation. The motors of change for
MS are partly chance constrained by the environment and entrepreneurs (Capano 2009).
The causal mechanisms that lead to policy change are a combination of exogenous and
endogenous factors. Capano (2009, p. 24) criticises MS for its emphasis on exogenous
factors and for not adequately allowing for feedback effects. The processes within MS
are fluid, rather than mechanical, leading to a limit to its ability to predict. It is
important to note that fluidity does not mean ‘random’. While serendipity plays a major
role in whether an item makes it onto the agenda (Schlager 2007), the processes are
constrained and influenced by the actions of PEs through coupling (Zahariadis 1996)
and institutional factors (Capano 2009; Kingdon 2011, p. 230). In fact, it has been
suggested MS would benefit from a closer consideration of institutional factors (Capano
2009; Schlager 2007). Such reflection could also provide some context for the
identification of policy communities and explain how PEs are shaped or limited by
existing institutional structures or how they can change them. Lastly, considerations of
institutional aspects could also help to explain why an ‘idea’s time has come’.

In summary, there is some criticism to MS. These criticisms include a mixed and
unclear methodological perspective and a lack of institutional consideration. They
could be addressed by supplementation with a second theoretical concept to include
institutional factors and by clarifying the role of ideas and the actions and motivations
of policy entrepreneurs. In addition, the original assumed political setting at a
governmental level might have to be modified to fit the accounting agenda setting
environment.
On the other hand, MS provides a holistic theoretical structure with a specific focus on agenda setting. It identifies and distinguishes the most important elements of a public policy agenda setting process and provides sufficient theoretical assumptions for explanation, rather than description of agenda setting processes. It is also suitable for single case study research. Hence, despite the criticisms, MS is a suitable theoretical construct to explore and explain the GAAP/GFS harmonisation agenda setting process. The characteristics of MS are summarised in Figure 3.6.

**Figure 3.6: Summary ‘Multiple Streams Framework’**

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Eclectic (rational choice assumptions, historic considerations, as well as social construction assumptions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause of change</td>
<td>Predominantly external factors</td>
</tr>
<tr>
<td>Type of change (incremental or radical)</td>
<td>Not considered explicitly, but tendency to explain incremental change</td>
</tr>
<tr>
<td>Change progression</td>
<td>Non-linear</td>
</tr>
</tbody>
</table>
| Perspective on institutions| • Unstable  
• Autonomouls  
• Facilitate action  
• Not further identified |
| Perspective on actors      | • Boundedly rational choice  
• Unclear preferences                                                                 |
| Level of agency of actors  | Medium to high:  
• structures not only limiting, but also enabling;  
• specifically allows for reflection and learning effects of actors  
• however, rationalist assumptions made about motivation of actors |
| Relationship between agency and structure/institutions | Structural prevalence but with room for individualistic strategic behaviour (Capano 2009, p. 20) |
| Are underlying theoretical assumptions compatible with epistemological outlook? | Yes |
| Suited for qualitative case study research? | Yes |
3.5.3 Studies using the multiple streams framework or its predecessors

Three studies have applied MS in an accounting standard agenda setting context. Mezias and Scarselletta’s (1994) study was concerned with the FASB agenda setting process from 1978 to 1988. It used the concept of organised anarchies, which is a ‘predecessor’ of MS. Organised anarchies are characterised by problematic preferences, unclear technology and fluid participation. To decipher the processes of organised anarchies, Cohen, Olson and March (Cohen et al. 1972) developed their garbage can model on which Kingdon based the development of MS. The second study by Ryan (1998) considered the introduction of accrual accounting in the Australia public sector from 1976 to 1996. In the third study, Singh and Newberry (2009) analysed the agenda setting process in the application of International Financial Reporting Standards (IFRS) by developing countries at the International Accounting Standards Board (IASB).

Mezias and Scarselletta (1994) examined the agenda setting processes of the U.S. Financial Accounting Standards Board (FASB) from 1978 to 1988. The purpose of their study was to “learn more about the process by which the FASB selects a few issues from among many to put on its agenda” (Mezias and Scarselletta 1994, p. 1). Mezias and Scarselletta analysed published and unpublished FASB files to identify “all issues for which the FASB made agenda decisions and all issues considered by the Emerging Issues Task Force (EITF) from its foundation in 1984 until 1988” (1994, p. 11). They found that the EITF freed up time for the FASB to consider issues that were not related to whether or not an issue should be considered in more detail. The FASB approved 80% of the issues proposed by staff for closer consideration. Staff, in turn, were likely to recommend issues that had been proposed by the American Institute of Certified Public Accountants (AICPA). The authors also noted that the FASB became more efficient in deciding about agenda entrance of issues at the EITF.
In addition, Mezias and Scarselletta investigated four criteria that the FASB had established to decide whether an issue made it onto the agenda by interviewing 35 participants in the agenda setting process. The criteria were:

1. Is the issue pervasive?
2. Is a solution available to improve financial accounting?
3. Is a technical feasible solution available?
4. Do the benefits of considering the issue outweigh the practical consequences?

The authors found that there was disagreement among the interviewees on all four criteria and the interviewees expressed specific confusion about the application of the second and third criteria. In addition, the participants classified only two of six issues on the FASB agenda that were considered for the study as important. The study also found wide agreement among the interviewees that the accounting profession and SEC were the main groups that influenced the FASB agenda.

Mezias and Scarselletta then re-examined their findings through an application of the concept of organised anarchies, as suggested by Thompson (1967). They found that the FASB reflected characteristics of an ‘organised anarchy’, as the participants “did not agree on the goals and they did not understand causes” that link the decisions with outcomes (Mezias and Scarselletta 1994, p. 4).

The study has a number of limitations. It is not quite clear how the documents were analysed or how interview partners were selected. The application of the concept of organised anarchies appears to be descriptive rather than analytical. The garbage can model was not used, which would have provided deeper theoretical analysis. The research was commissioned by the American Financial Executive Research Foundation, which is, arguably, a constituency group of the FASB, which raises question about a potential conflict of interests. Despite these limitations, Mezias and Scarselletta’s study is a useful contribution to accounting standard setting. The findings of the analysis of
FASB documents are significantly improved through the use of interviews. In addition, it is the only study that applies the concept of organised anarchies to accounting standard setting.

Ryan (1998) examined the agenda formation process for the introduction of accrual accounting in the Australian public sector from 1976 to 1996. Prior studies that had examined this issue did not consider the actors and processes involved (Ryan 1998, pp. 519 and 533). Ryan’s paper utilises an agenda setting framework based on a slightly modified version of the three approaches to agenda building and elements of MS, in particular the concept of the PE.

The paper’s main contributions are twofold and relate to the empirical findings and theoretical contributions of the study. Ryan (1998, p. 533) suggests that:

“the main finding of the study is that accrual reporting for the public sector became an issue because the political and economic environment existing in Australia since the late 1970s created the climate for the promotion of techniques which favoured reporting in the financial performance of governments and their agencies. These techniques were promoted by many influential public sector “policy entrepreneurs” operating from within government institutions, and often aligned with the organized accounting profession […]. The findings of this research support Kingdon’s (1984) proposition that ideas come from many sources, and what is important is the climate of “receptivity” that allows ideas to take hold. There is no one actor or event which determines a policy outcome. Items rise onto agendas due to several factors coming together at a given point in time, and not to the effect of one or another of them singly.”

There are, however, a number of limitations to Ryan’s study. For example, it does not clarify the underlying epistemological or theoretical assumptions of the three approaches to agenda building or MS. Further, the combination of the two models reveals a contradiction. One of the distinguishing features and major contributions of MS is that public policy processes are not necessarily chronological, but are uncertain, and non-linear (Capano 2009, pp. 12-13), whereas Cobb and Elder’s model is based on chronological events. Another limitation of Ryan’s study is the absence of any
reference to “alternatives”, which are an essential element of MS (2011, p. 4). Further, Ryan’s study does not consider the role of institutional factors on actors and their level of agency. A last limitation of Ryan’s study (1998, p. 534) has been acknowledged by the author herself. The study does not consider the implications of change, particularly “as they apply to areas of public policy not previously reduced to accounting technologies”. As a result of these limitations, the application of the theoretical models appears to leave the full theoretical potential unexplored.

Despite these limitations, Ryan’s study is a significant contribution to the accounting standard agenda setting literature. It demonstrates a thorough documentation of the events under examination, utilising many primary sources such as government reports and minutes of meetings. It is also the first study to apply a more sophisticated public policy model (MS) to investigate the agenda formation process in an accounting context. As noted by Howieson (2009b, pp. 39-40), “[s]urprisingly, the paper is silent on its significance as a study in agenda setting in an accounting context”.

Singh and Newberry (2007) examined the agenda setting process at the IASB (and its predecessor, the IASC) in the adoption of IFRSs by small and medium sized entities (SMEs) in developing countries from the early 1960s. The study analysed documents including submissions to IASB EDs and IASB surveys. As with Ryan’s study, Singh and Newberry’s paper also supplemented MS with the three approaches of agenda building.

The study confirmed MS’ suggestion that all streams need to be coupled for an issue to enter and stay on an agenda. While the development of accounting standards for developing countries was discussed three times at the IASB/IASC level, the study suggested that the proposals to develop specific standards for these countries were not
initially acceptable to the policy makers in 1989. The study, however, does not explain why the issue was dropped from the IASB agenda in 1998. The study further suggests that, in line with MS, once a solution emerged it was offered to developing countries.

The study is a thorough historical account of the relationship between the IASB (and the IASC) and developing countries from its emergence until 2008. The study would have benefitted from a more in-depth application of MS and the three approaches to agenda building. For example, the historical events could have been more clearly linked to the three streams of MS. A theoretical consideration of the role of institutional factors, as well as the role and level of agency of the policy entrepreneurs has been neglected. As recognised by the authors, the analysis of documents has limitations for the findings. Interviews with involved stakeholders would have helped clarify some of the ambiguities of the study. As with Ryan’s study, the potential of MS remains unexplored, resulting in a descriptive rather than an analytical application.

In summary, the three studies demonstrate that MS offers a holistic theoretical framework in which to investigate an agenda setting process as it highlights the critical factors of this process. However, the theoretical potential of MS has, so far, remained underutilised. Document analysis appears to be insufficient to investigate accounting agenda setting processes, as the documentation often begins once an issue has been placed onto an agenda for longer-term considerations. Interviews could be used to address this limitation. An overview of the review of these studies is provided in Appendix 3.

3.6 WHAT CONSTRUCT IS BEST SUITED TO INVESTIGATE THE GAAP/GFS HARMONISATION AGENDA SETTING PROCESS?

This chapter reviewed traditional theories and models used to examine accounting agenda setting processes and concluded that they are focused on certain elements of the
process, rather than offering a holistic, more sophisticated perspective. As a
consequence, public policy models, theories and frameworks were reviewed. An
overview can be found in Appendix 4.

The reasons for not choosing models of RI, HI and the social construction framework
are addressed above. AC and MS are appropriate candidates to examine the
GAAP/GFS harmonisation agenda setting process. A number of reasons suggest that
AC is an appropriate theory to investigate the GAAP/GFS harmonisation agenda setting
process:

- It is a relatively advanced and developed theory of public policy processes.
- It considers the event from all levels (micro, macro and meso).
- It identifies and follows a clear epistemological perspective (social
  constructivism).
- It clearly identifies coalitions (interest groups) and their role in a public policy
  process.
- It also emphasises the role of critical institution.
- It covers the complete public policy process and could therefore be used to
  investigate the complete GAAP/GFS harmonisation program, not only the
  agenda setting process.

There are, however, also a number of reasons against the use of AC:

- It emphasises/assumes exogenous factors as reasons for change.
- It does not consider the role of individual preferences, but only investigates
  aggregate preferences.
- The existence of coalitions is not necessarily applicable within an accounting
  standard setting context. Interest groups might not necessarily face opponents
  for their topic in the battle to push an item on an agenda. Instead, potential
  conflict might arise around other topics of other interest groups for a space on
the agenda. Belief systems might, hence, not be an appropriate/important characteristic in the GAAP/GFS harmonisation agenda setting process.

- AC does not particularly focus on agenda setting.

The advantages of MS are:

- It focuses, more than any other theory considered, on change, rather than continuity.
- It is specifically tailored to agenda setting, rather than whole public policy process.
- While it does not clarify its epistemological perspective, it provides theoretical assumptions for its elements, enabling explanatory rather than merely descriptive analysis of an agenda setting process.
- It focuses on a single event (acceptance on agenda) in the context of how this event is arrived at in ambiguous circumstances, rather than focusing on clear preferences irrespective of how they are derived (Zahariadis 1998, p. 437-438).
- It provides for individual actors (PEs) and allows for collective actors (policy communities) and focuses on their actions, rather than their identification.
- MS has been applied previously in an accounting standard setting context. However, its full potential has not been explored.

The limitations of MS to explain the GAAP/GFS harmonisation process can be summarised as follows:

- It does not clearly identify and follow one epistemological perspective.
- It focuses on exogenous factors.
- It does not sufficiently consider institutional factors with respect to
  - how ideas are shaped by and change institutional structures;
  - how ideas are communicated to further their agenda entrance;
• how policy entrepreneurs are shaped by and change institutional structures;
• how policy communities can be identified through institutional factors, such as shared value systems.

The decision about which theory better examines and explains the GAAP/GFS harmonisation agenda setting process is difficult. Whilst acknowledging that both Ac and MS are potentially suitable to answer the research question, MS is selected for the advantages listed above, in particular because of its specific focus on agenda setting. To provide an improved theoretical basis, the limitations of MS (lack of epistemological clarification, a lack of institutional considerations and a lack of a consideration of collective action) need to be addressed. The identification of a supplementary theory and its integration with MS into a suitable theoretical framework to investigate the GAAP/GFS harmonisation agenda setting process are the subject of Chapter 4.
CHAPTER 4 DEVELOPING AN INTEGRATED AGENDA SETTING FRAMEWORK

4.1 INTRODUCTION

Based on the review of the constructs used in previous accounting agenda setting studies and from the realm of public policy, the Multiple Streams (MS) was selected to investigate the GAAP/GFS harmonisation agenda setting process. The review of MS indicated a lack of epistemological and institutional considerations and a consideration of collective actors. Any supplementary construct should address these limitations while providing an epistemologically and theoretically coherent framework. The purpose of this chapter is (1) to identify supplementary constructs and (2) to develop a suitable construct to be used to investigate the GAAP/GFS harmonisation agenda setting process. It was argued in Chapter 3 that the elements of MS sit well within a social constructivist epistemology. As a result, any supplementary constructs should be consistent with this perspective. In particular, the construct should provide epistemological, theoretical and institutional clarifications about:

- ideas (in the problem stream):
  - where they come from;
  - their level of power (commonly referred to as ‘agency’); and
  - how they are ‘translated into reality’;

- individual and collective actors:
  - their level of agency (i.e., to what extent are they shaped by or can they shape their environment);
  - their motivations to initiate change; and
  - in the case of collective actors: their identification;
where does the model, theory or framework sit in the structure versus agency debate?

In addition, it should be suitable to supplement or be integrated with MS and be applied to qualitative case study research.

The review of the public policy models in Chapter 3 has concluded that traditional forms of new institutionalism are much better in explaining continuity rather than change and that change is predominantly explained by exogenous factors, such as coercive, normative and mimetic forces (Schmidt 2010). An alternative perspective has been offered by a group of authors who argue that a fourth form of new institutionalism labelled discursive institutionalism (DI) offers a better theoretical framework to explain change.

Section 4.2 presents and discusses DI as a candidate for supplementing MS. Section 4.3 reviews prior studies that have combined the use of MS and DI. Neither MS nor DI offer a clear concept of collective actors. This thesis uses Haas’ concept of the epistemic community to address this gap. The concept is discussed in section 4.5, followed by a brief literature review of studies that have applied the concept in an accounting context. Section 4.6 presents the framework that is developed to investigate the GAAP/GFS harmonisation agenda setting project as a result of the review of literature and public policy models, theories and frameworks. The chapter concludes with a summary in section 4.7.

4.2 DISCURSIVE INSTITUTIONALISM TO SUPPLEMENT MULTIPLE STREAMS?

The term DI was initially coined by Campbell and Pedersen (2001). However, the main author associated with it is Schmidt (2002, 2008, 2010, 2011a, b; Schmidt and Radaelli
who developed its initial idea further and provided a structured theoretical
definition and context for it:

“Discursive institutionalism, in sum, is an analytical framework concerned with
the substantive content of ideas and the interactive process of discourse in an
institutional context” (Schmidt 2011, p. 121)

DI defines institutions as dynamic and endogenous and focuses on the power of ideas
and persuasion to explain change (Schmidt 2010, p. 2). Ideas are “developed and
conveyed by ‘sentient’ agents” who act to alter (or maintain) institutions using
discourse to persuade others using a ‘logic of explanation’ (Schmidt 2011b, p. 107). DI
can be broken down into three broad elements:

- ideas;
- discourse; and
- sentient agents.

DI identifies a substantive dimension of ideas and discourse, in which normative and
cognitive content of ideas are considered. DI builds on Campbell’s (1998) typology of
ideas, which he developed to show how HI can be incorporated into an ideational
approach. This approach that has been adopted by a number of DI researchers,
including Buitelaar Lagendijk and Jacobs (2007), Buitelaar and De Kam (2011),
Campbell (2002) and Schmidt (2006). Campbell argues that normative “ideas and
institutions limit the potential range of policy solutions” (Campbell 1998, p. 378),
however, in contrast to traditional HI theories, he argues that such limitations are not
norm based, but are based on the routines, habits or cultures that are taken for granted.
This allows normative ideas to be viewed as drivers for change, rather than as being
limiting.

27 According to Schmidt, Campbell supports the blend of the three traditional institutional theories, rather
than attest to DI. Nonetheless, his typology is useful to explain the HI/DI two-step approach used in
this thesis.
Schmidt (2010) agrees that an explanation of policy change should include existing structures. However, she suggests that this information should be used as background data to build the basis of a DI explanation which focuses on how ideas and discourse inform policy change. In DI, normative ideas are institutionalised because they achieve legitimacy through value acceptance in answering to the question “What ought one do?” (Schmidt 2008, p. 306). Normative ideas ask how policies or programs meet the expectations, philosophies and norms of the general public (Schmidt 2008, p. 307). Cognitive ideas explain “What is and what to do?” and become accepted because they address the interests of the participants in the agenda setting process (Schmidt 2008, p. 306). For example, Schmidt’s study about the introduction of new liberal ideas in Great Britain highlights how ideas:

“were articulated through a discourse that combined cognitive specialist arguments about the disastrous economic effects of neo-Keynesianism, and the necessity of reform […], with normative narrative about the benefits of thrift and hard work, which [Thatcher] linked to Victorian values and illustrated through the experience of her grocer father” (Schmidt 2011b, p. 113).

In DI, ideas can have influence on three different levels of generality as policy ideas (rapid change), policy programs and public philosophies (slow change). DI views major changes as “objects of explanation in which agents’ constructive ideational and discursive engagements with events become the basis for future ideational (re)construction and actions” (Schmidt 2011b, p. 108). Incremental change is considered in policy change, which is the typical subject of MS. Campbell previously linked the levels of generality of an idea and an idea’s cognitive and normative aspects. Figure 4.1 shows an interpretation of Campbell’s typology of ideas in the context of DI.
Figure 4.1:  Extended Typology of Types of Ideas and Their Effects on Policy Making (Campbell 1998, p. 385; Schmidt 2008)

<table>
<thead>
<tr>
<th>Policy level</th>
<th>Program level</th>
<th>Philosophical level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea in the foreground of the policy debate</td>
<td>Concepts and theories in the foreground of the policy debate</td>
<td>Underlying assumptions in the background of the policy debate</td>
</tr>
<tr>
<td><strong>Cognitive level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy – technical aspect</td>
<td>Programs</td>
<td>Paradigms</td>
</tr>
<tr>
<td>How does the policy offer a solution to a problem</td>
<td>Ideas as elite policy prescriptions that help policy makers to chart a clear and specific course of policy action</td>
<td>Ideas as elite assumptions that constrain the cognitive range of useful solutions available to policy makers</td>
</tr>
<tr>
<td></td>
<td>How does a program define a problem</td>
<td>How does a policy and a program ‘mesh’ with paradigm</td>
</tr>
<tr>
<td></td>
<td>Identify a method to solve the problem</td>
<td></td>
</tr>
<tr>
<td><strong>Normative level</strong></td>
<td>Frames</td>
<td>Public sentiment</td>
</tr>
<tr>
<td>Policy – normative aspect</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How does a policy meet aspirations and idea of general public</td>
<td>Ideas as symbols and concepts that help policy makers to legitimate policy solutions to the public</td>
<td>Ideas as public assumptions that constrain the normative range of legitimate solutions available to policy makers</td>
</tr>
<tr>
<td>How does a policy resonate with public sentiment</td>
<td>How does a program resonate with public sentiment</td>
<td></td>
</tr>
</tbody>
</table>

Another element of DI is the interactive dimension of ideas and discourse in which “ideas are constructed in a ‘coordinative’ policy sphere and deliberated and legitimised in a ‘communicative’ way” (Schmidt 2010, p. 3). In other words: “Who said what to whom, where and why?”.

The coordinative dimension investigates the discourse of actors within the policy arena, either as individuals or groups. Unfortunately, DI does not offer any guidance to identify or define policy communities and leaves it to the researcher to integrate alternatives. The communicative dimension focuses on the discourse of political actors with the public for deliberation and legitimisation (Schmidt 2008, p. 310). Again, DI does not specify political actors and their context, but refers again to concepts of other authors.

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28 Examples of policy coordination referred to include ‘epistemic communities’ (Haas 1992), ‘advocacy coalitions’ (Sabatier and Jenkins-Smith 1993) or ‘mediators’ (Jobert 1989).

29 Concepts and authors referred to include the top-down mass electoral process of public persuasion by Zaller (1992) and Mutz and Brody (1996) or ‘policy forums’ of ‘informed publics’ in ‘communicative action’ as developed by Rein and Schön (1991) and Habermas (1996).
Sentient agents are at the centre of the DI. They connect ideas and discourse with collective action in an institutional context. They are not restricted by institutions, but create and enable them as ‘sentient’ (i.e., thinking and speaking) agents who develop ideas with “background ideational abilities”. Background ideational abilities allow agents to make sense of and within institutions and give them the ability to create or maintain institutions. At the same time their “foreground discursive abilities” allow them to communicate and deliberate to change institutions (Schmidt, 2008, pp. 314-316). As such, thinking, saying and doing are important components and their interrelations are a main research focus of DI.\(^\text{30}\)

Traditional new institutional theories consider institutions as fixed structures to which unthinking agents mechanically respond (RI), or to which historical actors blindly respond by following rules (HI) (Schmidt 2008, 2010, 2011a, b). In DI institutions “constitute the setting in which ‘sentient’ agents are the thinking agents who develop their ideas for action that they convey through discourse” (Schmidt 2011b, p. 119).

DI, however, also uses elements from RI and SI. From RI, DI takes the assumptions that actors strategically act to achieve goals. In contrast to RI, however, these goals are complex and shifting, as also suggested in MS. From SI, DI incorporates the emphasis on normative and ideational reasons for actors behaviour, but puts a higher weight on the institutional structural context (whether material, normative or perceptive), which shapes individual behaviour (Hay 2006). The institutional setting influences and is influenced by agents’ ideas, discourse, and actions (Schmidt 2008, 2010, 2011b).

\(^{30}\) This is where Schmidt sees a main point of difference to the other three forms of new institutionalism. She (2008, p. 314) argues that “RI, HI, and SI effectively leave us with “unthinking” actors who are in an important sense not agents at all.”
These settings might refer to the ‘meaning context’, the ‘forum’, and/or ‘formal institutions’. ‘Meaning context’ is about sense making and ‘getting it right’. The ‘forum’ refers to the ‘logic of communication’, including existing procedural rules or their ad-hoc creation. The ‘formal institutions’ “affect where discourse matters, by establishing who talks to whom about what, where and when” (Schmidt 2006, p. 19).

Schmidt points out that the approaches to analyse the interactions of ideational change cross different epistemological and ontological approaches. They range from a focus on the importance of ‘ideas’ (Béland 2009), to ‘critical discourse’ (Foucault 2000; Laclau and Lowndes 2007) and to ‘interpretive’, where everything is socially constructed. Schmidt suggests that DI adopts a middle-way, using both background ideational abilities and non-ideational communicative foreground abilities that enable actors to go beyond and change (ideational) structures.

Schmidt (2011b) warns that ideas and discourse should not be seen as the only explanation of policy change and that DI, instead, should be viewed in addition to the other three forms of new institutional theory. This is evident in the underlying theoretical and epistemological assumptions of DI’s elements. It is for this approach, however, that DI has also been criticised.

Bell (2011) has questioned the value of DI as a distinct separate form of new institutional theory. He refers to the overlap between DI and ideational forms of HI. Bell (2011, p. 906) argues that ideational HI research “can easily accommodate an agential focus and key constructivist insights”. He warns, however, of the danger that the focus on agents could neglect the institutions and material settings that influence actors. He suggests that the use of ideational HI and DI rely on very similar theoretical underpinnings and models for their investigation with different labels. While Bell’s analysis has merit to the extent that HI and DI researchers use similar theoretical
models, this thesis accepts Schmidt’s response that DI’s value lies in its emphasis on the potential of endogenously motivated change and in focusing attention on ideas and discourse. Figure 4.2 visualises the elements of DI.

Figure 4.2: Discursive Institutionalism

In summary, DI presents a suitable and appropriate complementary theory that addresses the limitations of MS because it considers institutional factors as follows:

- Ideas:
  - come from sentient agents as a reaction to problems or can occur before they are associated with problems; and
  - can influence and change existing institutions and become new institutions.

- Individual actors:
  - are sentient (thinking and speaking) agents;
o have high levels of agency;
  o are influenced, but are not limited by and can change existing institutions; and
  o use discourse to negotiate institutions.

- Institutions influence but don’t limit actors and ideas and actors have the agency to change existing institutions thought discursive process exogenously.

- Change can be:
  o endogenous or exogenous; and
  o incremental or radical.

While DI does not provide one clear epistemological perspective, it considers and clarifies the epistemological and theoretical assumptions underlying its elements and clearly states its position in the structure-agency debate. It is also suitable for application in a qualitative case study. As a result, DI is a suitable and compatible theory to supplement MS for the purpose of investigating the GAAP/GFS harmonisation agenda setting process. Neither MS nor DI, however, offer detailed theoretical assumptions about collective actors. Another concept needs to be consulted to complete the construct for the purpose of this research project. A consideration of collective actors is presented in section 4.4, following the literature review of the combined use of MS and DI.

4.3 COMBINED USE OF MS AND DI IN PRIOR STUDIES

There are no studies to date that have used MS, DI and the concept of the epistemic community in one study. Only a few prior studies have combined the use of MS and DI (see, for example, Bakir 2009; Béland 2009; Buitelaar and De Kam 2011; Buitelaar
Lagendijk and Jacob 2007). Buitelaar et al.’s (2007) study\textsuperscript{31} is briefly reviewed, as it offers the best example of an integrated approach of these two theories.\textsuperscript{32}

Buitelaar et al. (2007) developed a model of institutional change which reconciled the traditional dichotomy of ‘institutional evolution’ and ‘institutional design’, or, in other words, the exogenous and endogenous factors of change. The model was informed by and applied in two case studies. The first considered “attempts to anchor (that is, institutionalise) the city-province into (and therewith change) the Dutch state structure. […] The second example considered the convention of active land policy by Dutch municipalities, and the change within that convention” (Buitelaar et al. 2007, p. 892).

Buitelaar et al. suggested that path-dependency is the most “viable” theory to explain institutional change. However, they also criticised path-dependency for not allowing for sufficient agency. As a result, they supplemented the theory with Hajer’s (1995) concept of ‘discursive hegemony’. The starting point for discursive hegemony was an existing institutional arrangement accompanied by two streams:

“First, a stream of reflection, alternative ideas (solutions), and actions of the institutional bricoleurs that challenge the present institutional arrangement under strain; second external societal developments, notably those that put the present institutional arrangement under strain.” (Buitelaar and De Kam 2011)

In the centre of Buitelaar et al.’s model are bricoleurs (bricklayers), the agents that pursue institutional change. Buitelaar et al. argued that institutional design should not be seen as being opposed to institutional evolution, but as an integral part of it (Buitelaar et al. 2007, p. 895). As such, bricoleurs are both limited by existing structures (path-dependent), but are also influential in the policy making process.

\textsuperscript{31} Technically, Buitelaar et al. (2007) apply Hajer’s (1995) concept of ‘discursive hegemony’ in combination with MS in their study. This study is included here because the authors claim that their approach is close to DI (p. 896, footnote).

\textsuperscript{32} Buitelaar and De Kam’s (2011) study about the institutional changes in the provision of land in social housing in the Netherlands uses the theoretical model developed in Buitelaar et al.’s study. The empirical findings confirm their model. The study offers mostly empirical case related findings which are not relevant for this thesis. The study is, therefore, not further reviewed here.
through discourse and their actions in critical moments and at critical junctures. This argument reflects very closely the assumption about sentient agents in DI.

To identify the timing of critical moments and junctures, the authors use MS. They suggest that the first critical moment (window of opportunity) arises from external societal developments, institutional reflections and institutional arrangements (discursive hegemony). This critical moment arises in what MS would classify as the political stream. Only when this critical moment is coupled with powerful alternative ideas (policy stream) and problem perceptions (problem stream) is a critical juncture (a second window of opportunity) reached which results in institutional transformation. Figure 4.3 visualises their model.

*Figure 4.3: A Model of Institutional Change (Buitelaar at al. 2007)*
Buitelaar et al.’s framework was confirmed in its applications to the two case studies mentioned above. They found that institutions can become strongly embedded once they are formalised and that institutional change is partly path-dependent. In addition, they confirm that agency of actors played an important role in the change processes.

In essence, Buitelaar et al.’s model of institutional change combines elements of HI, DI and MS. It does not, however, completely integrate the respective theories. Change is limited and affected by existing institutional structures (HI). At the same time, actors are attributed with a greater level of agency and can initiate change through discourse as bricoleurs (DI). However, while discourse is a fundamental part of institutional change, it is mainly restricted to the political stream. In summary, Buitelaar et al.’s study and their empirical findings encourage the use of a model that combines DI with MS because it considers different aspects of the policy agenda setting process, which would not have been investigated under a single theory. By including discursive elements, Buitelaar et al. are able (1) to explain how agentic actors can translate a new idea into reality, and (2) to demonstrate that HI elements were not only limiting, but enabling.

4.4 COLLECTIVE ACTORS

Collective actors can be defined as small groups of two individuals on one end of the scale or worldwide movements at the other end of the scale. For the purpose of this thesis, two types of collective actors are identified. The first group are organisational actors. It is assumed that actors belonging to the same organisation have a common objective and they are identified by their association with an organisation. For organisational actors include the FRC, the AASB or the Federal Department of Treasury. This identification is simplistic and does not necessarily accommodate for different groups or opinions within one organisation. A second type of collective actors is needed to identify collective action with regard to policy preferences, potentially
across organisations. For the purpose of this thesis, the concept of the ‘epistemic community’ was selected.

Collective actors can participate in all areas of the agenda setting process. They can be members of the public, the policy stream or the political stream or a congregation of members from either stream. Collective actors can also influence the identification of problems and the policy idea. They can be vital in the promotion or opposition to an idea.

MS and DI assume that policy ideas are more likely to succeed when they are accepted by the public. As a result, promoters and decision-makers seek legitimisation or at least public acquiescence. In the traditional sense, ‘the public’ is ‘the people’ with a common interest. In political sciences, the common interest is the state or government, and the public are the citizens. The public can, however, be defined in a more narrow, situational way, as for example proposed by Grunig and Holt (1984), who developed four categories of ‘publics’. They are the ‘non publics’ who have no problem, ‘latent publics’ who have a problem, but are not aware of it, ‘aware publics’ who recognize that they have a problem, and ‘active publics’ who do something about their problem. For the purpose of this thesis, their classification was chosen as it offers the most useful description of the public and their involvement in the agenda setting process.

In the policy arena, MS only provides descriptive adjectives of the policy community. Kingdon (2011, p. 117) proposes that policy communities are “composed of specialists in a given policy area” and that the level of fragmentation of a policy community is positively correlated with the stability of their agenda. The more fragmented a policy community, the more unstable is their agenda. This is similar to the proposals made in the Advocacy Coalition Framework. DI does not specify policy communities, but refers
to previously discussed concepts. To complete the theoretical framework, the considerations of collective actors should be specified.

In investigating public sector accounting in Australia from 1976-1993, Ryan (1995, p. 204; 1998) counted “politicians, auditor-generals, public accounts committees and accounting professionals working in government” as the policy community that was ‘softened up’ by the policy entrepreneurs. She used Kingdon’s descriptive notion of the policy community. Singh and Newberry (2009) did not consider the concept of the policy community.

A widely used concept of collective actors in the context of international policy coordination is that of the ‘epistemic community’ as associated with Haas (1992). While Ruggie (1975) is the first author to coin this term, Haas developed the concept further and provided a number of characteristics to identify them. Members of the epistemic community have:

“(1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members; (2) shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity— that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and (4) a common policy enterprise—that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence.”

(Haas 1992, p. 3)

An epistemic community is differentiated from other groups, such as professions, interest groups or legislators and bureaucratic groups, through shared principled and causal beliefs, interests and a consensual knowledge base (Haas 1992, p. 18).

The concept of epistemic communities is consistent with DI and MS, as they have similar epistemological and theoretical assumptions. Haas (1992, pp. 22-26) clearly
identifies a social constructivist perspective. Haas (1992, p. 2) acknowledges that “systemic conditions and domestic pressures impose constraints on state behaviour, but he argues that there is still a wide degree of latitude for state action”. He recognises the importance of existing structures and institutions, while attributing agency to actors.

An important notion shared by MS and epistemic communities is the assumption that decisions are made under uncertainty, which is influenced by the growing complexity and technical nature of policy issues (Haas 1992, pp. 2-16). Due to this uncertainty, policy processes are assumed to be anarchic, which is also assumed in MS. Haas argues that epistemic communities are better in explaining policy change than power related concepts, as “many of the conditions facilitating a focus on power are absent” (Haas 1992, p. 14). Leaders do not know who their allies are. Haas also argues that epistemic communities can also explain policy change when institutions are broken down by turbulence.

Epistemic communities become increasingly important and influential in situations of uncertainty by helping to explain and understand these complexities to decision makers. Haas (1992, p. 15) identified four scenarios. Epistemic communities “can elucidate the cause-and-effect relationships and provide advice about the likely results of various courses of action” after a shock or crises or they can shed light on the relationship between issues from failure to act or the implementation of new policy. They can define the interests of actors or they can help in the formulation of policies. Haas argues that the lower the political motivation of actors is, the more influence epistemic communities can have on policy change, including the identification of policy alternatives. This is complementary to MS, which also focuses on the importance of the consideration of alternatives in the agenda setting process. However, MS does not
consider in detail the role of collective actors in this process or how alternatives are defined.

Both Haas and Kingdon view actors as satisficers with procedural bounded rationality, who are capable of learning and incorporating feedback. Haas (1992, p. 28) adopts the view that actors are conditioned and influenced by “prior beliefs and established operating procedures”, which is consistent with DI. Haas (1992, p. 16) proposes that epistemic communities “may be responsible for circumscribing the boundaries and delimiting” alternatives up for discussion.

The concept of epistemic communities shares with DI the importance of ideas in the policy process. The term ‘episteme’ refers to a shared worldview that is not necessarily shared by other actors (Haas 1992, p. 27). The investigation of epistemic communities lies in the political infiltration and institutionalisation of ideas that are based on the episteme of the communities. This can, for example, occur through a process of consensus building, based on assessments of new knowledge by the epistemic community. Haas recognised the importance and the lack of research into how consensual knowledge is translated from expert knowledge into policy in both single and multiple comparative cases. There is a dependency on the ability to transmit or translate their knowledge. He further argues that “policy choices are often made by discrete networks of actors” (Haas 1992, p. 31) under the influence of epistemic communities within, outside and across governments. Haas argues that the shared belief system of epistemic communities is better suited to explain policy changes than simply considering the channels (associations, roles and positions) through which they operate in transgovernmental and transnational organizations. As proposed by DI and MS, these processes are also part of policy coordination.
The link between epistemic communities and institutional and organisation theory is further recognised by Haas (1992, p. 34) as follows:

“[T]he bodies of literature on organization theory and the new institutionalism shed light on the circumstances under which groups with new ideas are likely to emerge, offer an explanation for their enduring influence, and point to the conclusion that, once in place, a group will persist until subsequent crises challenge its ability to provide advice.”

Some limitations of the concept of epistemic communities and its application have been discussed by Humphrey (2005) and Christensen (2006) in an exchange of articles. Humphreys questioned Christensen’s identification of the epistemic community that played a significant role in the adoption of accrual accounting in the New South Wales public sector. Christensen identified the epistemic community by its core belief that the public sector should use private sector accounting principles (Christensen 2002, 2005). In essence, Humphrey argued that there were controversies and lack of detailed technical debate within the epistemic community and concluded that these controversies weakened the concept. Christensen argued, however, that debates and a lack of knowledge about emerging technical issues within epistemic communities are not inconsistent with its definition. A common belief system does not mean the non-existence of debate and controversy. Instead, the fact that the epistemic community pushed the introduction of accrual accounting despite these debates as a broad policy should be seen as an indicator of the importance of the project (Christensen 2006, p. 291) and that the core belief of the epistemic community remained a useful tool in identifying collective action.

With respect to theoretical underpinnings, Christensen (2006, p. 292) warns that:

“the existence of an epistemic community says nothing about the theoretical and empirical underpinning of that community’s objective. Assessments of any epistemic communities’ [sic.] claims to knowledge must be empirically based after they have influenced policy and action.”
At this stage, prediction is not an aim of the theoretical framework. Its application will provide the empirical evidence to analyse the role of collective actors. In conclusion, the epistemic community notion is a suitable concept to supplement MS and DI for a consideration of collective actors.

4.5 EPISTEMIC COMMUNITY IN THE ACCOUNTING LITERATURE

A number of authors have recognised the influence of epistemic communities on accounting change. For example, Potter (2005, p. 278), citing Ryan (1998) and Young (1994), noted:

“. . . epistemic communities can be influential in translating the ideas, perceptions and beliefs of those with legislative or non-legislative regulatory power to operationalize accounting change. Such communities can also exert significant influence on both the development and diffusion of specific accounting policies."

The concept has, however, only been used by a small number of authors in the financial accounting field, including Christensen (2002, 2005), Christensen and Yoshimi (2001; 2003), Archer, Delvaille and McLeay (1996), Martinez-Diaz (2005), and Irvine, Cooper and Moerman (2011).

Christensen used the concept of epistemic communities to investigate the introduction of accrual accounting and new valuation methods into the Australian and New South Wales public sector (Christensen 2002, 2005). The epistemic community was identified and united by a core belief that the public sector should use private sector accounting. Members of the epistemic community included private sector consulting firms, the profession and the standard setters. Christensen found that the most prominent members of the epistemic community were private sector consulting firms that had a

33 While not explicitly applying Haas’ concept of the epistemic community, Greenwood et al.’s (2002) work on professional associations and their role in theorising and legitimising accounting change was seminal and influential in considering the role of collective actors in accounting change and portrays similar concepts to those developed by Haas.
significant impact on politicians and public servants of the New South Wales Government.

Christensen and Yoshimi (2001; 2003) compared the influence of epistemic communities in Japan and Australia. They identified the epistemic community as private sector accounting firms that promoted the use of private sector accounting in the public sector. The study found that in the case of New South Wales, the epistemic community of private sector management firms were able to influence public sector accounting change significantly, whereas in Hokkaido, private sector management firms were resisted by the stronger networks between change averse government and business. The resistance, however, started to break down when accountability expectations rose (Christensen and Yoshimi 2003, pp. 79-80).

Christensen and Yoshimi’s contribution lies in the comparative nature of their study. While the epistemic community in both countries comprised private sector accounting firms who lobbied for the introduction of accrual accounting in the public sector, the different outcomes highlight the importance of the formal (regulatory) and informal (relationships between organisations and actors) institutions in the consideration of public sector accounting change. Their findings highlight the need for studies of collective actors within a broader institutional context (Christensen and Yoshimi 2003, p. 80).

Martinez-Diaz investigated the growth of the IASC (now the IASB) from its establishment in 1973 to the globally recognised accounting standards setting body in 2001. He argued that the process can be explained by the notion of financial hegemon and epistemic community. Martinez-Diaz followed Simmon’s (2010) argument that global accounting standard setting is dominated by the financial and economic power of the U.S. and the UK markets. Actors would be disadvantaged or excluded from these
powerful markets if they did not comply with their accounting standards and as a consequence it is up to the rest of the world “to catch up with the hegemon’s standard” (Martinez-Diaz 2005, p. 5).

Martinez-Diaz criticised Simmon’s argument because it does not explain which body or forum is chosen or accepted as the accounting standard setting authority. Martinez-Diaz argued that the concept of the epistemic community could explain the choice of the IASC, rather than the FASB, by considering IASC members as political actors bound by shared cultures, backgrounds and beliefs. IASC members shared work experience in the “Big 6” (now Big 4) accounting firms and

“were united in their belief that the cross-border comparability of financial statements would promote more efficient markets, and that financial statements should be designed primarily to meet the information needs of shareholders and investors (as opposed to creditors), and that international accounting standard setting should be kept in the hands of accountants working in a private-sector (as opposed to inter-governmental) institutional setting.” (Martinez-Diaz 2005, p. 9)

Martinez-Diaz presented evidence that the IASC was not only an accounting standard setter (producer of knowledge), but also part of a politically aware epistemic community, composed of “politically astute, senior figures from the Anglo-American accounting world” (Martinez-Diaz 2005, p. 9).

The study argued that these factors, in combination with economic pressure caused by the financial crisis in Asia and the pressure by companies to adopt one set of financial accounting standards in the U.S. and the European Union, led to the growing recognition and acceptance of the IASC as an international standard setting body. By this time, the IASC as an epistemic community had a reputation of technical authority (technical legitimacy) and developed a set of accounting standards that was closely aligned with Anglo-American regulation.
Martinez-Diaz’ study is a good example of how epistemic communities in an accounting standard setting environment can be identified and how they can influence accounting standard setting processes. The study shows parallels with agenda setting processes by recognising the role of collective actors in political processes. The study is an encouraging use of the concept of epistemic communities.

Irvine et al. (2011) investigated the role of an epistemic community as influencer and implementer of fair value accounting into the New South Wales local government. They identified the epistemic community as “accounting and financial professionals actually working at local council level, either as employees of local councils or as auditors…. [and] a shared understanding of the nature of the ultimate problem, which was the crisis in financial sustainability of local councils” (Irvine et al. 2011, p. 257).

The authors combined the concept of the epistemic community with Hancher and Moran’s (1989) theory of regulatory space to explain how the epistemic community acted and influenced local government accounting standard setting within it. The epistemic community of this study is untypical, as it developed ‘by invitation’ of the New South Wales Department of Local Government after the decision to introduce fair value accounting had already been made. The study argued that the influence of the epistemic community was ‘limited’ to influencing the technical aspects of the accounting standard setting process and later providing advice in the implementation stage. They did not, however, influence the policy process in the agenda setting stage.

The authors found that the epistemic community behaved in a co-operative rather than competitive manner and implied that the community was not political (Irvine et al. 2011, p. 267). This suggestion is problematic. Although the nature of political activity might not have been controversial, the focus on building and intensifying good relationships can also be seen as political behaviour.
The reviewed studies highlight the importance of collective actors as epistemic communities for accounting change and in a public sector accounting context. They also highlight the importance of considering collective action within a broader institutional contest.

4.6 A NEW THEORETICAL FRAMEWORK: THE DISCURSIVE AGENDA SETTING FRAMEWORK

4.6.1 Integrating multiple streams and discursive institutionalism

To develop a combined theoretical framework of MS with DI, the similarities and differences of both theories must be integrated. The basic elements of MS are:

- ideas (including alternatives ideas);
- three streams of problems, policy (including the policy community) and politics; and
- PEs who couple the three streams in windows of opportunities.

The basic elements of DI are

- ideas (with a substantive dimension of normative and cognitive content);
- discourse (with an interactive dimension of coordination in the policy stream and communication in the political stream); and
- sentient agents (with background ideational abilities and foreground discursive abilities).

Key features of public policy change in both MS and DI are ideas and alternatives. Their understanding of the role of an idea is reflected in a quote by Keynes (1936, p. 383):
“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else … I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas”.

Both MS and DI assume that ideas, problems and policy solutions are socially constructed. This assumption is implicit in MS where it differentiates conditions and problems:

“Conditions become defined as problems when we come to believe that we should do something about them” (Kingdon 2011, p. 109)

Further, MS suggests that a policy idea might exist before problems occur and that PEs manipulate information (e.g., construct problems) to push their ‘pet solution’ onto an agenda. Similarly, DI argues that a situation or condition can be observed simply by asking “What is?”. This does not mean that this situation necessarily constitutes a problem (Schmidt 2008, p. 306). Both MS and DI demonstrate an affinity to an ideational and social construction approach and attribute a high level of agency to their actors.

The starting point of the agenda setting process can therefore begin with the identification of problems or ideas or both can occur simultaneously. If the policy idea is identified first, it will eventually become a policy solution to problems over time. The problem and policy ideas are both subjects of the agenda setting process. MS assumes that problems need to be associated with the solution to make a successful agenda entrance.

Schmidt warns that ideas and discourse should not be seen as the only explanatory elements for policy change. She suggests that HI considerations can form the background to a DI analysis. Examples of this approach are studies by Buitelaar et al. (2007), Buitelaar and De Kam (2011), Campbell (2002) and Schmidt (2006). De Buitelaar et al. found that a critical moment, typically externally driven, arises before a
critical juncture (a window of opportunity) in which policy change is successfully institutionalised. This thesis follows that approach. First, Campbell’s typology of ideas provides an HI perspective of the cognitive and normative dimension on a philosophical level. For the purpose of this thesis, MS’ success factors are defined as specific criteria in the pre-policy and policy level consideration. Campbell’s (1998) adjusted typology of ideas is provided in Figure 4.4.

Figure 4.4: Adjusted Typology of Ideas

<table>
<thead>
<tr>
<th></th>
<th>Pre-policy and Policy level</th>
<th>Program level</th>
<th>Philosophical level</th>
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<td>Idea in the foreground of</td>
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<td>solution to a problem</td>
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<td>problem</td>
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<tr>
<td>Normative</td>
<td>Policy – normative aspect</td>
<td>Frames</td>
<td>Public sentiment</td>
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<tr>
<td>level</td>
<td>How does a policy meet</td>
<td>Ideas as</td>
<td>Ideas as public</td>
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The cognitive and normative aspects of the problem and policy solutions are also prominent at the policy level, which is the focus of the agenda setting process. They are inherent in MS’ proposition that policy alternatives are more likely to be successful if they have three characteristics. They are:

- technical feasibility;
- value acceptance; and
- anticipation of future constraints.

DI does not require these success factors for ideas per se, but provides an institutional context for the survival of an idea as a new institution, as summarised in Figure 4.4. Technical feasibility and value acceptance and a consideration of the cognitive and
normative dimension of DI are related and overlap. They are, however, not congruent. The consideration of normative and cognitive aspects of ideas and discourse in the substantive dimension of DI stretches across the policy, program and philosophical level. With its attention on agenda setting, these considerations, or ‘success factors’ in MS, are more focused on the policy and potentially the program levels, but not the philosophical level. In fact, MS discusses these elements on pre-policy level. Figure 4.4 illustrates how the elements of MS and DI are integrated based on Campbell’s typology of ideas.

MS distinguishes the problems, policies and politics streams. This distinction is arguably for analytical purposes, as they are closely intertwined in reality (Ryan 1998; Schlager 2007). This analytical structure is useful because each stream plays a different role in the agenda setting process. DI does not offer this distinction, but assumes that the coordinative dimension of the policy process occurs predominantly in the policy arena, while the communicative dimension takes place in the political stream where politicians use discourse to obtain public approval.

While MS touches on both coordination and communication, it does not consider discourse within these elements. MS touches on coordinative aspects as it suggest that PEs actively decide who to include or exclude in the agenda setting process. MS merely notes that PEs are manipulators of information to further their cause. How they manipulate information, is, however, not specified. This is where DI offers guidance. It focuses attention on the communicative dimension of discourse. This is of particular important in the political stream, where political actors try to gain public approval. This element of the proposed theoretical framework includes two main components. It takes from HI the notion of ‘critical junctures’ or ‘first window of opportunity’, which precedes a second window of opportunity and typically happens on a general, rather
than a specific level. The second component relates to the cognitive and normative context of the agenda setting debate on the program and philosophical level.

Both MS and DI attribute certain characteristics to their central actors. MS assumes that PEs are boundedly rational individuals driven by self-interest, but have unclear preferences. They are ascribed three qualities to them. They have:

- a claim to be heard due to expertise, an ability to speak for others or are in an authoritative decision-making position;
- political connections or negotiation skills; and
- persistence.

MS assumes that PEs are motivated by self-interest, but they have unclear preferences. This basically doesn’t allow them to make a rational decision based on a cost-benefit analysis, as assumed by rational choice. How these preferences are developed or how they are changed over time is, however, not considered. DI addresses this limitation with a consideration of background ideational abilities. While MS assumes that PEs play a critical role in coupling the three streams through lobbying and softening up, it does not consider the importance of discourse in this process, or offer any other solution, other than noting that PEs manipulate information to further their cause. DI fills this gap by considering the foreground discursive abilities of its actors.

As neither MS nor DI considers collective actors in more depth, the concept of epistemic communities is also integrated into the proposed framework. Clarification is needed about the relationship between the policy community and the epistemic community.

The concept of epistemic communities sits well within this theoretical framework, because its underlying assumptions are based on similar epistemological and theoretical assumptions in MS and DI. The notion of an epistemic community might also benefit from being placed within a more structured agenda setting framework to allow a clearer
analysis of their role within the complexity of the agenda setting process. The normative or legitimacy aspects of epistemic communities could be considered.

4.6.2 The discursive agenda setting framework (DASF)

The theoretical framework for use in this thesis will be referred to as the discursive agenda setting framework (DASF). It integrates MS and DI, as well as the concept of the epistemic community. The DASF assumes that agenda setting is influenced (but is not limited) by existing historic institutions. In this historic context a critical event gives rise to or supports a policy idea. The HI background also influences individual and collective actors, whose belief systems and motivations are shaped, but not necessarily limited by, existing structures and institutions.

In the DASF, PEs are instrumental to the agenda setting process. PEs are boundedly rational with procedural rationality. As a result, they display satisficing behaviour in which not all potential and sensible issues will be considered in detail. Instead, a ‘good’ or good enough’ idea is quickly identified and pursued. Once a preferred alternative (policy idea) has been identified, PEs start to bring together problems, policy and politics, so they are ready to catapult their preferred policy solution onto the agenda of the relevant decision-making body when a window of opportunity opens. The chances of a policy idea entering the agenda increase when the PEs can demonstrate that the policy idea is technically feasible from a cognitive perspective, and is value accepted from a normative perspective. The chances are further enhanced if PEs successfully address potential future constraints. These aspects are communicated as part of an interactive process that includes the coordination of participants in the agenda setting process. This coordination occurs typically in the policy arena. Communication is vital in the political arena, where political actors seek to legitimise the idea with the wider public.
The role and setting of collective actors as an epistemic community is uncertain at this stage. It is not clear whether the epistemic community overlaps with the policy community, where the boundaries of these notions are and whether the epistemic community will add to the investigation of the project. For the purpose of this thesis, the policy community is defined as actors (individual and collective) who are primarily and directly concerned with policy making within the policy stream. The members of the epistemic community can, however, include actors that execute or are affected by the execution of policies and who can come from within and outside the policy stream.

To identify the epistemic community the study investigates the following questions:

- Was there an epistemic community in the GAAP/GFS harmonisation process? And if yes,
  - What are the shared causal and normative beliefs of the epistemic community?;
  - What are their shared notions of validity?;
  - What is the common policy enterprise?; and last
- What do the findings from the GAAP/GFS harmonisation agenda setting project mean for the inclusion of the concept of the epistemic community in the DASF?

The addition of the epistemic community enhances the DASF because it provides a more theoretically grounded consideration of collective actors than MS’ descriptive concept of the policy community. The application of the DASF to the GAAP/GFS harmonisation agenda setting case will shed light into some of these issues. Figure 4.5 provides a summary of DASF based on the elements used to assess the theoretical constructs.
Figure 4.5: Summary ‘DASF’

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Social constructionism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause of change</td>
<td>Exogenous and endogenous factors</td>
</tr>
<tr>
<td>Type of change (incremental or radical)</td>
<td>Incremental and radical change</td>
</tr>
<tr>
<td>Change progression</td>
<td>Non-linear</td>
</tr>
</tbody>
</table>
| Perspective on institutions | • Unstable  
  • Autonomous  
  • Facilitate action |
| Relationship structure versus agency | Prevalence of agentic focus, structures influence but can also facilitate change |
| Perspective on actors       | • Boundedly rational choice  
  • Unclear preferences  
  • Sentient (thinking and speaking)  
  • Considers individual and collective actors |
| Level of agency of actors   | Medium to high:  
  • Structures not necessarily limiting, but also enabling;  
  • Specifically allows for reflection and learning effects of actors |
| Relationship between agency and structure/institutions | Constantly linking structure and agency, recognising existing institutions and structures, but not viewing them as limiting, but enabling. Focus on agency |
| Are underlying theoretical assumptions compatible with epistemological outlook? | Yes |
| Suited for qualitative case study research? | Yes |

Figure 4.6 shows the proposed theoretical framework for analysing and explaining the GAAP/GFS harmonisation agenda setting process. MS elements are written in black, DI elements are written in blue and discursive.
4.7 SUMMARY AND CONCLUSION

This chapter has discussed the appropriateness and suitability of supplementing MS with DI to address the lack of institutional considerations in MS. In addition, the chapter developed an integrated construct to analyse and explain the GAAP/GFS harmonisation agenda setting process.

DI provides an institutional background for MS’ elements of ideas and PEs. In addition, it explains the link between an idea and how it is translated into reality through
discourse. Here, MS’ analytical distinction between the three streams of problems, policy and politics offers additional clarity and explanatory power than would be available from DI alone. In addition, MS’ emphasis on alternatives allows a more complete consideration of the agenda setting process than DI. Lastly, MS provides a focus on ‘micro’ elements, such as the success factors of an idea or the characteristics of PEs, which might prove helpful in the consideration of an agenda setting process in an accounting standard setting context. The review of the literature encouraged the development and use of an integrated MS and DI theoretical framework. Another component of the DASF is the concept of the epistemic community that is grounded firmly in a social constructivist epistemology. It provides a better theoretical basis to investigate collective actors than would be available under MS and DI alone.

There are a number of clarifications, limitations and boundaries of the integrated model. First, while Zahariadis (2007, for MS) and Schmidt (2011a, for DI) argue that MS and DI respectively can be applied across different epistemologies and ontologies, the integrated model has a perspective of social constructivism. This epistemological perspective is embedded in assumptions made throughout the model, such as the role and agency of ideas and actors or their motivations. While this might limit the applicability of the model to this epistemological perspective, it provides for a sound and coherent analysis (Crotty 2003, p. 6). Second, the concept of the epistemic community is not tightly integrated into the model. This is due to a lack of theoretical assumptions to connect the collective actors to the agenda setting process. The application of the model addresses this issue. Lastly, the model is conceptualised for qualitative analytical purposes, derived from theoretical assumptions and observations made in prior accounting agenda setting processes. It remains to be seen whether the
model is useful in different settings. Its first application to the GAAP/GFS harmonisation agenda setting process is the subject of Chapters 6, 7 and 8.
CHAPTER 5 RESEARCH DESIGN AND METHODS

5.1 INTRODUCTION

This chapter outlines the research design of this thesis. There are four levels of research design and their inter-relationships that should be considered to ensure a sound research design (Crotty 2003). They are:

- the epistemological perspective;
- the theoretical perspective;
- the methodology; and
- the methods used.

The detailed epistemological and theoretical perspective have been presented in Chapters 3 and 4. This chapter focuses on the methodological approach to the research design and the methods used. In addition, it briefly outlines how these four elements are linked together in section 5.2. The methodological approach in this thesis is an interpretive and historic qualitative case study. A case study approach can be both methodology and method. In this thesis, it is seen as a methodology, as it encompasses a body of methods that are part of an integrated wider research design, in which the epistemological and theoretical assumptions flow through to the methods. Section 5.3 provides the justification for this approach and a discussion of the key terminology. The case study methodology is presented in detail in section 5.4. Section 5.5 discusses how the data was collected, analysed and interpreted, before the chapter concludes with a brief summary in section 5.6.

5.2 ONTOLOGICAL AND EPISTEMOLOGICAL CONSIDERATIONS

Ontology is the philosophical study of the nature of being, existence or reality. Epistemology is concerned with the nature and scope of knowledge. It considers the
nature of knowledge, how is it acquired or to what extent is it possible to know about subjects. The chosen ontological and epistemological stance has implications for the theoretical perspective, the research question and the methods used for collecting, analysing and interpreting data. A consideration of ontology and epistemology is necessary to ensure the soundness of the research project (Blaikie 2010). The importance of these considerations is to ensure the compatibility of the different elements of the research design. Ontological and epistemological issues often arise together without being explicitly differentiated (Crotty 2003). This thesis also addresses ontology and epistemology simultaneously.

As noted in chapter 4, the theoretical framework in this thesis takes a primarily social constructionist approach. Social constructionists:

“reject claims of empiricism: namely, that the use of the human senses can produce a certain or true representation of an external world. [Instead they argue that] it is impossible to make true discoveries about the world. There can be no theory free observation or knowledge.” (Blaikie 2010, p 23)

Crotty distinguishes between social constructivism and constructionism. Based on Schwandt’s (1994) analysis, Crotty (2003, p. 58) argues that constructivism focuses on “the meaning-making activity of the individual’s mind”, where any individual’s way of making sense is valid, thereby limiting critical investigation. In contrast, social constructionism includes “the collective generation [and transmission] of meaning” and emphasises the influence that institutional elements have on individuals and allows for critical reflection by agents. It assumes that social reality is a structure of ideas which are “the product of the intersubjective, meaning-giving activity of human beings in their everyday lives” in contrast to rationalists’ assumptions that ideas are the product of “the universal innate structures of mind” (Blaikie 2010, p. 23). Burr (2003, pp. 3-5) argues that there is no single definition of social constructionism. She identifies a number of key assumptions that are common to social constructionist approaches. First,
social constructionism demands a critical stance toward taken-for-granted knowledge and opposes positivism or empiricism, which assumes that the world can be revealed through observation. Second, social constructionism assumes historical and cultural specificity. An understanding of the world depends on the cultural and historical (or institutional) background of the individual or group trying to make sense. Third, social constructionism assumes that knowledge is sustained by social processes. The knowledge of the world is not derived from the nature of the world, but is constructed by and between individuals (Burr 2003, p. 5). Last, it assumes that knowledge and social action go together. “Each different social construction brings with it, or invites, a different kind of action from human beings” (Burr 2003, p. 5).

This ontological and epistemological perspective is implicit in the discursive agenda setting framework (DASF). The research questions also reflect this perspective. For example, research question 2 “How the idea of GAAP/GFS harmonisation developed to gain agenda entrance at the FRC?”, reflects the theoretical assumption and epistemological perspective that problems are socially constructed and need to be associated with a potential policy idea before they can become a policy solution. Social constructionism is further reflected in the in-depth case study methodology, including the nature of data collection, data analysis and data interpretation. As social constructionism rejects the idea that ‘truth’ can be found based on empirical data, the data collection includes interviews to obtain information about individual opinions and perceptions. The data analysis assumes that data cannot be grouped and analysed on the basis of numbers alone, but has to take into account that some information, such as a statement or submission by one participant, has to be given a higher weight than a statement or submission about the same issue made by another participant.
Of particular importance is the epistemological perspective for the interpretation of the findings. The thesis emphasises that the findings reflect perceptions and interpretations of participants of the GAAP/GFS harmonisation agenda setting case and the researcher. This does not, however, mean that ‘anything goes’. To ensure the quality of research, criteria have been developed for qualitative, interpretive research. These are elaborated in section 5.4.2. The remainder of this chapter elaborates on the case study methodology and the methods that are employed within it.

5.3 AN INTERPRETIVE QUALITATIVE HISTORIC CASE STUDY – JUSTIFICATION AND CLARIFICATION OF TERMINOLOGY

5.3.1 What is case study method and research design?

There are multiple definitions of case study. A suitable definition of a qualitative oriented case study for the purpose of this thesis is provided by Orum, Feagin and Sjoberg (1991, p. 2):

“A case study is here defined as an in-depth, multifaceted investigation, using qualitative research methods, of a single social phenomenon”.

Orum et al.’s definition is suited to a qualitative research approach and emphasises the investigation of a single, rather than multiple phenomena. It does, however, not address aspects of the research design for case studies. For this purpose a combination of Yin’s (2009) and Orum et al.’s (1991) approaches is used to define the case study research method for this thesis:

A case study is an in-depth, multifaceted investigation, using qualitative research methods, of a single social phenomenon within its institutional context, especially when the boundaries between phenomenon and context are not clearly evident.

The case study inquiry

- copes with a technically distinctive situation in which there will be many more variables of interest than data points,
- relies on multiple sources of evidence with data needing to converge in a triangulation fashion,
- benefits from prior development of theoretical guidance for data collection and analysis;
discusses the applicability of the theoretical model in this particular case, and potentially contributes to the extension or improvement of that particular theoretical model.

Case studies are particularly suited when they are extreme examples or unusual access to data is available (Davis et al. 2007; Yin 2009). Some researchers suggest that multiple case studies are preferred to single unit case studies, because multiple cases provide a ‘tougher’ test of a theory (e.g., De Vaus 2001; Eisenhardt and Graebner 2007; Yin 2009). However, single case studies are appropriate when they investigate unique situations and where data richness and depth are crucial for exploration and explanation (Eisenhardt and Graebner 2007, p. 27; Yin 2009, p. 47). GAAP/GFS harmonisation is a unique event. Australia is the only country to develop such an accounting standard. Other countries and jurisdictions, such as the International Public Sector Accounting Standards Board (IPSASB 2012) or the International Monetary Fund (IMF 2012), are contemplating and calling for the harmonisation of statistical and GAAP reporting. Due to the importance and potential implications of this event, an in-depth analysis of the agenda setting process in Australia as a single case has been chosen.

GAAP/GFS harmonisation agenda setting covers the period from 1991 to 2003. A considerable time has passed between this period and the collection of data. This means that the research project has some historic character. Yin (2009, p. 11) differentiates between ‘histories’ and contemporary ‘case studies’ (field studies). There is, however, acknowledgment that there is overlap between the two (Miller, Hopper and Laughlin 1991; Yin 2009). Yin’s case study approach includes observations by the researcher at the time of the events being studied, while histories would not typically include them. However, in many cases histories and contemporary case studies use the same methods. One of the main differences is the collection of data. The further the research subject is
in the past, the more difficult it might be to access relevant sources and the data has to be interpreted in its historic context.

In this thesis, elements from both contemporary case study methodology and historiography (the methodological approach in historic research) are used. As a result, the case study methodology is supplemented with historic methods and techniques. There are, however, a number of issues that are specific to historic methods. Historiography and historic methods are, therefore, introduced in the next section and discussed in detail throughout the remainder of this chapter.

5.3.2 Historiography and histories in accounting

Accounting history can be defined as “the study of accounting thought, practices and institutions in the past” (American Accounting Association (AAA) Committee on Accounting History 1970). The importance and contribution of accounting histories has been summarised by Carnegie and Napier (1996, p. 29):

“much current historical research is motivated by a desire to gain a deeper understanding of how and why accounting comes to be implicated in different areas. [...] Studies of how accounting came to be written about, defended, promulgated, standardized, diffused, advocated as solutions to business and administrative problems and, more recently, promoted as an instrument central to reforms of public sector financial management may lead us to a clearer understanding not only of the factors that might explain how accounting becomes almost taken for granted in certain contexts and at particular moments, but also of the process at work today in how we justify and react to accounting, as well as of the strategies adopted to expand accounting and its influence. Theoretical models intended to help us understand the present may be tested effectively on past situations and events. Just as comparative international accounting identifies the contingencies that shape different accounting systems across space, so can historical studies illuminate these and other contingencies across time.”

With respect to public policy histories in an accounting context, Previts, Parker and Coffman (1990, p. 5) emphasise that:

“historical studies provide a perspective to assist policy makers’ understanding of the interrelationships between policy decisions and political or economic outcomes”
“historical studies of professional and governmental accounting/auditing policy pronouncements assist in the formulation of policy and its likely impact on accounting practice” (Previts et al. 1990, p. 7).

Despite the potential contributions of historic research, there is a dearth of research on the origins of public sector accounting change (Christensen 2002; Guthrie 1994; Ryan 1995). There is a similar gap in accounting agenda setting histories, especially in a public sector context (refer to Chapters 2 and 3).

Traditional accounting history research has focused on the mechanical or procedural techniques of accounting (Cooper and Puxty 1996), neglecting the institutional context (Christensen 2002; Funnell 1998; Ryan 1995). In the mid-1990s, accounting historians (such as Carnegie and Napier 1996; Fleischman, Mill and Tyson 1996; Hammond 2003; Hammond and Sikka 1996; Hines) addressed this limitation by including social, economic and organisational aspects. This is where the contribution of oral histories, becomes apparent.

The methodological approach to historic research in a specific area is referred to as historiography. Accounting historiography therefore “involves a study of how and why accounting has been written about as an object of historical study, how historical writings on accounting have developed, and the main topics and themes of accounting history” (Napier 2008, p. 30).

It has been argued that there is no such thing as historical objectivity (Carnegie and Napier 1996; Cooper and Puxty 1996; Fleischman et al. 1996). Fleischman et al. (1996) discussed the theoretical foundations for conducting and evaluating the interpretation of historical data. They criticised positivist approaches to historic research and argue that critical or interpretive approaches are more promising. They argued that to ensure that historical research in accounting can make a valid contribution, it must address potential
bias through the use of theoretical frameworks and the inherent epistemological assumptions (Fleischman et al. 1996). Similarly, Hammond and Sikka (1996, p. 83) have argued that it is the strength of oral histories:

“to problematize claims that there is a single true universal story to be uncovered and should emphasize the multiplicity of experience that results from accounting practices.”

It is, therefore, important:

• to avoid the ‘illusion of objectivity’ by making explicit the theoretical framework adopted and by acknowledgement that “a focus by any particular lens must provide only a partial explanation of a given phenomenon” (Merino 1998, p.612);

• to carefully consider the issues ensuring historical subjectivity and explicitly communicate the philosophy of history adopted in the research (Fleischman et al. 1996); and

• “to meld aspects of confirmatory induction with scepticism” (Goodman and Kruger 1988)

These suggestions are incorporated into the research design of this thesis and are within its epistemological and theoretical assumptions.

The two historic methods used in this thesis are oral history method and archival method. Oral histories allow researchers to “look beyond the ‘official’ story and expose constraints imposed by the written record” (Christensen 2009, P. 88) where “printed evidence is one-way: silent and unable to respond to comments, questions and observations” (Hammond and Sikka 1996).

The interviews for this thesis can be classified as ‘elite’. All identified interviewees were or still are in high level senior management or executive positions, mostly, but not
exclusively, in the public sector. Oral histories of elites have often been neglected “as a result of the dominant assumption that elites have ample opportunity to be heard” (Keulen and Kroeze 2012, p. 15). Such histories can, however, make significant contributions (2005) and have been used in the context of elites and organisational research by Keulen and Kroeze (2012). They argue that oral histories of elites are relevant because they record information that would otherwise be lost, they are scientifically sound, the democratic contributions of oral history provide misrepresented employees and leaders with a voice and thus improve the narrative on elite history (Keulen and Kroeze 2012, p. 15).

In a public sector accounting and agenda setting process, technical experts, sometimes also referred to as technocrats, play a critical role. Public sector accounting is a highly specialised technical field and expertise knowledge in this area is commonly limited to much fewer individuals when compared to private sector accounting knowledge. Prior research has shown that new developments in Australian public sector accounting were greatly influenced by technocrats and elites without much involvement of the wider public (see, e.g., Ryan 1995, 1998; Ryan 1999; Stoddart 2000). As identified in Chapters 2 and 3, however, prior research into accounting standard setting has neglected the role of elites and technocrats. A potential reason for this is the lack of access to such data. The use of oral histories has a number of implications that are discussed in section 5.5.1 and 5.5.3.

To improve the quality of the research through triangulation and a more complete picture of the GAAP/GFS harmonisation agenda setting process, the data from interviews is supplemented with documents from archives and other sources. The main sources were internal documents from relevant participants and organisations, including
the FRC, the AASB and parliamentary committees. In addition, publicly available written data was obtained from the internet and library archives.

While there are a number of factors that are specific to historic methods, researchers have recognised that many of the issues are common to many qualitative approaches (Goodman and Kruger 1988). As a result, the criteria that are commonly applied to ensure the quality of qualitative research are also valid for historic methods. There are, however, a few aspects that are specific to historic data. They are its subjective and contextual nature and the credibility and completeness of historic data. Where relevant, these issues are addressed separately in the remainder of this chapter.

5.4 CASE STUDY METHODOLOGY

Case study research design is concerned with providing “a logical plan for getting from here to there, where here may be defined as the initial set of questions to be answered, and there is some set of conclusions (answers) about these questions” (Yin 2009, p. 26). The methodological approach and the methods are within the context of the epistemological and theoretical perspective discussed above. The following sections focus on how different methods are used in this case study methodology.

There are a number of components of case study methodology that should be addressed and clarified (Baxter and Jack 2008; Lincoln and Guba 1985; Merriam 2009; Stake 1995; 2009)34. They are:

1. defining the case study (section 5.4.1), including
   a. the questions, propositions (Yin 2009) or ‘issues’;
   b. the type of case study; and
   c. the definition of the ‘case’;

34 Yin’s (2009) framework is tailored to quantitative research. Some of the basic elements of his framework are, however, similar to the basic elements of qualitative case study approaches.
2. ensuring the quality of the research project (section 5.4.2); and

3. linking the data and the research questions (section 5.5); including
   a. data collection (section 5.5.1);
   b. data analysis (section 5.5.2); and
   c. data interpretation (section 5.5.3).

5.4.1 Defining the case study

The research question and the type of case study are interrelated as they are both concerned with the subject (or ‘case’) that is being investigated. A ‘case’ can be defined as a person, an organisational unit, an event, a program, an economy, a process, or a culture (Yin 2009). Case studies can be conducted on single, multiple/collection or comparative (as distinct from multiple) cases.

A different system classifies three types of case studies depending on their purpose (Yin 2009, pp. 7-8, 19-20):

- ‘Explanatory’ case studies investigate causal links and relationships in cases that are too complex for survey or experiments;
- ‘Exploratory’ case studies aim to ‘enlighten’ a case in its complexity; and
- ‘Descriptive’ case studies aim to present a case in its real-life context or illustrate a specific issue or topic.

Stake (1995), using a more qualitative approach and language, differentiates between three forms of case studies:

35 Causal links indicate a positivist perspective. In a qualitative research context, the term ‘plausible explanations’ is more appropriate.
36 The use of the term ‘explanatory’ can be confusing in the context of research, in particular, when it is seen as in the context of causality. To avoid any potential confusion, the terms ‘explanatory’ or ‘explain’ are avoided, as the research project does not intend to ‘prove’ or ‘test’ causal links in the GAAP/GFS harmonisation agenda setting context, but attempts to understand or enlighten this process.
• In ‘intrinsic’ case studies, the value of the investigation lies in the specifics of the case itself. Such studies correspond to Yin’s (2009) descriptive case studies.

• ‘Instrumental’ case studies serve to firstly demonstrate issues that are not specific to the case, e.g., to investigate a wider phenomenon or to develop or extend theory. Within this category are Yin’s (2009) explanatory and exploratory case studies.

• ‘Collective’ case studies are a coordinated set of case studies, similar to Yin’s (2009) concept of multiple case studies.

This study investigates the case of the Australian GAAP/GFS harmonisation agenda setting process as an event. The case has both intrinsic and instrumental value. It is intrinsic for the reasons outlined in Chapter 1, as it is a world’s first development in public sector accounting, with international organisations calling for similar developments worldwide. It is an instrumental case, because it aims to develop and test the usefulness and transferability of the DASF. The research design, therefore, allows for new topics and issues to emerge and be explored. At the same time, the application of the theoretical model constitutes the basis for the interpretation of the data by providing an in-depth theoretical explanation of the GAAP/GFS harmonisation agenda setting process. The main benefits of exploratory case studies are to provide information for further case studies, the development of theory and hypotheses, for empirical testing and comparative research (Kaplan 1986; Parker 1994; Scapens 1990). This is consistent with the objectives of this thesis and the proposals for future research identified throughout this thesis.
The boundaries of an event case study, in particular the beginning or end points, are often hard to identify (Yin 2009, p. 29). This is also the situation in this thesis. Agenda setting processes are particularly difficult to pinpoint chronologically, as they are often part of, and overlapping with, other relevant developments. The identified defined starting and end points of the GAAP/GFS harmonisation agenda setting process in this thesis should be seen in this context and only be viewed as focal points for the purpose of the research.

The starting point of the events considered in this thesis is 1991. This was the first year in which it was decided that GFS and GAAP would be applied simultaneously in the Australian public sector. The Loan Council then decided to introduce the Uniform Presentation Framework (UPF) based upon the GFS for budgetary reporting on the Federal, State and Territory level. Around the same time, the Public Sector Accounting Standards Board (PSASB) started developing Australian Accounting Standards (AAS) based on accrual principles. They were AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*, both of which were published in 1996. AAS 31 became mandatory for the financial years ending on or after 30 June 1999. These two accounting frameworks were applied on a Federal, State and Territory level and constituted an important point in time in the development of whole of government accounting and GAAP/GFS harmonised accounting. The idea of ‘GAAP/GFS harmonisation’ was, however, not discussed until the late 1990s, early 2000s. The FRC’s strategic direction to the AASB to develop a GAAP/GFS harmonised accounting standard was issued in December 2002 and amended in 2003. The focus of this study lies, therefore, on the late 1990s to 2003. For the sake of completeness, the preceding years are presented as historical background in Chapter 6. The boundaries of the case are summarised in Figure 5.1:
5.4.2 Ensuring the quality of the research project

Qualitative and quantitative case study researchers typically use different criteria to ensure or evaluate the quality of a research project. Some of the most cited authors of case study research, Yin (2009) and Merriam (2009), use a quantitative, positivist research terminology. Yin suggests that his framework can be used for both quantitative and qualitative case study research. The quantitative terminology and criteria are, however, not always appropriate for qualitative research.

Findings from qualitative case studies focus on providing useful information to other researchers by emphasising the transferability (also referred to as ‘extrapolation’ (Patton 2002) or ‘retrospective generalisation’ (Eisner 1991) and the usefulness of data in other situations (see, e.g., Lincoln and Guba 1985; Yin 1989). For this purpose, researchers have identified different criteria to ensure quality in qualitative research (see, e.g., Denzin and Lincoln 2000; Henwood and Pigeon 1992; Lincoln and Guba 1985; Schwandt 1994; Strauss and Corbin 1990). The two sets of quantitative and qualitative quality criteria are briefly juxtaposed before the criteria used in this thesis are elaborated upon in more detail.

Yin (2009) suggests that the criteria to assess the success of research are construct validity, internal validity, external validity and reliability of data. In contrast, quality in qualitative research is typically achieved through ensuring trustworthiness and usefulness of data (Lincoln and Guba 1985; McKinnon and Harrison 1985; Patton 2002; Scapens 1990). While there is not one agreed set of quality criteria, there are a number
of criteria that have emerged as benchmark standards in qualitative case studies. Figure 5.2 shows the different criteria that judge the quality of quantitative and qualitative research as identified by Lincoln and Guba (1985, pp. 301-331), Eisner (1991), Patton (2002) or Shanton (2004).

Figure 5.2: Criteria for Judging Quality of Quantitative Versus Qualitative Research

<table>
<thead>
<tr>
<th>Qualitative research (e.g., Eisner 1991; Lincoln and Guba 1985; Patton 2002)</th>
<th>Quantitative research (e.g., Kidder and Judd 1986 and Yin 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferability</td>
<td>External validity</td>
</tr>
<tr>
<td>Usefulness</td>
<td>Rigour</td>
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<tr>
<td>Instrumental Utility</td>
<td></td>
</tr>
<tr>
<td>Credibility</td>
<td>Internal validity</td>
</tr>
<tr>
<td>Dependability</td>
<td>Reliability</td>
</tr>
<tr>
<td>Confirmability</td>
<td>Objectivity</td>
</tr>
<tr>
<td>Consensus</td>
<td></td>
</tr>
<tr>
<td>Coherence</td>
<td>Construct validity</td>
</tr>
<tr>
<td>Completeness</td>
<td>(No equivalent identified)</td>
</tr>
</tbody>
</table>

Transferability and usefulness are the overarching objectives of achieving the general objectives of qualitative research. The remaining criteria can be viewed as sub-criteria. Many techniques serve several criteria. Credibility is concerned with the quality of the relationship between the data and its presentation or interpretation (Schwandt 2001). It can be addressed through a number of strategies, including triangulation, member checks, the adoption of a well-established research method or peer scrutiny and reflexivity and detailed descriptions of the data collection, analysis and interpretation, as well as ‘thick description’ of the context of the research (Shanton 2004). Patton (2002) emphasises that for qualitative research, credibility is about data richness and the analytical ability of the researcher. Triangulation is one of the most widely used techniques to enhance credibility. Variations of three types of triangulation are employed in this thesis (Denzin 1978; Patton 2002). They are:
• method triangulation;
• data triangulation; and
• investigator triangulation.

Data triangulation is provided by using interviews from as many participants and observers as possible and reasonable. The participants are asked about the same events and, if appropriate, to comment on the statements of previous interviewees. This form of corroboration contributes to the credibility of the research in combination (Shanton 2004, p. 66). The interview data is supplemented with data from archival records and other written documents to consider the same events and situations from a variety of perspectives.

A variation of method triangulation is the use of several well-established methods. Such well-established methods are used for data analysis (three level coding method in NVivo, theme finding) and interpretation (narrative interpretation). The thesis does not employ investigator triangulation in its traditional form, as it is a PhD project, where the project is conducted by one researcher. A number of reviews were, however, conducted. The research design, including data collection, analysis and interpretation was reviewed by three established academics with expertise in the research area and/or qualitative research and frequent de-briefing sessions were conducted to build on the expertise and experience of established researchers (Shanton 2004, p. 67). In addition, the findings (interpretive narrative) were presented to key participants of the thesis at a conference.\(^{37}\)

\(^{37}\) The main empirical findings were presented to the Accounting Standards Special Interest Group at the Accounting and Finance Association of Australia and New Zealand (AFAANZ) 2012 Conference in Melbourne.
The credibility of the research project is also affected by the personal background, belief system, axiology, ontology and epistemology of the researcher. Potential researcher bias is addressed with reflexivity. The role of the researcher needs to be acknowledged and transparent throughout the research process (Henwood and Pigeon 1992; Shanton 2004, p. 68). Potential observer bias is an important factor in this study, as the researcher was involved in the development of AASB 1049 from January 2006 to March 2009 as an employee of the AASB. The involvement of the researcher in the development AASB 1049 at the AASB created potential ‘threats’ to the trustworthiness of data. These ‘threats’ are addressed in a number of ways. First, the disclosure of the involvement allows other researchers to take this fact into account. Data source triangulation and the review of the data analysis and interpretation by supervisors and participants of the agenda setting process further ensures that the events are presented in a way that reflects the different perspectives of the GAAP/GFS harmonisation agenda setting process.

The involvement of the researcher also provided benefits. For example, it allowed access to data that might not be available to other researchers. It also contributed to the researcher’s ability to immerse herself in data and crystallise important themes and issues due to the familiarity with the topic (Borkan 1999, p. 180) and the organisation (Shanton 2004, p. 65). Immersion/crystallisation is a widely accepted analytical style in qualitative research that occurs throughout the entire research process (Miles and Huberman 1994, p. 429). Insider access and immersion in data can lead to theoretical sensitivity of the researcher, including an awareness of the subtleties of the meaning of data (Strauss and Corbin 1990, p 41). This supports the inductive theory building

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38 The involvement of the researcher in the GAAP/GRF harmonisation project was several years after the GAAP/GFS harmonisation agenda setting process, therefore, the researcher was not directly involved with the events under examination. Tasks undertaken during this time related to the standard setting process of AASB 1049 as a junior technical staff member.
process by leading to sensitizing concepts or themes in the absence of definitive concepts (Blumer 1954, p. 7).

In the case of this thesis, the involvement of the researcher in the development of AASB 1049 has led to an understanding of the formal and informal context of the arguments and dynamics surrounding the standard setting. It has also led to privileged access to involved individuals, organisations and the relationships between them. Due to the involvement of the researcher in the standard setting process post agenda entrance, many of participants of the GAAP/GFS harmonisation agenda setting process were familiar with the researcher, which allowed access to so-called ‘gate keepers’ and allowed interviewees to be comfortable in discussing technical details. Many interviewees were also comfortable to speak relatively freely about frictions and disagreements in the agenda setting process.

A ‘thick description’ (Geertz 1973) of the context of the phenomenon also contributes to the credibility of the research project. It allows other researchers and practitioners to evaluate the extent to which the findings of the study ‘fit’ their case and what information is of value to them. Therefore the researcher must “provide sufficient information about the context in which an inquiry is carried out so that anyone interested in transferability has a base of information appropriate to the judgement” (Lincoln and Guba 1985, p. 124). This aspect is accommodated by a thick description of the historic context as required by the theoretical framework. In addition the use of the DASF was conceptualised based on the desire to include all previously identified relevant elements of agenda setting processes.

Lastly, the credibility of the research project is enhanced by an examination of and comparison with previous research findings (Shanton 2004, p. 69). This aspect is
accommodated through the review of the literature of accounting agenda setting. In addition, the discussion of the implications of this thesis includes reflections on the findings on this research project in comparison with findings from previous studies.

The dependability of qualitative data is typically accommodated by an adequate description of the research methods, data collection, analysis or interpretation (Ferreira and Merchant 1992; Marshall and Rossman 2006; McKinnon 1988; Shanton 2004; Yin 2009). Other researchers should be able to follow and reproduce the interpretation of the research project (Lincoln and Guba 1985, p. 317). In addition, there should be a “reflective appraisal of the project, evaluating the effectiveness of the inquiry” (Shanton 2004, p. 72). Chapter 9 and, to some extent, the current chapter, therefore, include reflections on the research design, including epistemological, theoretical, methodological and methodical aspects.

As qualitative researchers typically reject the notion of objectivity, confirmability aims to identify and avoid potential researcher bias and to ensure that the findings reflect “the result of the experience and the ideas of the informants, rather than the characteristics and preferences of the researcher” (Shanton 2004, p. 72). Lincoln and Guba (1985, pp. 320-321) suggest the use of a “confirmability audit” trail, by providing, for example,

- raw data;
- analysis notes;
- reconstruction and synthesis products; and
- process description.

The provision of such information supports “empathic neutrality”, where the researcher is empathetic towards the people and situations encountered and non-judgemental and neutral about the findings (Patton 2002, pp. 55-58).
In this study, raw data was collected from multiple sources, including interviews from a variety of individuals from different organisations, and from both internal and external documents. All interviews were transcribed and referred to the interviewee for review. Copies of all documents used in this thesis are kept in electronic format. More information about the data collection is provided in sections 5.5.1 and 5.5.2.

The interpretation of the data with NVivo software, using a three level coding process, is further explained in section 5.5.3. Electronic copies of all stages of coding are maintained. Two academics have reviewed the data analysis and interpretation.

In addition, the empirical findings outlined in Chapters 6 to 8 were presented at a conference attended by key participants in the GAAP/GFS harmonisation agenda setting process who were interviewed for this project. The feedback suggested that there were no issues with the interpretation of the GAAP/GFS harmonisation process.

The coherence of the research project can be considered from two perspectives. First, coherence can be considered in the context of the complete research design, as for example, proposed by Eisner (1991), Crotty (2003) and Ballinger (2006). In this case, criteria to ensure or evaluate the quality of the research project should be considered within the bigger context of the chosen epistemology. This perspective of coherence has already been addressed throughout this Chapter. The second perspective of coherence, also referred to as internal coherence, relates to the coherence of the analysis and interpretation of the data and whether the data provides evidence for the interpretation and makes sense as a whole (Eisner 1991, p. 39; Madill, Jordan and Shirley 2000). This matter is addressed by the review by experienced academics and participants of the study, as already described above.
The last quality criteria discussed is completeness of the data. This is of particular relevance for historic data, as data might get lost over time. One way of addressing this issue is through triangulation (Tobin and Begley 2004, p. 394), where different collection methods, data sources, points of views or theoretical perspectives lead to “a more inclusive view of (the participant’s) world” (Tobin and Begley 2002) or contribute to “an additional piece to the puzzle” (Knafl and Breitmayer 1991). Qualitative researchers also aim for theoretical saturation (Glaser 1992). Theoretical saturation is achieved when new data does not reveal any new relevant information or themes. This determines the end of the data collection (Glaser 1992). Figure 5.3 summarises the tools used to ensure the quality of the case study research.
Figure 5.3: Tools Used to Ensure the Quality of the Research Project in this Thesis

<table>
<thead>
<tr>
<th>Transferability Usefulness</th>
<th>Case study tactics used in this thesis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rigorous description of context (background chapter), aided by theoretical framework</td>
</tr>
<tr>
<td>Credibility</td>
<td>• Triangulation of</td>
</tr>
<tr>
<td></td>
<td>• multiple sources of evidence:</td>
</tr>
<tr>
<td></td>
<td>• interviews with different individuals</td>
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<tr>
<td></td>
<td>• documents from different sources</td>
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<tr>
<td></td>
<td>• use of well-established and complementary methods, including</td>
</tr>
<tr>
<td></td>
<td>• case study method</td>
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<tr>
<td></td>
<td>• historic methods</td>
</tr>
<tr>
<td></td>
<td>• thematic three level coding</td>
</tr>
<tr>
<td></td>
<td>• investigators</td>
</tr>
<tr>
<td></td>
<td>• review by other researchers and key informants</td>
</tr>
<tr>
<td></td>
<td>• Reflexivity</td>
</tr>
<tr>
<td></td>
<td>• Thick description</td>
</tr>
<tr>
<td></td>
<td>• Examination of and comparison with previous research findings</td>
</tr>
<tr>
<td>Dependability</td>
<td>• Detailed description of data collection, analysis and presentation</td>
</tr>
<tr>
<td></td>
<td>• Reflective appraisal</td>
</tr>
<tr>
<td>Confirmability</td>
<td>• Case study protocol, audit trail</td>
</tr>
<tr>
<td></td>
<td>• Raw data (electronic copies of all data, including audio recordings and transcription of interviews)</td>
</tr>
<tr>
<td></td>
<td>• Analysis notes (NVivo coding)</td>
</tr>
<tr>
<td></td>
<td>• Reconstruction and synthesis notes (NVivo coding)</td>
</tr>
<tr>
<td></td>
<td>• Process description</td>
</tr>
<tr>
<td></td>
<td>• Review of data collection, presentation and analysis by other researchers and key interviewees</td>
</tr>
<tr>
<td>Coherence</td>
<td>• Development, application and assessment of theoretical framework</td>
</tr>
<tr>
<td></td>
<td>• Review by independent researchers and key participants of the research project</td>
</tr>
<tr>
<td>Completeness</td>
<td>• Theoretical saturation</td>
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<tr>
<td></td>
<td>• Multiple data sources</td>
</tr>
<tr>
<td></td>
<td>• Data triangulation</td>
</tr>
</tbody>
</table>

5.5 DATA

This section details the collection, analysis and interpretation of data. There are two main sources of data for this thesis. They are semi-structured in-depth interviews (discussed in section 5.5.1) and archival and other documents (discussed in section 5.5.2). Section 5.5.3 explains how the data is then linked to the research question in an analytic process using technical tools, analytical strategies, and analytical techniques. It is treated separately from the interpretive narration creation, which is elaborated in section 5.5.4. The findings in narrative form are presented in Chapters 6 to 8.
5.5.1 Data collection: Semi-structured in-depth interviews

In-depth semi-structured interviews were the primary source of data to answer the research questions. As the events under consideration occurred up to twenty years ago, these interviews can be classified as oral histories.

A purposeful sampling method was employed in the selection of interview partners and interview questions (Patton 1990). In particular, snowball or chain and theory-based sampling were employed. The selection of interview partners was based on their involvement in the GAAP/GFS harmonisation agenda setting process. Initial interviewees were chosen because their participation and influence were known by the researcher through involvement in the GAAP/GFS standard setting process. Ritchie (2003, p. 88) suggest that initial interviews should be conducted with so called “gatekeepers” who are “the oldest, and most significant players in the events”. He (2003, p.88) argues that “others often wait until the gatekeeper has sanctioned the interviews”. This policy was used in this study. Some interviewees asked whether interviews with these ‘gatekeepers’ had been undertaken at the start of the interview. As the respective persons had agreed to be named, it was possible to confirm this question. It seemed as if this confirmation provided a sense of credibility or confidence to the interviewees, as suggested by Ritchi (2003).

The purposeful sampling methods (criteria: individuals involved in the GAAP/GFS harmonisation agenda setting process) ensured a balance of promoters, opponents and observers of the different stages of the GAAP/GFS harmonisation process to allow for different interpretations of the events and for data triangulation to strengthen the trustworthiness of data. Following snowball or chain sampling strategies, the interviewees were asked who they thought were the three to four most influential people of the GAAP/GFS harmonisation agenda setting process and who else should be
interviewed or could provide relevant information for the study. Except for three instances, these identified individuals were interviewed. Two individuals were not followed up on because other interviews and data suggested that they became involved after December 2002, when the GAAP/GFS harmonisation agenda setting process as identified for this thesis had ended. One more individual had passed away by the time interviews were conducted. In total, 23 interviews were conducted. Of these, three were not used for this thesis, other than as an indication for reaching data saturation. A list of the remaining 20 interviews\(^{39}\) can be found in Appendix 5.

There are two aspects related to theory-based sampling. The first is the selection of interviewees. The second is the development of the interview questions. The interviewees were selected from the three analytical streams of the theoretical model, problem, policy and politics. Potential participants were contacted initially by mail, and where necessary followed up by either email or telephone. Certain potential interview partners did not respond to requests. Most notably, no politicians or their organisations responded. Interviewees were asked about their assessment of the role and motivation of political actors in the GAAP/GFS harmonisation agenda setting process. They suggested that the involvement of political actors was limited due to the highly technical nature of public sector financial reporting. Interviewees noted that relevant conversations would be recorded in Hansards\(^{40}\). The collection and analysis of Hansards is discussed in section 5.5.3 below.

Another interesting observation suggests that individuals and organisations that were not actively involved, but who were observers of the GAAP/GFS harmonisation agenda

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\(^{39}\) The total number of interviewees in the last column of figure 5 adds up to more than 20. This is because a number of individuals were members of more than one group. For example, a interviewee might be counted as a member of the FRC as well as HoTs.

\(^{40}\) Hansard are the edited transcripts of debates in the Senate, House of Representatives, Main Committee and parliamentary committees.
setting process were also more reluctant to participate or declined participation. They included members of the FRC with private sector backgrounds and staff from Treasury departments of jurisdictions who claimed that they were not as actively involved in the agenda making process as others. In addition, Commonwealth Treasury employees did not respond to requests or were reluctant to provide information. In addition, the ABS declined to participate in this project. As a proxy, interviewees were asked about their assessment of the role and motivations of the ABS and relevant documents (e.g., Hansards or minutes of meetings) were analysed to investigate the role of the statisticians.

Ethics approval was obtained from the University of Adelaide. All interviewees were provided an information sheet and signed a consent form. A blank copy of the consent form is provided in Appendix 6.

Two more boundaries and limitations to the selection of individuals who were interviewed should be noted. First, the case study focuses on the agenda setting process at the Financial Reporting Council (FRC), as the FRC was able to direct the AASB to develop a GAAP/GFS harmonised standard. The agenda setting processed at the AASB and PSASB level are not the main focus. It was therefore felt sufficient to interview a limited number of individuals from these boards. Additional information was provided through an analysis of documents, detailed in section 5.5.3.

Second, no users outside of government, such as citizens, rating agencies or the media, etc., were interviewed. This was because the analysis of interviews and other data suggested no involvement of these individuals in the GAAP/GFS harmonisation agenda setting process. Figure 5.4 provides an overview of individuals that were identified through this process and whether they participated or not.
The second aspect of theoretical sampling is the interview questions. Sikka and Hammond (1996, p. 87) suggest that interviewers should not be concerned with “completing some preselected list of questions” but should be sensitive to striking the right balance between their own and the interviewee’s agenda. This is achieved by
allowing for critical reflection on the interview by both the interviewee and the interviewer. To ensure the relevance of the interview data, the theoretical framework and the topic served as a guide, but new topics and themes were allowed to emerge. The interview questions were developed to address the elements of the theoretical model in the context of the GAAP/GFS harmonisation agenda setting process. They were broadly structured around the three analytical streams of problems, policy and politics. The focus of the interview revolved around the interviewees’ involvement in the specific area.

The interview questions asked for an identification of policy entrepreneurs (PEs) (‘Who do you think were the most influential individuals for the GAAP/GFS harmonisation agenda setting process?’) and the characteristics that made them PEs (‘Why do you identify them as important?’). The questions also addressed discursive elements (‘What was your motivation to support/oppose GAAP/GFS harmonisation?’ and ‘how were you involved in the GAAP/GFS harmonisation agenda setting process?’). The historical institutional background and the communicative dimension of the discursive aspects were identified through the analysis of documents.

The interview questions were reviewed to ensure relevance, completeness, appropriateness and neutrality by two other researchers. One was an expert in the field of agenda setting and one was an expert in qualitative research methods. The interviews were semi-structured with both specific and open-ended questions to allow for themes outside the theoretical model to emerge and for more depth. Interviews were also adjusted to incorporate relevant information from previous interviews. Towards the end of the interviews, no adjustments were necessary, which was assumed indicate theoretical saturation.
The mode of initial interviews was chosen by the interviewees. They were either face-to-face or over the telephone. After the initial interviews, it was concluded that that phone interviews were sufficient where the interviewees were interstate. As a result, most subsequent interviews were conducted over the phone by pre-arrangement. Five interviews were face-to-face and one participant asked to receive the questions in writing and opted to respond in writing. Some participants asked for an overview of the questions before committing to participate. In those cases, a short list of general questions covering the broad themes of the interview was provided.

Hammond and Sikka (1996) suggest that the timing of the interviews is another sensitive area with some researchers suggesting that retirement age for interviewees is the most suitable time. The timing of the interviews reflects a fine balance between giving the involved person time for reflection, not being too close to the events and recording information ‘before it is too late’ (Thompson 2000). In fact, two individuals that were identified as potential interviewees had already died. Although the events of this thesis began up to twenty years ago, this thesis’ focus is on a period ten to fifteen years ago. The research project started in the first year of the implementation of the accounting standard that was developed as a result of the GAAP/GFS harmonisation agenda setting process. This provided some assurance to the individuals involved about the outcome of the agenda setting process.

There is a danger that the events of the past are considered through the lens of ultimate outcomes. For example, an opponent of the project might review his attitude at the time in the light of the development and implementation of the project. This potential bias is mitigated by obtaining data from different sources, including from different interviewees and documents on the same issues or events.
Responses to interviews depend on a variety of circumstances, including when, by who and how the interview is conducted. This challenge was addressed by the development of ‘neutral’, non-suggestive questions which were reviewed by two other researchers. In addition, data triangulation and reflective validation of findings in later stages of data interpretation ensure that the interview data is validated and considered in context.

Another issue is that the GAAP/GFS harmonisation agenda setting process occurred up to 20 years ago. A number of factors may impact here. People’s memories might fade or memories might be ‘rewritten’ in or impacted by the outcome, success or failure of the project (Parker and Gould 1999). This includes rehearsed responses that change over time, incorporating feedback to previous responses or statements. One interviewee suggested that the response of another interviewee to one issue changed over time due to persistent criticism of the initial response on the issue. Again, the use of multiple sources and triangulation techniques address this issue.

All interviews were transcribed for the purpose of data analysis. The transcription of interviews leads to a ‘loss’ of information, such as intonations, laughter, etc. (Hammond and Sikka 1996; Portelli, Perks and Thomson 1998). The analytical ability of the researcher plays a critical role in interpreting the data in the context of the research project. This concern was addressed by the review of the transcriptions by the interviewee and other researchers, to avoid misinterpretation. In addition, the findings of the research were presented to a number of interviewees. Triangulation with archival data and other documents also mitigates issues of incompleteness and reliability of the interview data.
5.5.2 Data collection: Archival records and other documents

Archival records were identified through interviews and online research of relevant organisations. Figure 5.5 provides an overview of the documents that were identified as relevant:

*Figure 5.5: Documents Identified as Relevant*

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Type of documents</th>
<th>Identification / reason for inclusion</th>
<th>Source availability/ accessed</th>
<th>Issues encountered</th>
<th>Number of documents analysed</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRC</td>
<td>Minutes</td>
<td>Key organisation in GAAP/GFS harmonisation agenda setting process</td>
<td>Available online</td>
<td>None</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(all minutes from first meeting to April 2003 where FRC amended strategic direction was announced)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agenda papers</td>
<td>By request</td>
<td>Limited access to agenda papers; only one agenda paper was provided because the minutes noted that it would made available to the public</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>JCPAA</td>
<td>Review into the format of the portfolio budget statements reports, submissions and Hansards</td>
<td>Key organisation in GAAP/GFS harmonisation agenda setting process Interviews Online keyword search</td>
<td>Commonwealth online parliamentary library (key word search: e.g., GFS, accounting standards, AASB, ABS, etc.) All submissions were examined for references to GAAP and GFS</td>
<td>None</td>
<td>22</td>
</tr>
<tr>
<td>SFALPC</td>
<td>Interviews</td>
<td>“Government decided not to release the report and its recommendation” (Senate Finance and Public Administration Committee, 4 Nov 2003); interviews and secondary written sources, such as references to the review on websites See field to the left</td>
<td></td>
<td>2 secondary sources</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>All matches were briefly looked at to identify relevancy. All hits identified as relevant related to government reviews and inquiries that were then examined in more detail</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFALPC</td>
<td>Interviews</td>
<td>Commonwealth online parliamentary library (key word search: e.g., GFS, accounting standards,</td>
<td>None</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>All matches were briefly looked at to identify relevancy.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source</td>
<td>Documents examined</td>
<td>Access</td>
<td>Details</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>--------------------</td>
<td>--------</td>
<td>---------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senate Economic Legislation Committee (SELC)</td>
<td>Hansards, Consideration of Budget Estimates, Additional Estimates, Supplementary Estimates</td>
<td>Commonwealth online parliamentary library (key word search: e.g., GFS, accounting standards, AASB, ABS, etc.)</td>
<td>All matches were briefly looked at to identify relevancy. All hits identified as relevant related to government reviews and inquiries that were then examined in more detail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACAG</td>
<td>Agenda Papers</td>
<td>Interviews</td>
<td>Limited access, documents were identified by ACAG member, not by researcher</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HoTs</td>
<td>Minutes of meetings, Agenda papers and references in other FRC or AASB documents, Submissions to FRC or AASB</td>
<td>Key organisation in GAAP/GFS harmonisation agenda setting process, Interviews</td>
<td>Access to HoTs minutes of meetings denied</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AASB</td>
<td>Website, agenda papers, action alerts and minutes</td>
<td>Key organisation in GAAP/GFS harmonisation agenda setting process, Interviews</td>
<td>Minutes and action alerts available online, Agenda papers by request (Agenda papers that discussed GAAP and or GFS prior to December 2002)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSASB</td>
<td>Agenda papers, minutes</td>
<td>Organisation that dealt with public sector accounting prior to amalgamation with AASB, Interviews</td>
<td>Archives of AASB</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Very limited access; only in project summaries of AASB documentation; however, interviews suggested no discussion of GAAP/GFS harmonisation at PSASB level, as GAAP and GFS were seen as separate frameworks</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All relevant documents from 2000-2003 (refer to list of primary sources on page 316)
Internal archival records include minutes of meetings, project files and formal and informal emails. However, both access to and content of this data is limited. For example, the AASB had a policy of limited publication of board papers until 2007. Before that date, meetings were not public and papers of those meetings were not published. Some board papers containing sensitive information or letters from constituents are not open to public scrutiny. In addition, access to and the content of some archival records and documents are not available where the topic is politically sensitive. For example, access to documents from meetings of the HoTs and early FRC meetings was denied by Treasury. There were two reasons for why no Freedom of Information request was made. First, Treasury and Finance staff as well as other interviewees suggested that interviews would provide more useful information than the minutes of these meetings. This is in line with prior arguments that written documents may not capture important information, such as the political nature of the policy or agenda formation process and confirmed the importance of interviews as the primary source of data. For this reason and to ensure that potential interviews would not be negatively impacted by a Freedom of Information request, no such request was made.

5.5.3 Data analysis
This section discusses how the research questions are linked to the data through an analytical process. For this purpose, Yin (2009, pp. 127-164) identifies three assisting instruments. They are:

- technical tools;
- analytical strategies; and
- analytical techniques.

41 The political nature of standard setting processes both in the private and public sector has been widely recognised (see, e.g., Brown and Tarca 2001; Fogarty et al. 1994; Horngren 1973).
Assisting instruments are useful in dealing with a large amount of data, in coding and presenting the data. Yin emphasises that these tools, strategies and techniques are, however, distinct from the interpretation of data. 42 He (2009, p. 130) suggests that:

“all empirical research studies, including case studies have a “story” to tell. The story differs from a fictional account because it embraces your data, but remains a story because it must have a beginning, end, and middle. The needed analytical strategy is your guide to crafting this story, and only rarely will your data do the crafting for you”

The interpretation and presentation of the data are discussed separately in section 5.5.4.

NVivo software is a technical tool to sort, code and present data, but not to analyse the data. The purpose of the analytical strategies is to support the researcher to “treat the evidence fairly, produce compelling analytical conclusions, and rule out alternative interpretations” (Yin 2009, p. 130). To make sense of the ‘story’ of the subject under investigation, the thesis uses the analytical strategy of ‘theoretical guidance’ to focus the data analysis on “how” and “why” questions (Yin 2009, pp. 130-131). The theoretical framework is used to help “focus attention on certain data and to ignore other data […] and to help] organize the entire case study and to define alternative explanations to be examined” (Yin 2009, p. 130). At the same time, it is important to ensure that the use of a theoretical framework does not “deny the emergence of relevant theoretical interpretations” (Ahrens and Dent 1988, p. 24). To address this potential limitation, this thesis employs an iterative inductive and deductive research approach (Fereday and Muir-Cochrane 2006; Järvensivu and Törnroos 2010) and constant comparison or abduction (Järvensivu and Törnroos 2010; Lincoln and Guba 1985).

The data analysis is deductive, as it investigates the application and transferability of the theory through empirical observations. The theoretical model is used as guidance for

42 Yin refers to ‘analysis’ of data. In a qualitative research setting, the term interpretation is better suited and the term ‘analysis’ is used here to refer to the ‘technical’ or ‘mechanical’ process of sorting and processing the data.
data collection, for example, by developing the interview questions based on the theoretical model. The observations made from this search were used to assess the applicability of the theory. Induction was explicitly facilitated using open-ended questions in the interviews and analysing archival records for important issues outside the theoretical model, allowing new themes to emerge. This abductive process of constant comparison between empirical data and theory led to an evaluation and induction of the theory from observations, discussed in Chapter 8.

In addition, the DASF facilitates an analytical strategy of providing a ‘thick description’ (Geertz 1973) of the context of the case. This thick description emphasises the importance of providing the context of the research subject to give a holistic picture, rather than an “intrinsically incomplete” one (Geertz 1973, p. 29) and supports the credibility and coherence of the research.

The analytical techniques employed in this thesis are pattern-matching (Yin 2009) and theme finding (King and Horrocks 2010). The data was analysed to find patterns that are in accordance with the DASF. These patterns are expected, as the interview questions were constructed around the theoretical model. In addition, however, the interviews and the coding process allowed for new themes or outliers. Additional data sources, such as minutes of meetings, agenda papers and Hansards, were also examined for related themes outside the theoretical framework. Figure 5.6 summarises the use of technical and analytical instruments in this thesis.
The data from written documents and interviews were organised using NVivo software. All interviews were transcribed, checked against the audio record and sent to the respective participants for review. Four participants made some editorial changes which were incorporated into the final version of the interviews before the coding process. There were no alterations to content.

A latent thematic method was used (Braun and Clarke 2006). Thematic grouping is used for “identifying, analysing, and reporting patterns (themes) within data” (Braun and Clarke 2006, p. 79). It is not associated with a particular theory, which allows it to be used for different theoretical frameworks or perspectives (Braun and Clarke 2006, p. 81). However, a good thematic grouping should clearly state the theoretical underpinnings (Braun and Clarke 2006, p. 81). In the case of this thesis they are the theoretical model developed in chapter 4. The term ‘latent’ relates to the level at which ‘themes’ are identified (Braun and Clarke 2006, p. 84):

“A thematic analysis at the latent level goes beyond the semantic content of the data, and starts to identify or examine the underlying ideas, assumptions, and conceptualizations – and ideologies – that are theorized as shaping or informing the semantic content of the data. […] for latent thematic analysis, the development of the themes themselves involves interpretive work and the analysis that is produced is not just description, but is already theorized.”
This kind of analysis is compatible with a constructionist framework (Braun and Clarke 2006; Burr 1995):

“from a constructionist perspective, meaning and experience are socially produced and reproduced, rather than inferring within individuals (Burr, 1995). Therefore, thematic analysis conducted within a constructionist framework cannot and does not seek to focus on motivation or individual psychologies, but instead seeks to theorize the sociocultural contexts, and structural conditions, that enable the individual accounts that are provided. Thematic analysis that focuses on ‘latent’ themes tends to be more constructionist, and it also tends to start to overlap with thematic [discourse analysis] at this point.” (Braun and Clarke 2006, p. 85)

This perspective on constructionism appears to emphasise historic aspects and to neglect the agency of actors, which is closely associated with their motivation. There is, however, no apparent reason why this aspect cannot be examined with thematic grouping. The relationship between latent thematic analysis and aspects of discourse analysis is another reason why this approach is suited for this case study. It accommodates the discursive element of the theoretical model.

To ensure quality in data presentation and interpretation, the data in this thesis was coded using suggested guidelines for coding of qualitative data in three stages (e.g., Braun and Clarke 2006; King and Horrocks 2010; Langdridge 2004):

- stage one: descriptive coding;
- stage two: interpretive coding, including general themes; and
- stage three: defining overarching themes

This coding approach was adopted in this thesis. Throughout the coding process, it was, however, found that a fourth level of coding was needed to accommodate the iterative inductive, deductive and abductive research design. This approach is a blended or hybrid approach that sits between grounded theory (Lincoln and Guba 1985) and theory testing and is reflected in the coding process. Unlike data analysis in grounded theory coding in its purest form, which evolves from open coding to axial coding and selective
coding, the interview questions are already thematically focused by the research question, the case and the theory. Stage four of the coding was found necessary to place the themes into the theoretical elements of the DASF. All levels of coding were guided by the theoretical model as the interview questions were being guided by it. At the same time, it is important not to use the questions to find themes (Braun and Clarke 2006, pp. 85-86). This danger was partially mitigated through the inclusion of open-ended questions to allow for issues and themes outside the theoretical model to emerge and to induce theory or to accommodate theorisation (Braun and Clarke 2006; Lincoln and Guba 1985).

The first step of coding serves “to identify those parts of the transcript that are likely to be helpful in addressing the research question” (King and Horrocks 2010, p. 152). The objective of descriptive coding is “to describe what is of interest in your participants’ account, rather than seeking to interpret its meaning” (King and Horrocks 2010, p. 152) to avoid picking up only selected issues that would result in “over-fitting” to the theoretical framework (King and Horrocks 2010; Langdridge 2004). The amount of prescriptive codes is not meaningful in itself, as there are many factors that influence it, including the researcher’s first impression of what might be relevant to the research project. As part of the iterative component of the coding process, the descriptive coding was reviewed in the context of emerging relevant topics.

Stage two coding goes beyond mere description and focuses on the researcher’s interpretation of their meanings (King and Horrocks 2010, p. 154). Even at this stage, theory should not be used to find interpretations for the reasons mentioned above. However, the research questions and a broad disciplinary outlook are expected to guide this step of the coding. A significantly smaller number of codes are identified through ‘merging’ descriptive codes into second level ‘themes’ that are characterised by an
increased level of depth, substance and context. Not surprisingly, some second level codes that were identified already reflected elements of the DASF.

In stage three, grouping of data in the prior levels should result in the identification of a smaller number of overarching themes, which can be directly linked to the underlying theoretical framework (King and Horrocks 2010, p. 156). As a general rule, two to five overarching themes are identified. In the case of this thesis, however, this level of coding resulted in over 20 themes being identified.

Stage four coding attributed the overarching themes to the elements of the DASF. A total of nine elements were identified that reflected the elements of the DASF. They were:

- historic institutional background information;
- problem stream (including alternatives);
- policy stream (including coordination and communication);
- political stream (including coordination and communication);
- PEs (including characteristics and coupling of the three streams);
- policy community;
- discourse (substantive dimension of the idea, cognitive and normative arguments); and
- window of opportunity.

Despite the semi-structured nature of the interviews, there was no relevant information left (outliers) that did not fit within one of the fourth level themes. This situation is a good indication of a strong fit between data and theoretical framework. An example of the four levels of codes is provided in Appendix 7.
5.5.4 Presentation and interpretation of data and findings

The findings of the analysis are presented as an interpretive narrative in Chapters 6 and 7. White (1989) stated that the past is unordered until a historian’s narrative is written. Funnell (1998, p. 156) raises the importance of new narrative and counternarratives on the same and new historical issues to show “the political roles of accounting through its ability to constitute social relations”.

Qualitative interpretative research cannot make claims to offer causal explanations. This perspective is, again, reflected also in the DASF. Instead, the aim is to offer a plausible explanation of the GAAP/GFS harmonisation agenda setting process. As Mills noted, the benchmark is at the minimum “a ‘satisficing’ approach – to try to understand the past as best as we can, realizing that the knowledge will be forever imperfect” (Mills 1993, p. 802).

The synthesis of data and its presentation require interpretive skills of the researcher. Measures taken to ensure the quality of this process, including reflexivity and review by experienced researchers and participants of the research project, have been discussed above.

The structure of the narrative is partially chronological, particularly in the discussion of the historic institutional background component of the theoretical model in Chapter 6. For the main part, however, the narrative is presented is based on the research questions and the elements of the DASF.

The implications of the interpretive findings presented in Chapters 6 and 7 are presented in Chapter 8. While Chapters 6 and 7 explain individual components of the theoretical model, Chapter 8 focuses on the macro-level analysis, answering the all-important ‘so what?’ question with respect to both the empirical as well as theoretical importance of this thesis.
5.6 SUMMARY

This chapter presented the methodological approach and research design of this thesis. The main objective was to demonstrate how the research approach ensures that the research questions are answered in an appropriate manner and how epistemology, theory, methodology and methods are logically and effectively linked together. The chapter explained how the social constructionist epistemological perspective is coherently reflected throughout the research design, including the theoretical framework, the DASF, the qualitative case study methodology and the historic methods that are used to investigate the GAAP/GFS agenda setting process in this thesis. Interviews as oral history and archival and other written documents were the two main data sources.

An important part of this chapter was to identify and explain the criteria and tools that are used to ensure the quality, the usefulness and trustworthiness of the research project. Potential threats to credibility, dependability, confirmability and coherence were addressed by employing a number of safeguards, such as data triangulation and the strategies and approaches already mentioned above. In addition, the role of the researcher was outlined to address potential biases.

The quality of the research is also enhanced by a clear statement of the limitations of the research design. In addition to the threats and limitations discussed above, there are three main limitations. The first limitation with respect to the interpretive qualitative case study approach is the inability to generalise beyond the case of GAAP/GFS harmonisation agenda setting in Australia, as the contextual environment in other jurisdictions will most likely differ in many aspects. Generalisability is, however, not the objective of this research project. Instead, the objective is to investigate this special case in detail as motivated and justified in Chapter 1.
A second limitation is that some facts of history may not be known and the data might be incomplete (Previts et al. 1990) or inaccurate (Parker 1999). The main tools to address these matters were data triangulation and achieving theoretical saturation. But as some important participants of the GAAP/GFS harmonisation agenda setting process did not participate in this research project, this criticism has to be recognised and stated.

The third limitation arises out of the use of the abductive, deductive and inductive approach to theory. As it is not ‘purely’ inductive, the theory is not testable in hypotheses. On the other side, as it is not ‘purely’ deductive, the research is guided, and hence, tainted by the theory, which influences the findings. The objective is the development of the DASF and the in-depth investigation of the GAAP/GFS harmonisation agenda setting process. It is not testing a theory or developing a completely new theoretical perspective. Mitigating factors are a clear statement of these circumstances and ensuring that the construct does not limit emerging issues (Ahrens and Dent 1988).

The chapter identified the boundaries of the case and how they are linked to the research questions. It also presented how technical instruments and techniques are applied to ensure that the data is appropriately linked to the research questions by using NVivo as a technical instrument, utilising an iterative abductive, deductive and inductive theoretical strategy to guide the analysis, and applying a three stage coding process as an analytical technique.
CHAPTER 6 THE POLICY ENTREPRENEURS OF THE GAAP/GFS HARMONISATION AGENDA SETTING PROCESS

During the application of the discursive agenda setting framework (DASF) to the GAAP/GFS harmonisation agenda setting process it became apparent that the identification of the policy entrepreneurs (PEs), was not straight forward. The main challenge was to differentiate PEs from general promoters or other interested individuals. The analysis of the data showed that individual actors played different roles at different times with different levels of influence. If the PEs are to be distinguished from other actors, then clear criteria have to be established to do so. As a result, this chapter discusses the identification and role of the PEs before the presentation of the case study findings, so as to ensure an uninterrupted narrative in Chapters 7 and 8.

PEs are boundedly rational individuals which means that they make decisions under uncertainty. This can lead to situations where a policy idea will emerge before problems have been rationally identified and considered and sometimes PEs look for problems to justify their policy idea (Boscarino 2009). PEs are defined by “their willingness to invest their resources – time, energy, reputation, and sometimes money – in the hope of a future return” (Kingdon 2011, p. 180). In this case, the future return was assumed to be their preferred policy solution of a GAAP/GFS harmonised accounting standard. A summary of the common functions of PEs was provided by Roberts and King (1991, p. 148). PEs:

- “advocate new ideas and develop proposals (Kingdon 1984; Polsby 1984; Walker 1981);
- define and reframe problems (Cobb and Elder 1972; Kingdon 1984; Polsby 1984);
- specify policy alternatives (Cobb and Elder 1972; Kingdon 1984; Walker 1981);
• broker the ideas among the many policy actors (Cobb and Elder 1972; Eyestone 1978);
• mobilize public opinion (Cobb and Elder 1972; Kingdon 1984); and
• help set the decision making agenda (Kingdon 1984; Walker 1981).”

There is, however, a lack of operative criteria to identify PEs. A number of more specific criteria were, therefore, developed to enable an application of theoretical assumptions about PEs to the practical case study.

The criteria were developed from the constructs underlying the DASF, i.e., the multiple streams framework (MS) and discursive institutionalism (DI). Kingdon identified three qualities that underlie the PEs’ position. They are a ‘claim of hearing’, political connections or negotiation skills and persistency (Kingdon 2011, p. 180). A ‘claim of hearing’ (Kingdon 2011, p. 180) can stem from one or more of the following characteristics: ‘expertise’, ‘an ability to speak for others’ or ‘an authoritative decision-making position’. ‘Expertise’ is established through the individuals’ professional education and positions, as well as their involvement with GAAP and/or GFS reporting practices. An ‘ability to speak for others’ arises from positions and participation in events in which the PEs represent others. Positions include board memberships or other representative appointments, and events are where they speak in an official forum as representatives of their organisations or other groups.

The DASF has further adopted the notion that PEs are sentient agents who have background ideational and foreground discursive abilities. To assess the PEs’ background ideational abilities, their professional education, development and positions are taken into account. The assumption is that a higher level of education provides a higher level of awareness of the institutional environment than a lower level of education. In addition, a higher position in the Australian public sector suggests a high
level of background ideational ability, as it means that the individual is successful in the institutional context.

The agents’ foreground discursive abilities enable PEs to communicate critically about changes or the maintenance of institutions (Schmidt 2008; 2010, p. 1). In the case of GAAP/GFS harmonisation, the PEs’ foreground abilities are assessed on three main criteria. The first criteria is the PEs’ level of involvement in the coordination of the GAAP/GFS harmonisation agenda setting process. The second criteria is their level of involvement in the communication of GAAP/GFS harmonisation and the third criteria is their foreground abilities that were used to identify problems and associate them with the idea, and communicate this idea to relevant stakeholders. By fulfilling these characteristics and activities, PEs essentially couple the three streams of problems, policy and politics.

The DASF adopted from MS some assumptions about personal characteristics. It assumes that PEs are boundedly rational with unclear preferences, resulting in satisficing behaviour. These criteria are difficult to assess for each individual. An evaluation of the application of the criteria to identify PEs, and in particular, their foreground abilities is presented after the narrative of the case study in section 9.3.1.

The general criteria, the operationalised characteristics and their application to identify the PEs of the GAAP/GFS harmonisation agenda setting process are summarised in Figure 6.1 below:
**Figure 6.1: Criteria to Identify PEs of the GAAP/GFS Harmonisation Agenda Setting Process**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Characteristics</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Claim to hearing from</strong></td>
<td>Expertise (involvement with public sector GAAP and/or GFS reporting)</td>
<td>Educational background</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Professional position</td>
</tr>
<tr>
<td></td>
<td>Ability to speak for others</td>
<td>Level of involvement with GAAP, GFS or both</td>
</tr>
<tr>
<td></td>
<td>Authoritative decision-making position</td>
<td>Representative position, presentation of groups/organisations at key events/bodies</td>
</tr>
<tr>
<td><strong>Political connections or negotiation skills</strong></td>
<td>Professional/political position</td>
<td>Political position, political appointments, board memberships</td>
</tr>
<tr>
<td></td>
<td>Interaction with relevant constituents and/or interest groups (refer to ‘foreground discursive abilities’)</td>
<td></td>
</tr>
<tr>
<td><strong>Persistency</strong></td>
<td>Quality to continue despite obstacles</td>
<td>Duration of involvement in and promotion of GAAP/GFS harmonisation</td>
</tr>
<tr>
<td></td>
<td>Duration of involvement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intensity of involvement (refer to ‘foreground discursive abilities’)</td>
<td></td>
</tr>
<tr>
<td><strong>Background ideational abilities (making sense of and in institutional setting)</strong></td>
<td>Educational and professional background, development and position</td>
<td>Tertiary education, professional positions, professional membership</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Involvement with GAAP and/or GFS</td>
</tr>
<tr>
<td><strong>Foreground discursive abilities (communication of logic about institutions) = Coupling of three streams</strong></td>
<td>Coordination</td>
<td>Ensuring attendance of (or exclusion from) themselves and/or key participants of events</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Involvement with and distribution of key documents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Addressing/ coordinating resistance</td>
</tr>
<tr>
<td></td>
<td>Communication</td>
<td>Promoting GAAP/GFS harmonisation depending on audience (cognitive, normative, future constraints)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Active promotion of GAAP/GFS harmonisation in key events</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Involvement with key documents</td>
</tr>
<tr>
<td></td>
<td>Identification of problems or solution and their mutual association</td>
<td>Data that suggests involvement in identification of problems or solution and their mutual association</td>
</tr>
</tbody>
</table>

In the case of the GAAP/GFS harmonisation agenda setting process, the identification of PEs was based on the perception of interviewees, information from archival and other written data in combination with the researcher’s judgement of the context of the agenda setting process and the DASF. Interviewees were asked who they believed were
the most influential promoters of GAAP/GFS harmonisation prior to the FRC strategic direction in 2002. In addition, written documentation was analysed to investigate the background of these individuals and their level of involvement in events concerning the GAAP/GFS harmonisation agenda setting process. This analysis included their participation in meetings or the involvement in the production of key documents. This contributed to a consideration of their active participation in the coordination and communication of the GAAP/GFS harmonisation agenda setting process. To investigate the institutional, background ideational and discursive abilities of individuals, information about their professional position and progression, including educational background, was gathered.

Interviewees referred to eight key individuals. Three of these individuals were eliminated as PEs early in the process, because data analysis suggested that while they supported GAAP/GFS harmonisation, there was no evidence that they actively promoted it until 3 or 4 months before the FRC strategic direction was issued. Two more individuals were included as potential PEs because their names appeared in documentation of key events. These seven key individuals (key individuals A to G) were considered in more detail throughout the data analysis. A summary of these individuals’ characteristics and involvement is presented in Figure 6.2 below.

All but the criterion of ‘foreground discursive ability’ are relatively easily investigated and discussed in the remainder of this chapter. The foreground discursive abilities of the PEs are considered in more detail in Chapters 7 and 8, as this involves a closer look at the events of the GAAP/GFS harmonisation agenda setting process and the connections and relationships within this context. The results of this analysis, are, however, anticipated here to ensure the flow of the narrative.
## Figure 6.2:  Key Individuals in the GAAP/GFS Harmonisation Agenda Setting Process

<table>
<thead>
<tr>
<th>Category</th>
<th>Characteristic</th>
<th>Individual A</th>
<th>Individual B</th>
<th>Individual C</th>
<th>Individual D</th>
<th>Individual E</th>
<th>Individual F</th>
<th>Individual G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional position during 1998-2003</td>
<td>Senior staff member Department of Finance and Administration, FRC (1998-2006)</td>
<td>Senior staff Department of Treasury</td>
<td>Secretary State Treasury, FRC member (1 January 2000- September 2010 with minor breaks), HoTs, HoTARAC</td>
<td>Department of Finance and Administration, AASB (15 February 2003)</td>
<td>Secretary of the Department of Finance and Administration (Commonwealth)</td>
<td>Secretary of the Department of Finance and Administration (Commonwealth)</td>
<td>Deputy Australian Statistician, Economic Statistics</td>
<td></td>
</tr>
<tr>
<td>Expertise (involvement with public sector GAAP and/or GFS reporting)</td>
<td>Direct involvement and responsibility with production of budget papers as member of budget policy group which is charged with producing GFS and GAAP based documents for one set of financial statements</td>
<td>See individual A</td>
<td>Involvement and responsibility for GAAP and GFS budget papers at State level, Direct involvement with both GFS budget documents and GAAP end-of-financial statement in separate documents</td>
<td>See individual A</td>
<td>Responsibility for budget documentation</td>
<td>Responsibility for budget documentation</td>
<td>Technical involvement and responsibility for GFS reports at ABS</td>
<td></td>
</tr>
<tr>
<td>Ability to speak for others</td>
<td>FRC Board member Representation of Finance in front of Senate and Joint Committees</td>
<td>Representation of Treasury in Senate and Joint Committees</td>
<td>Head of State Treasury Department</td>
<td>AASB membership (starting 15 February 2003)</td>
<td>Yes, refer to professional position</td>
<td>Yes, refer to professional position</td>
<td>Representation of ABS in Senate and Joint Committees</td>
<td></td>
</tr>
<tr>
<td>Claim to hearing from</td>
<td>Senior public servant</td>
<td>Refer to professional position</td>
<td>AASB membership Senior public</td>
<td>Yes, refer to professional position</td>
<td>Yes, refer to professional position</td>
<td>Yes, refer to professional position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authoritative decision-making position</td>
<td>FRC member</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Category</td>
<td>Characteristic</td>
<td>Individual A</td>
<td>Individual B</td>
<td>Individual C</td>
<td>Individual D</td>
<td>Individual E</td>
<td>Individual F</td>
<td>Individual G</td>
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<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Political connections or negotiation skills</td>
<td>Professional/political position</td>
<td>High</td>
<td>High</td>
<td>Very high</td>
<td>High</td>
<td>Very high</td>
<td>Very high</td>
<td>Medium to high (no evidence found other than senior public servant position)</td>
</tr>
<tr>
<td></td>
<td>Senior public servant position and FRC membership</td>
<td>Senior public servant position and FRC membership</td>
<td>Multiple senior public servant positions</td>
<td>Top public servant position and FRC membership</td>
<td>Top public servant position and AASB membership</td>
<td>Top public servant position</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Involvement from identification of GAAP/GFS harmonisation until at least December 2002 (FRC strategic direction).</td>
<td>Involvement from identification of GAAP/GFS harmonisation until retirement in 2010</td>
<td>Involvement from identification of GAAP/GFS harmonisation until finalisation of project in 2013</td>
<td>Involvement from appointment as Secretary to Treasury until leaving Treasury in 2011</td>
<td>Involvement from appointment to Secretary of Finance in January 2001 until leaving Finance in 2009</td>
<td>Evidence for involvement from 1998 until at least 2002</td>
<td></td>
</tr>
<tr>
<td>Persistence</td>
<td>Quality to continue despite obstacles</td>
<td>Involvement from identification of GAAP/GFS harmonisation until finalisation of project in 2013 across professional movements across departments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Duration of involvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational background</td>
<td>Bachelor of Applied Economics, MBA, Fellow ICAA</td>
<td>Bachelor of Applied Economics, MBA, Fellow ICAA</td>
<td>Bachelor of Economics (Honours), Master of Economics, Fellow ICAA, Fellow CPA, Fellow of Institute of Public Administration Australia</td>
<td>Fellow ICAA</td>
<td>Bachelor of economics (Honours)</td>
<td>Bachelor of Commerce (honours)</td>
<td>Higher education unknown</td>
<td></td>
</tr>
<tr>
<td>Background ideational abilities (making sense of and in institutional setting)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>(refer also to ‘Expertise’)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Characteristic</td>
<td>Individual A</td>
<td>Individual B</td>
<td>Individual C</td>
<td>Individual D</td>
<td>Individual E</td>
<td>Individual F</td>
<td>Individual G</td>
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<td>------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Direct exposure to technical and political aspects of preparation and publication of budget documents cash, accrual, GAAP and GFS</td>
<td></td>
<td>Direct exposure to technical and political aspects of preparation and publication of budget documents cash, accrual, GAAP and GFS</td>
<td>Direct exposure to technical and political aspects of preparation and publication of budget documents cash, accrual, GAAP and GFS</td>
<td>Direct exposure to technical and political aspects of preparation and publication of budget documents cash, accrual, GAAP and GFS</td>
<td>Minister (Economic and Financial Affairs) in the Australian Delegation to the OECD</td>
<td>(Economic) at the Embassy of Australia in Washington Chair of the OECD’s Working Party of Senior Budget Officials.</td>
<td>Member of the ABS executive management team</td>
<td>Head of United Nations Expert Group on Critical Problems in Economic Statistics</td>
</tr>
<tr>
<td>Coordination</td>
<td>Strong involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>Medium involvement promoted GAAP/GFS harmonisation ‘when it counted’</td>
<td>Medium involvement promoted GAAP/GFS harmonisation ‘when it counted’</td>
<td>No evidence for active coordination, except presence at key events</td>
<td>Arguments confined to technical aspects</td>
</tr>
<tr>
<td>Communication</td>
<td>Strong involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>Medium to strong involvement (internal support; public support confined to small number of key events)</td>
<td>Medium to strong involvement (public support; confined to small number of key events)</td>
<td></td>
<td>Arguments confined to technical aspects</td>
</tr>
<tr>
<td>Identification and association of problems with policy</td>
<td>Strong involvement (Appendix 9)</td>
<td>Medium involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>Strong involvement (Appendix 9)</td>
<td>No involvement (Appendix 9)</td>
<td>No involvement (Appendix 9)</td>
<td>No involvement (Appendix 9)</td>
<td>No involvement (Appendix 9)</td>
</tr>
</tbody>
</table>

43 Appendix 9 provides an in-depth overview of relevant events or publication of documents, the arguments and issues that were discussed at these events or documents and the individual and collective actors that participated or were represented.
All key individuals had a ‘claim to hearing’, although to varying degrees. Their expertise came from a history of direct exposure to and involvement with both GAAP and GFS reporting. Key individuals A, B were directly charged with the production of the Commonwealth budget papers when both GAAP and GFS statements were prepared at the same time. All key individuals were in at least senior management positions in the Australian public sector, suggesting technical expertise, leadership and negotiation skills as well as political connectivity. All individuals had a recognised ability to speak for others, as they represented their organisations at different arenas, held board memberships or were Head of departments. As such, they were also in authoritative decision-making positions with respect to GAAP/GFS harmonisation. In particular individuals A, C, D, E and F had direct or indirect influence through their positions on either the FRC or the AASB, as further elaborated in Chapters 7 and 8. All individuals had a high or very high level of political connectivity and negotiation skills, as indicated by their senior public service positions.

The duration of involvement with GAAP/GFS harmonisation as an application characteristic for persistency offered a first indication of the PEs and other promoters. All individuals were involved with GAAP/GFS harmonisation for at least a number of years and until the FRC strategic direction. Individuals A and B, who were identified as PEs later on, were identified as the originators of the idea and, therefore, involved from the emergence of the idea. While the involvement of individuals B, F and G seized shortly after the FRC strategic direction, Individuals A, C, D and E were involved for several years longer, until their retirement or until the AASB project finished in 2013. This characteristic was, however, not sufficient.
All but two key individuals had a minimum of a bachelor degree, mostly in economics with at least one in accounting. The educational background of two key individuals is unknown. Furthermore, their senior public service positions also suggest a high level of background ideational ability, as it must be assumed that individuals have to be able to make sense and negotiate their way within the existing institutional environment to achieve such a professional position.

An important theme that emerged in the analysis of the interviews with respect to the background ideational abilities of key individuals was the issue of ‘accountants versus economists’. Key individuals remarked on the importance of an understanding of both approaches. One key individual (FRC, Interview 18/03/2011) remembered:

“I was very fortunate when I did my degree. I did a bachelor of applied economics which was really a mixture between macroeconomics and financial accounting. […]

…so many people who go into accounting are not necessarily attracted to […] these conceptual type things. A lot of people drawn to accounting tend to like the sort of the rote-learning and regurgitating of standards and finance and profits and all that sort of thing.[…person a], you know he’s an economist and he’s a person that then has been able to marry the two together as well. It’s not common.”

Before GAAP/GFS harmonisation, GAAP and GFS reports were widely seen as different accounting frameworks that served different purposes. GAAP’s purpose was to provide information for economic decision making, while GFS’ purpose was to provide data for policy making. The key individuals were influenced by the then requirements for whole of government accounting. At the same time, however, their ability to develop the idea of GAAP/GFS harmonisation, as described in Chapter 7, is a demonstration of their background ideational abilities. This ability is, for example, evident in a quote of key individual A (FRC, Interview 18/03/2011), that identified

44 The respective individuals were unsuccessfully contacted.
himself and another public sector accountant (key individual B) as the originators of the idea of GAAP/GFS harmonisation:

“[Key individual B and I] had this realisation because as I began to learn more about GFS, I understood what they were trying to do and interestingly in my accounting career for many, many different, for a number of decades over many years, I personally had struggled with the accounting concepts that were part and parcel of the Australian GAAP. [...] it would be fun to track GFS as it was, you know, as it was back when and accounting standards and just watch the harmonisation. [GAAP and GFS] are aligning anyway. And that’s what [key individual B and I] realised way back then.”

Their idea changed the institutionalised practices of whole of government accounting in Australia, and arguably had some influence on an international level as well[^5].

As is evident from Figure 6.2, the summary of the narrative in Chapters 7 and 8, the criteria other than ‘foreground discursive abilities’ did not allow a definite identification of PEs. In the end, ‘foreground discursive abilities’ was identified as the critical criterion. Most of the other criteria were satisfied to a similar level and did not allow a distinction. The data analysis found, however, that the PEs’ use of foreground abilities was instrumental in the GAAP/GFS harmonisation agenda setting process. This criterion was also mostly congruent with the perceptions of the interviewees. While the interview data reflected the positions of the key individuals only partially, the interviewees who were most directly involved with the GAAP/GFS harmonisation agenda setting process referred to the same key individuals A, B, C and D. Other interviewees referred mostly to key individual C, whereas key individuals A and D were only mentioned in four interviews and key individual B was only mentioned by two interviewees. Three more interviewees referred to key individual A when prompted. The analysis of data suggests, however, that key individual A was...
involved much earlier than key individual C and was even involved in the recruitment of key individual C to promote the project. Key individual C was the ‘public face’ of the project as he promoted it in a variety of positions. He was a State Secretary of Treasury, an FRC member, a member of the FRC’s nomination committee and the Chairperson of HoTARAC. Data from a number of interviews suggests that he was seen as the representation of Heads of Treasuries in this context, who were seen as one of the most important constituents in the GAAP/GFS harmonisation program. Descriptions of key individual C and his role included “a real activist”, “strong minded, strong willed”, “he took a firm line”, “persistent”, or “[PE C] was leading the charge, and he was [HoTs’] trusted leader and coordinator”. As with all key individuals, he fulfilled all other characteristics’ criteria of a PE as summarised in Figure 6.1. He had a claim to hearing through a track record of showing expertise in public sector accounting and he was already recognised for having an ability to speak for others, and he was also in an authoritative decision-making position. His appointments confirm that he was politically versed and connected. Key individual C’s persistency was noted in interviews. One interviewee (AASB, Interview 23/02/2010) noted:

“a lot of informal discussions had taken place [between key individual C and the AASB], but over a couple of years, there was no response from the Chair or the AASB. So [the FRC strategic direction] then became imperative.”

Key individual C’s persistency can also be seen in other data. Once he got involved with GAAP/GFS harmonisation, he remained involved and promoted the project at numerous levels until his retirement in 2010.

While key individuals A, B and D promoted the project at many events, were involved in the production of key documents and had also positions at the FRC and the AASB, their actions were not as obvious to others as those of key individual C.
Even individuals closely involved in the GAAP/GFS harmonisation agenda setting process did not necessarily identify them as PEs. Perhaps key individual C was better remembered as he had a more high-profile position than key individuals A and D. He was a State Secretary of Treasury and perceived by many as representing HoTs throughout the GAAP/GFS agenda setting process. Key individuals A and D’s status as PEs, was, however, confirmed by interviewees in the core of the GAAP/GFS harmonisation agenda setting process and in the analysis of written documentation, including minutes of FRC meetings and Commonwealth Hansards and other relevant reports, as further elaborated in Chapter 8 and summarised in Appendix 9.

Individual G’s promotion of GAAP/GFS harmonisation appeared to be confined to providing technical advice at Senate and Joint Committee Hearings during the GAAP/GFS harmonisation process and the provision of technical advice in relevant documents. There was no evidence that individual G was involved in the preparation of major documents promoting GAAP/GFS harmonisation. In addition, arguments advanced by individual G focused on potential benefits to the ABS, and technical aspects only.

Individuals E and F were more visibly and actively involved in the coordination and communication of GAAP/GFS harmonisation than individuals B and G. They publicly promoted the project in the political arena, the FRC and the AASB. The data suggested, however, that their involvement was limited to strategic meetings ‘when it counted’, and two interviewees suggested that this lobbying activity was initiated by key individuals A and B. The data further suggested that key individuals E and F left the persistent and continuing promotion of the project to their subordinates, key individuals A and D. In addition, they left the coupling of the streams and the
identification and association of the problems with the policy solution at a technical level to these individuals.

In contrast to individuals E and F, key individuals A, B, C and D promoted the project in a more holistic perspective, explaining the benefits to numerous organisations or users. They promoted the project outside the political arena and were significantly involved in bringing together the three streams of problems, policy and politics. Furthermore, key individuals A, C and D took up strategic positions in the FRC and the AASB to promote GAAP/GFS harmonisation.

As a result of the data analysis, the identification of PEs in the GAAP/GFS harmonisation agenda setting process was based on the critical criterion of ‘foreground discursive abilities’, in particular their high level of involvement with the coordination and communication of the process, which can also be referred to as the coupling of the three streams of problems, policy and politics. Key individuals A, B, C and D, hereafter referred to as PE A, PE B, PE C and PE D, were identified. How they used their foreground discursive abilities to enter GAAP/GFS harmonisation onto the agenda of the FRC is discussed in more detail in Chapters 7 and 8.
CHAPTER 7 THE CONSTRUCTION OF GAAP/GFS HARMONISATION AS A POLICY SOLUTION

7.1 INTRODUCTION

This chapter presents the historic background of the GAAP/GFS harmonisation agenda setting process and adopts an interpretive narrative and to address the first research question:

1. What was the historic institutional context in which the policy idea of ‘GAAP/GFS harmonisation’ was identified?

In a paper written after the FRC’s strategic direction in December 2002, Challen and Jeffrey portrayed GAAP/GFS harmonisation as a well specified solution to a set of clearly identified problems:

- “the existing duality of frameworks [the co-existence of reports based on GFS on the one hand and GAAP (AASB) principles on the other hand], which provides for financial reports that are substantially similar in appearance, with minor differences in presentation or measurement, detracts from the usefulness of the reports because it creates uncertainty about the meaning and reliability of the respective information; and
- there is no requirement for GFS outcome reports to be audited as general purpose reports, as no AAS currently exists. As a consequence, if reports are not audited, users have no independent verification of the reliability of the key outcome information that is provided, while there is limited incentive for governments to improve the quality of the information contained in the budget statements.” (Challen and Jeffery 2003, p. 50)

Challen and Jeffrey suggested that this ‘dual reporting regime’ was problematic because it allowed politicians to report using either GFS or GAAP, to achieve the results that suited them. This was referred to as ‘headline’ (FRC Interview 06/05/2010, FRC, Interview 03/10/2010, HoTs Interview 17/11/2010, PE C Interview 09/03/2010) or ‘presentation shopping’ (Challen and Jeffrey 2003, p. 50).

46 While Challen and Jeffrey refer to ‘presentation shopping’ in their 2003 paper, the respective interviewees referred to ‘headline’ shopping ‘choosing of headline measures’. They all referred to the practice that politicians would select numbers from either GFS or GAAP to suit their purposes.
Furthermore, GFS statements were not audited and the GAAP based financial statements were not comparable across jurisdictions or with the GFS based budget papers. GAAP/GFS harmonisation was a solution to these issues:

“Harmonisation will reduce confusion about which set of financial reports presents a more reliable portrayal of financial results, improve transparency, remove opportunities for governments to choose how they present their budgets and their outcome financial statements, and improve the quality of the key financial statements of government by permitting them to be audited. As a corollary, if the key outcome statement is subject to audit and is directly comparable with the budget statements, there is a strong incentive for jurisdictions to improve the quality of the information contained in the budget statements.” (Challen and Jeffery 2003, p. 50)

The paper by Challen and Jeffrey portrays GAAP/GFS harmonisation as a rational and logical policy solution to a number of normative and cognitive (technical) problems. This chapter challenges this ‘clean picture’ and aims to illuminate the complexities of the GAAP/GFS harmonisation agenda setting process in more detail.

It is argued that GAAP and GFS reporting were regarded as two distinct reporting regimes until about 1999. Many issues that dominated public sector accounting discussions were not associated with the co-existence of GAAP and GFS. It is further argued that ‘GAAP/GFS harmonisation’ was identified and framed as a policy solution by bureaucrats within the Federal Departments of Treasury (Treasury) and Finance and Administration (Finance).

The structure of this chapter is based on the discursive agenda setting framework (DASF) developed in Chapter 4. It integrates Kingdon’s (1984, 2011) multiple streams (MS) framework and Schmidt’s (2008, 2010, 2011a, b) discursive institutionalism (DI), as well as Haas’ (1992) concept of epistemic communities. A diagrammatic presentation of the DASF is reproduced in Figure 7.1.
Section 7.2 of this chapter considers the historical institutional context of public sector accounting in Australia from 1991, when the Loan Council decided to adopt the Uniform Presentation Framework (UPF) based on Government Finance Statistics (GFS) for budget documentation, until 1999, when GAAP/GFS Harmonisation was identified as a policy solution.
There are two components of the historic institutional (HI) background consideration of the agenda setting process. The first is the cognitive and normative background of debate about public sector accounting in Australia in which problems and policy ideas are discussed in the context of existing philosophies and programs (refer to Figure 4.1). The broader background at the philosophical level of this debate is discussed in section 7.2.1. The public sector accounting issues and policy ideas in the foreground of the policy debate that are identified and discussed at the foreground level are the subject of section 7.2.2. These debates are examined for discussions about GAAP/GFS harmonisation by the government, the standard setters, and other relevant organisations and bodies.

The second component of the HI background is a ‘critical moment’ or ‘critical juncture’ that influenced the GAAP/GFS harmonisation agenda setting process. Section 7.2.3 argues that the Corporate Law and Economic Reform Program (CLERP) was this critical moment because it gave the Federal Department of Treasury (Treasury) increased influence over public sector accounting standard setting.

Section 7.3 considers how GAAP/GFS harmonisation was identified by technocrats within the Australian Federal bureaucracy as a policy solution. Section 7.4 summarises the findings of this chapter. A chronology of the events discussed in this chapter is presented in Figure 7.2.

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47 The discussion at the policy level (how specific solutions address the issues at hand) are discussed in Chapter 8.
### 7.2 THE STATE OF PUBLIC SECTOR ACCOUNTING, THE IDENTIFICATION OF PROBLEMS AND THEIR ASSOCIATION WITH GAAP/GFS REPORTING

**7.2.1 Assumptions in the policy debate: paradigms and public sentiment**

The GAAP/GFS harmonisation agenda setting process occurred in a Westminster form of government in the context of the New Public Management reforms, in which the role and content of financial reporting had been reviewed and redefined (Hood 1991, 1995). As part of these reforms, accrual accounting and alternatives to historic cost valuations were implemented in public sector accounting throughout Australia (see, for example, Barton 1999, 2002; Barton 2005, 2006, 2009; Carlin 2005; Guthrie...
GAAP/GFS harmonisation was influenced by the introduction of accrual accounting in Australia in a number of ways. GFS reports were based on cash accounting whereas GAAP reports were prepared on an accrual basis. Users, and in particular politicians, were confused by the new accounting techniques, and it is argued that policymakers and PEs associated these issues with the dual GAAP/GFS reporting regime to further GAAP/GFS harmonisation policy solution.

At the onset of GAAP/GFS harmonisation, there were two predominant financial reporting paradigms in Australian governmental accounting, which influenced the range of potential policy solutions. They were a statistical macroeconomic accounting perspective (GFS) and a microeconomic accounting view (GAAP). GFS principles were traditionally dominant for whole of government reporting, as Treasuries are typically the domain of economists. Macroeconomic accounting was developed to measure the financial performance (flows) and position (stocks) of whole economies. Microeconomic accounting was concerned with single entities, such as households or companies. These differences were reflected in the respective accounting frameworks. The GFS Manual 2001 stated that statistical measures are developed:

“for purposes of economic analysis, decision-taking and policy making” (IMF 2001, paragraph 1.5)

During the period considered in this thesis, the purpose and objectives of GAAP accounting were set down in Statements of Accounting Concepts (SAC) 2 Objective of General Purpose Financial Reporting. It was to

“provide information useful to users for making and evaluating decisions about the allocation of scarce resources” (PSASB et al. 1990, paragraph 43).
Data analysis from the interviews and written documents highlight that the two frameworks were considered to serve different purposes. For example, a submission by the Australian Bureau of Statistics (ABS 2001b) to the Joint Committee of Public Accounts and Audit (JCPAA) in the context of the Review of the Accrual Budget Documentation in 2001 states:

“GFS and AAS 31 are equally valid systems. GFS is a framework designed to facilitate macro-economic analysis, including the integration of government financial activities within a broader statistical framework - the national accounts. AAS31 is designed for general purpose financial reporting. While transactions are generally treated in a similar manner in the two systems there are differences due to their different objectives.”

At a normative level, public sentiment as the background to the debate reflected the view that governments should be accountable for the use of taxpayers’ monies. Budgetary and financial reporting was (and is) seen as an important tool in the accountability process. The involvement and role of the public as users of public sector financial statements has been widely discussed in the academic literature (Andriani, Kober and Ng 2010; Barton 1999, 2002; Jesús and Jorge 2010; Kober et al. 2010, 2012; Mayston 1992; PSASB et al. 1990; Rutherford 1983; Walker 2003, 2009, 2011) and by standard setters or governments (PSASB et al. 1990; Simpkins 2006). Much of the debate discusses the appropriate level of technical detail and finding a balance between providing relevant information to a variety of users with different objectives and levels of financial literacy. The highly technical nature of public sector accounting and reporting is arguably one reason for limited interest and participation by the wider public in this area, as further discussed in Chapter 8.
7.2.2 Problems of public sector accounting (including budgeting) from 1991 to 2000

This section presents the dominant issues of public sector accounting during the 1990s that were discussed at the governmental and standard setting level and how issues relating to GAAP and GFS reporting were cognitively identified and normatively framed in the foreground of the debate on a program level (refer to Figure 4.1). It is difficult to separate the program level from the policy level as GAAP/GFS harmonisation can be viewed as both a program and a policy. Miller (1993, p. 738) offers a helpful explanation of programs versus projects. He defines programs as “idealized schemas for representing, analysing and seeking to rectify the problems associated with particular aspects of economic and social life”. Applying Miller’s definition of program to this thesis, allows an easier distinction between the program and policy level. The cognitive and normative considerations of GAAP and GFS reporting at the program level consider the developments prior to the identification of ‘GAAP/GFS harmonisation’ as a policy solution in 1999. Once the policy solution was identified, the details of this solution are discussed at the policy level, as presented in Chapter 8. As a result, the events presented in Chapters 7 to 9 demonstrate that the agenda setting process relates to both the program and the policy level.

The analysis of data identified public sector accounting issues from 1996-2000 in two broad areas which are discussed in the following sections:

- budgetary and financial reporting debated at
  - the government level (section 7.2.2.1); and
  - the accounting standard setting level (section 7.2.2.2); and
- issues with statistical reporting (section 7.2.2.3).
The data analysis also identified issues with public sector accounting standard setting arrangements, which are discussed in section 7.2.3.

7.2.2.1 The governmental agenda from 1991 to 2000

In 1991, the Loan Council\textsuperscript{48} agreed to adopt the Uniform Presentation Framework (UPF) for budget reporting in 1991. As such, the Treasuries determined their own reporting regime for budget reporting. The introduction of the UPF required all nine Commonwealth, State and Territory jurisdictions to present their budgets based on principles from the International Monetary Fund’s (IMF) Government Finance Statistics Manual (GFSM). It was initially introduced on a cash basis, but in 1997, the Loan Council decided to introduce accrual budget reporting. The Australian Bureau of Statistics (ABS) issued an accrual version of the GFSM in early 2000.

During the mid-1990s, the Australian Public Sector Accounting Standards Board (PSASB) developed AAS 31 \textit{Financial Reporting by Governments}, which required governments to provide consolidated financial statements on a whole of government level. It was issued in 1996 with a mandatory application date (if the standard was applied) of periods ending on or after 10 June 1999. Jurisdictions could, however, choose whether they would adopt AAS 31, as authority for public sector financial reporting sat within each jurisdiction. As a result, there was a mix of practices across States, Territories and the Federal Government. An overview of the different reporting regimes in the financial year 1999/2000 is presented in Figure 7.3 below.

\textsuperscript{48} The Loan Council is a Ministerial Council “comprising the Commonwealth Treasurer as Chairman and his counterparts from the States and Territories. It was established in 1927 to coordinate public sector borrowings in Australia. The Loan Council is now mainly concerned with enhancing the transparency and accountability of public sector finances rather than, as in the past, securing adherence to strict borrowing limits” (Treasury 2000, p. 19).
<table>
<thead>
<tr>
<th>Reports jurisdiction</th>
<th>Budget (GFS basis)</th>
<th>Budget (GAAP basis)</th>
<th>End of year/outcome statements (GFS basis)</th>
<th>End of year/outcome statements (GAAP basis)</th>
<th>Other Budget/End of year/outcome statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACT</td>
<td>Budget Paper 3, Appendix D Cash</td>
<td>Accrual, for each GGS, PFC and PNFC sector and whole of government</td>
<td>Not separately produced</td>
<td>Accrual Audited</td>
<td>Estimates Outcome on GAAP basis in following year’s budget papers, including GFS sector split Accrual Not audited</td>
</tr>
<tr>
<td>CWLTH</td>
<td>Cash (Budget paper Statement 9, Appendix B) Accrual (Budget paper No 1, Budget statements 4)</td>
<td>Not audited</td>
<td>Not separately produced</td>
<td>Audited</td>
<td>Consolidated financial statements Accrual Audited</td>
</tr>
<tr>
<td>NSW</td>
<td>Cash (Budget paper No 2, Chapter 2.4) Accrual (Budget paper No 2, Chapter 2.1) (including provision of reconciliation to accrual operating result)</td>
<td>Not produced</td>
<td>Financial Outcomes Report Accrual Not audited (Since 2000-2001 published together with GAAP statements in NSW Report on State Finances, GGS/GFS outcome report unaudited)</td>
<td>Audited</td>
<td>NSW Total State Sector consolidated financial statements Accrual Audited</td>
</tr>
<tr>
<td>NT</td>
<td>Cash</td>
<td>Not produced</td>
<td>Cash basis Audited (qualified audit opinion, as not prepared in accordance with AAS 31)</td>
<td>Not produced</td>
<td>Not produced</td>
</tr>
<tr>
<td>QLD</td>
<td>Budgeted Financial Statements Not audited Accrual (Appendix B) Cash (Appendix D) (Reconciliation between GAAP and GFS provided in Appendix C)</td>
<td>Budget Paper 2 2000-2001 Estimates Actual (Appendix A) Accrual Not audited</td>
<td>Consolidated financial statements Accrual Audited Budget Paper 2 2000-2001 Estimates Actual (Appendix B) Accrual Not audited, including GFS sector split</td>
<td>Not produced</td>
<td></td>
</tr>
</tbody>
</table>
A study by Walker (2011) discussed issues and audit qualifications in Australian consolidated public sector financial reporting over two decades from 1988. The study identified a high number of audit qualifications, in particular in New South Wales, South Australia\(^{49}\) and the Commonwealth. The study found that some issues about the non-consolidation of entities contributed to the audit qualifications. This was an

\(^{49}\) The South Australian Auditor-General provided ‘observations’ only that were treated as qualifications in Walker’s (2011, p. 483) study.
issue that was partially caused by the duality of GAAP and GFS. For example, the classification of Universities as multi-jurisdictional entities led some State and Territory jurisdictions to include them in the consolidated financial report, whereas others did not. The Auditors-General’s treatments across Australia differed from jurisdiction to jurisdiction and where the exclusion in some jurisdictions did not lead to an audit qualification, the financial report in another jurisdiction was qualified (Walker 2011, p. 486).

Other studies have shown that different reports and numbers were presented to the public in later years before a GAAP/GFS harmonised accounting standard was finalised and implemented. For example, a study by Wines and Scarborough (2006) found that key budget results were reported in a variety of ways across jurisdictions in the financial years 2004-05 and 2005-06. The Western Australian 2003-04 budget papers also identified that different ‘headline measures’ were used across jurisdictions. Only two jurisdictions (Victoria and Australian Capital Territory) used GAAP measures (net operating balance), whereas the remaining jurisdictions focused on different GFS measures, such as ‘underlying cash balance’, ‘net lending/borrowing’ or ‘net operating balance’ (GFS). While the Northern Territory and Western Australia had already adopted a similar format for both budget and end-of-year financial statements, other jurisdictions’ end-of-year financial statements were not comparable to their budget papers. In addition, reports based on GFS were not usually subject to audit, except in the Northern Territory.

There was little evidence that the variety of reporting practices was discussed at the governmental level in any meaningful way during the mid to late-1990s. State and Territory governments had adopted either one or the other framework. In addition, all jurisdictions had agreed to produce GFS based UPF outcome statements, including
outcome (end-of-year) statements. These were, however, tabled in some jurisdictions, but not others. Again, no evidence was found that this was discussed in a meaningful manner prior to the later 1990s. Interviews with HoTs members suggest that only two HoTs thought that the dual reporting regime was a prominent issue in their jurisdiction prior to the FRC’s strategic direction. They suggested that the issues were not discussed in a meaningful manner prior to approximately 2000, but were not certain about the timing. All other HoTs did not see it as a main concern or mentioned it as an issue that they thought should have been acted upon.

The analysis based on written documents confirmed the interview data. Hansards of all States, Territories and the Federal governments from 1996-2002 were searched for the following terms (in full and abbreviation): GFS, AAS, as well as for the names of the HoTs or PEs during this time. No discussions relating to issues due to dual GAAP and GFS reporting were found prior to 2001. The first relevant government-sourced documentation was found in a Hansard for 29 May 2001 at a Senate hearing at federal level. This was well after the policy solution had been identified. The details of the event are discussed in the following chapter.

When asked about their motivations for supporting GAAP/GFS harmonisation, four interviewees, referred to three government reviews that recommended GAAP/GFS harmonisation. Two inquiries were held after 2000 and are considered in Chapter 8. One inquiry by the Senate Finance and Public Administration Legislation Committee (SFPALC) was conducted between 1997 and 2001 into the format of portfolio budget statements. The SFPALC issued three reports. The first report issued in 1997, included very broad recommendations, such as that financial statements “should be relatively concise; they should adhere broadly to a recommended (not mandated)
standardised format” (JCPAA 2002, Conclusions and Recommendations). The second report, issued in 1999, reiterated the need for statements based on governmental agencies and departments, rather than ministerial portfolios and identified the need for a more detailed breakdown of financial information. GAAP/GFS issues were not considered in the first two reports. The third report was published in 2001 and is considered in Chapter 8.

In summary, the issues on the formal governmental agenda included the comparison of budgets and end-of-year financial reporting which were more concerned with the scope of the different reports, rather than underlying reporting principles. These issues were not debated in association with the dual GAAP and GFS reporting regime. In addition, there is ample evidence about issues related to the introduction of accrual accounting. Issues related to the dual reporting of GAAP and GFS suggested by PEs shortly before or after the FRC’s strategic direction to support GAAP/GFS harmonisation, such as ‘headline’ or ‘presentation shopping’ or confusion by politicians and the lack of comparability between budget papers and end-of-year financial statements (Challen and Jeffery 2003), were not discussed at the official government agenda prior to 2000. Only limited evidence was found to suggest that the issues were debated informally in the political arena. This evidence stems from interviews with early promoters of the GAAP/GFS harmonisation program (PE C 09/03/2010, PE D Interview 25/02/2011), however, no evidence was found of any formal discussion.

51 The sale of telecommunications spectrum licences by the Commonwealth government has in the past been used as evidence of headline shopping (see, for example, CPA Australia 2012). The numbers were presented in the 2000-2001 Budget. Peter Costello, the then Treasurer, reported an anticipated GAAP based surplus, which included proceeds of approximately $2.6 billion from the sale of these licenses. The GFS based report excludes the sale of assets from operating revenue. GFS results did, however, still result in a positive net operating balance.
There was evidence about discussion of the lack of audit of GFS statements. Evidence pointed to these discussions from 1998 onwards (refer section 7.2.2.3). This particular issue, could however, have been addressed separately. It could have been proposed that GFS statements should be subjected to audit without the need for a harmonised standard. Rather, it appears that involved Commonwealth bureaucrats anticipated issues due to the dual reporting regime during the preparation of the papers of the first budget cycle in which both GAAP and GFS accrual reports were imposed to the Commonwealth. In early 1999, however, the issues and the policy solution were not clearly identified and, in particular, not clearly communicated, in the policy and political arena.

7.2.2.2 The standard setting agenda from 1996-2002

The analysis of data from interviews and minutes about the PSASB in the late 1980 to 1999 did not indicate that GAAP/GFS harmonisation was a project that was considered by the PSASB. Instead, the PSASB was mainly occupied with developing and reviewing the three public sector specific accounting standards AAS 27 Financial Reporting by Local Governments (AAS 27), AAS 29 Financial Reporting by Government Departments (AAS 29) and AAS 31 Financial Reporting by Governments (AAS 31).

In addition, from the mid-1990s, the PSASB and the AASB cooperated on “conceptual documents and proposed standards and the differences between the two sets of standards were not extensive” (Simpkins 2006, paragraph 3.2). The ‘sector-neutral approach’\(^\text{52}\) to accounting standard setting contributed to the limited choice in what the PSASB was able to consider. For example, the PSASB work program for

\(^{52}\) Simpkins (2006, paragraph 3.14) used the term ‘sector-neutrality’. Since then, however, the AASB has a preference for the term “transaction neutrality” to reflect that transactions should be treated equally, irrespective of the sectors they occur in.
1998 shows five projects. They were the ‘Review of AAS 29’, the ‘Review of AAS 31’, ‘Land Under Roads’, ‘Related Parties of Public Sector Entities’ and ‘Not For Profit Entities’. The AASB activities listed in its 1998 Annual Report contain eleven Exposure Drafts and one Invitation to Comment developed in conjunction with the PSASB. A PSASP (Interview 12/12/2011) member recalled:

“We were very focussed on improving finance reporting in the public sector across the board, so that’s government, whole of government right through to your Federal, State and local agencies and so on. So that was the focus to improve GAAP reporting. This [GAAP/GFS] harmonisation potential was very much a peripheral issue for us. […] We had a big job on our hands to try and reform financial reporting in the public sector [the adoption of accrual accounting; clarification inserted by the author], and that was tough. It was a challenge technically but it was a bigger challenge politically to get it done.

We were aware of concerns about there being two different reporting models, and the potential for confusion that exists as a result of that. The need where possible to avoid exacerbating the potential for confusion. So that was sort of, but it was not done with any expectation that we would be developing a standard that would, if complied with, harmonise GFS and GAAP.”

Whilst there was a dialogue between the PSASB, HoTs and the ABS, there is no evidence that there was any intention by the PSASB to harmonise GAAP with GFS accounting. From a PSASB perspective, the purpose of GAAP was to “enhance the allocation of resources, so that means to provide quality information to enable the decision makers to allocate the resources best in terms of achieving outputs, outcomes, which are service delivery by and large”, while the purpose of GFS data was “socio-economic policy making” (PSASB, Interview 12/12/2011). The PSASB was aware of the dual reporting regime but the relationship between these two frameworks was not seen as an issue that needed action. In addition, the interviews with PSASB board members and AARF technical staff suggest that GFS was not viewed as being within the PSASB’s regulatory space (Hancher and Moran 1989), but rather as the responsibility of the ABS and the IMF.
The first time written evidence of the term ‘GAAP/GFS harmonisation’ (or ‘GPFR/GFS harmonisation’ as it was referred to then) was in an AASB agenda paper (AASB 2000a) from June 2000, in which it is suggested that the topic was put onto the AASB agenda by the PSASB and referred to a first event in October 1999. As these events occurred after the idea of GAAP/GFS harmonisation had been identified, they are presented in more detail in Chapter 8.

7.2.2.3 Discussion of GAAP and GFS related issues outside the governmental and accounting standard setting agendas before 1999

Two main documents (Challen and Jeffery 2003; HoTARAC 2003) that were published by promoters of the GAAP/GFS harmonisation program after the FRC strategic direction in 2002 suggested that the absence of an audit of GFS data was an issue. Challen and Jeffrey argued that this was a problem because:

“users have no independent verification of the reliability of the key outcome information that is provided, while there is limited incentive for governments to improve the quality of the information contained in the budget statements.” (Challen and Jeffery 2003, p. 51)

The analysis of documents suggests that this was an issue promoted by ABS staff from around 1998. In a meeting in June 1998, ABS staff members gave a presentation to the Australasian Council of Auditor Generals (ACAG) about the feasibility of auditing GFS budgets and the similarities and differences of GFS, under the premise that:

“The World Bank wishes to see comparability between National Government financial reports. That is influencing the Australian Bureau of Statistics in its developing the format of the National Accounts. That, in turn, will affect the reporting requirements imposed on National and State Treasuries. It will be useful to know the extent of likely consistency and divergence between the ABS direction and the Accounting Standard Setters.” (ACAG 1998)

As already noted in section 7.2.2.2 above, ABS staff liaised with the PSASB, AARF and later AASB board and staff. Documents appear to confirm that prior to 2000,
GAAP and GFS were viewed by ABS staff as two separate reporting regimes as there was no evidence of any form of harmonisation prior to this date.

One HoT noted that the audit of GFS statements was also desirable from a Loan Council’s perspective, as these statements were used in the consideration of the distribution of taxes across jurisdictions. No other reference to the Loan Council was found.

7.2.2.4 Problems of public sector accounting summarised

Between 1996 and 2000, there were a number of public sector issues discussed at the governmental level. These issues were, however, not associated with a dual GAAP and GFS reporting regime. No evidence was found about any discussion of GAAP/GFS harmonisation on any official agenda prior to 2000 and there was no evidence of informal discussions relating to the dual reporting regimes prior to 1999.

At the standard setting level, GAAP/GFS harmonisation did not emerge in official AASB documentation until June 2000. Documents considering whole of government reporting prior to this time related to a review of AAS 31. GFS and GAAP were considered to be distinct and potentially competing forms of public sector financial reporting and GFS reporting was outside the PSASB’s regulatory space. The concept of the harmonisation of these two frameworks was not considered.

Outside the governmental and accounting standard setting agenda, the ABS started to pursue audits of GFS data with the intent to obtain better quality data (see, for example, ACAG 1998). Again, however, no evidence was found to suggest that the ABS was considering the harmonisation of GAAP and GFS reporting at that time.

A crucial question is how GAAP/GFS harmonisation was identified as ‘the’ policy solution to a set of problems that by 1999 had not yet been identified. Before
addressing this question, section 7.2.3 presents the structural rearrangements of Australian accounting standard setting. It is argued that these restructures were a factor in the success of the GAAP/GFS harmonisation agenda setting process, as it allowed bureaucrats of the Federal government to increase their influence over public sector accounting standard setting processes during the mid and late 1990s.

7.2.3 A critical moment and changes in the organisational institutional environment

As presented in section 4.3, De Buitelaar et al. (2007) argue that a first critical moment arises from external societal pressures or institutional reflections within the political stream. In this chapter, it is argued that this critical moment was the CLERP reforms that resulted from a failure of the regulatory corporate environment and the election of a new government in 1995. Treasury used these reforms to increase its influence over public sector accounting standard setting in Australia.

Before the CLERP changes, there was a separate Public Sector Accounting Standards Board (PSASB) that coexisted with the AASB. The PSASB was established to consider public sector and non-profit specific accounting issues. Members were appointed by the Institute of Chartered Accountants in Australia (ICAA) and the predecessor of CPA Australia, the Australian Society of Certified Practicing Accountants (ASCPA). Technical staff of the AARF provided secretarial support for the PSASB, the AASB and the Urgent Issues Group (UIG). The arrangements are portrayed in Figure 7.4.
Before CLERP, Treasury and other public sector accounting constituents had limited influence over the PSASB and its agenda. They could not appoint its members and there was no provision for, or equivalent to, a strategic direction. The PSASB had to compete for staff resources with the AASB. The PSASB was an ‘independent body’ and was able to decide which projects it would consider. It had considerable control over its formal agenda, except when AASB projects dictated the projects that the PSASB had to consider from a public sector perspective. This affected the workload...
of the PSASB to a considerable extent. Data from interviews and documents indicate that there was a perception that the technical staff spent disproportionately more time on private than on public sector issues. Key public sector constituents expressed discontent with the PSASB. An example of the alleged shortcomings of the PSASB was noted by PE C:

“… The old Public Sector Accounting Standards Board was issuing standards which were basically irrelevant and largely ignored and all the public debate was around reports that didn’t comply with any official Australian accounting standard. Now there was a kind of standard for these GFS-based reports but it had been established by the Treasuries themselves. This was the UPF. Because there was a vacuum created by the Public Sector Accounting Standards Board’s lack of attention to the real interest of the public sector, that vacuum had been filled by the Heads of Treasuries developing a set of standards in the form of the Uniform Presentation Framework.” (PE C, Interview 25/02/2011)

The CLERP reforms in Australia were initiated in the mid-1990s by then Federal Treasurer Peter Costello to address failures in the corporate regulatory environment. The purpose of CLERP was to review key areas of regulation affecting business and investment activity to ensure that business regulation was consistent with the Government’s wider objectives of ‘promoting a strong and vibrant economy’ (Treasury 1996). Stoddart (2000) considered the motivation for restructuring the accounting standard setting arrangements within the CLERP reforms. She argued that political influences, rather than rational economic or inter-organisational conflict explained the rearrangement of Australian accounting standard setting. As a result of the CLERP reforms and a change of government54, the accounting standard setting responsibilities were shifted from the Australian Attorney-General’s Department to Treasury in 1996 (Jones and Baumgartner 2004; Stoddart 2000). Stoddart’s study (2000, p. 723) argued that the political ambitions of then Treasurer Peter Costello were responsible for this shift, as it was:

54 The Liberal Party of Australia Coalition took over from the Australian Labor Party in 1996.
• “not part of the Labor Government’s Corporate Law Simplification Program,
• little understood by the public at large,
• not likely to cost much,
• ostensible results could be achieved in a short time frame, and
• major stakeholders were dissatisfied with current arrangements.”

Stoddart (2000) argued that as a result of the CLERP proposals, Treasury was a major beneficiary with other lobby groups, such as the Australian Stock Exchange (ASX), the Australian Institute of Company Directors (AICD) and the Investment and Financial Services Association (IFSA). Stoddard (2000) argued that a motivation for Treasury to change the institutional arrangements for accounting standard setting was to increase its influence over public sector accounting standard setting. Public sector constituents and, in particular, the Commonwealth were discontented with the public sector standard setters and were frustrated that they were unable to influence the PSASB. The shift of responsibility from the Attorney-General’s Department to Treasury was a major increase in the regulatory power for Treasury. Her study is, however, silent on the details of this increased benefit as well as the implications of the new standard setting arrangements on public sector accounting.

Treasury increased its regulatory power at the expense of the professional bodies that had created the accounting standard setting board. As part of CLERP, the FRC had been established as an oversight body over accounting, auditing and ethics standard setting in Australia. Treasury was responsible for appointing members to the FRC and the chair of the AASB, and had, therefore, influence over the appointments. For example, out of the 13 initial members of the FRC in 2002, three had already been part of the Business Regulation Advisory Group for the CLERP proposals, which had been developed by Treasury. One interviewee (FRC, Interview 06/05/2010) noted:

“The FRC was introduced by the then Treasurer Costello and primarily it came out of the CLERP project […] looking at improving Australia’s corporate law regulations. Costello had already shifted corporate law issues from the
Attorney General’s to the Treasury, which was a significant step. And so therefore, the Department of Treasury then was tasked with the role of reforming corporate law. So when he started to appoint members to the FRC, he decided to include members from the public sector, in particular the Department of Finance, as it was then called, the Department of Finance and Administration probably (DOFA), the Treasuries, representatives of the States and Territories HoTARAC, Heads of Treasury.

[...] [Person], the head of the markets group in the Department of Treasury. He was on the FRC [...] and he had] headed the CLERP process. So he was intimately involved in all the CLERP reforms. So to the extent that the public sector neatly sat alongside the CLERP reforms, he was engaged in that.”

Five of the 13 FRC members came from public sector backgrounds, who, with one exception, were employed by the Commonwealth government. The influence of Treasury was extended to the AASB, as the FRC was responsible for the appointment of its members. Members of the AASB are not appointed as representatives of their employers, but because of technical expertise. Four of 13 members of the AASB had a public sector background. Of these four, three members were employed by Commonwealth organisations, with one from Treasury and one from Finance.

Another important institutional change was giving the FRC the right to provide strategic directions to the AASB under subsection 225(2)(d) of the Australian Securities and Investments Commission Act 1989 (now superseded by section 225(2)(c) of the Australian Securities and Investment Commission Act 2001 (ASIC 2001). The term ‘strategic directions’ was not clearly defined and this caused some irritation and friction between the FRC and the AASB, when the strategic directions for IFRS adoption and GAAP/GFS harmonisation were issued. One interviewee identified the situation as a “master/servant” relationship and recalled:

“Part of [the problem] was, I think, that the culture of the AASB was very much [that of] an independent standard setter and it saw itself, proudly, as an independent standard setter. And to have another body, doesn’t matter how well represented that body is, to come in and tell it what to do just didn’t sit well with the Board because the Board itself goes through an exhaustive due process and they just perceive that this demand on them wasn’t appropriate. It just
didn’t go through the proper due process, assessing public interest, truly documenting and understanding user needs, and doing the cost benefit assessment.” (AASB, Interview 23/02/2010)

Because of the increased influence of Treasury, the change in the standard setting arrangements is arguably an important factor in the agenda setting process of GAAP/GFS harmonisation.

From a theoretical perspective, the CLERP restructurings can be identified as a ‘critical moment’ or a ‘window of opportunity’, as assumed by the DASF. The approach taken by Treasury conforms with Kingdon’s (2011) suggestion that a change of administration is the most obvious reason for a window of opportunity. In addition, Stoddart (2000) argued that the CLERP proposals were pushed through with very limited public consultation, despite opposition to some policy implications, such as the adoption of IFRSs. IFRS would affect accounting by all reporting entities and significantly reduce the regulatory power of the national standard setting body and the professional bodies. The approach by Treasury through the CLERP events also confirms the DASF’s assumption that key actors coordinate processes. Treasury excluded the public from the change process or did not sufficiently allow and encourage public debate, in order to change the institutional arrangements to increase its influence on public sector accounting standard setting.

7.3 THE IDEA OF ‘GAAP/GFS HARMONISATION’

At some point, between 1998 and June 2000, the idea of ‘GAAP/GFS harmonisation’ had emerged as a term and policy solution. Two individuals were directly involved and charged with setting up the first accrual budget for the 1999/2000 financial year for the Federal government. They are identified as PEs in Chapter 8. To avoid confusion through different labelling, they are, therefore, from here onwards referred
to as PE A (at the time working in Finance) and PE B (at the time working at Treasury).

Interviewees pointed out that issues with the dual reporting regime were most prominent at the federal level. It was here, where different treatments by GAAP and GFS were most prominent, due to the specific nature of certain items. Examples included:

- Defence weapon platforms (capitalised under GAAP and expensed under GFS);
- Valuation of inventory (including defence inventory; lower of cost or net realisable value under GAAP, current replacement value under GFS);
- Foreign exchange gains and losses (classified as revenue or expense under GAAP, but ‘other economic flow’ under GFS);
- International Development Association (IDA)/Asian Development Fund (ADF) Subscriptions (expense under GAAP, IMF notes treatment in some countries as assets); and
- Distributions payable to owners (reduction in retained surpluses or returns of capital under GAAP, GFS expense or returns of capital under GFS) and distributions receivable from controlled entities (treatment under GAAP depended on the source of the funding, while the treatment did not change dependent on the source under GFS) (HoTARAC 2003).

As a result of these differences, staff members from Treasury and Finance were faced with a number of issues when the accrual UPF budget reporting was introduced in 1998. PE A (Interview 18/03/2011) recalled the following events:\textsuperscript{55}:

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\textsuperscript{55} PE B did not react to any request to be interviewed. The evidence for the particular events is, therefore, limited to the interview with PE A and some written documents that supported the
“This was in 1999, the 1999/2000 budget, the first accrual budget. [...] And so the Commonwealth embarked upon preparing an accrual budget. When they put that together - and it wasn’t until we put it together - that it became apparent that of course accrual accounting per Australian Accounting Standards didn’t contemplate GFS. So during the course of that 1999/2000 budget, yeah it became apparent that we had a problem because there was you know, a direction to go into Australian GAAP reporting, but it wasn’t actually what the government wanted. [...] 

So as PE B and I were working on the budget, we were both confronted with this issue of, well we have got these GAAP concepts, but actually the government writes its business on a GFS construct. [...] So in a practical sense in that first accrual budget and into a second accrual budget, what happened was there was an unplanned [...] attempt to introduce GAAP accounting and GAAP accounting concepts and GAAP accounting reporting lines, into a world that actually didn’t really, had not decided and not agreed on or had not understood that it was going to be moved away from GFS aggregates. So that became apparent to us, we sorted it out for a while, you know we struggled with you know, how to mechanically do all of that. And then at some other point it occurred to me, as I had the job of putting together the Commonwealth aggregate financial statements. I then had the problem of, when we would go and explain to Senate [...] how do you explain the Commonwealth aggregate outcomes which are in GFS terms, when all of the agencies are producing annual reports which are in AASB standards? It’s just incongruous, it is just not possible to do that analysis and produce that information. So we had a problem. And so at some point we [PE B and PE A] came to the realisation that there needed to be some way of either having the government commit to adopting GAAP, Australian GAAP at the time as the reporting construct or to adopt GFS as the reporting construct or to adopt some hybrid, but to have the inconsistency etcetera that we had, was not, you know, was not tenable going forward. (Interviewee A, 18/03/2011)

PE A provided the following recollection:

“We [PE A and PE B] were on this train together, we were over at the OECD and it was an accountant and an economist on the train to London, thinking about this problem, this reporting problem and it was the connection between, you know, microeconomics and macroeconomics and reporting [superannuation guarantees] and so on and it just said, we have got to fix this, we have got to bring it together [...] . David Tweedy56 is a macro economist as well and his response was, [...] “I don’t want IFRS to apply to government.” He said, “Somewhere down the track, you know, we may look into government but we can’t get there yet.”

But interestingly, very much of IFRS is born out of macroeconomics, it is not born out of you know, traditional accounting for companies. [...] Leases are a

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56 David Tweedy was the chair of the UK Accounting Standards Board from 1990-2000 and was the Chairman of the International Accounting Standards Board from 2000-2011.
very good example as well. You know, in a macro, in GFS or in a macroeconomic construct, increased wealth if you like or value that comes from the valuation adjustment as opposed to transactional activity, yeah, no difference there. So buying a building is economic value, it's an economic transaction, economic activity. Increase in its value is not economic activity. They are economic flows.

And you know, so economic flows are part and parcel of GAAP/GFS and that’s what I was saying, that [we] had this realisation because as I began to learn more about GFS, I understood what they were trying to do and interestingly in my accounting career for many, many different, for a number of decades over many years, I personally had struggled with the accounting concepts that were part and parcel of the Australian GAAP. For instance, we would book an increase to value to equity, we would book a decrease to value to the [profit and loss statement] and I would say: “Why would you do that?” The answer: Because our accounting standards were being dominated by vested interests. Shareholders want to know about increases in value, bankers and lenders want to know about, you know, about capacity to repay and took a conservative position. […] So our accounting standards were riddled with what I called vested interest notions, rather than pure conceptual underpinnings.

[…] But you ask yourself, why wasn’t the Australian Accounting Standards Board, for many years you know, not just the current one, in the past, why did they subscribe to the view that operating leases should not be booked to the balance sheet. GFS constructs would have them there. Because it’s an economic liability. It’s an economic transaction with future value. David Tweedy at IFRS - where are they taking us? To exactly that point.

[…] it would be fun to track GFS as it was, you know, as it was back when and accounting standards and just watch how they are harmonising. They’re aligning anyway. And that’s what [we] realised way back when.” (Person A, 18/03/2011)

The interview with PE A suggests that the idea of ‘GAAP/GFS harmonisation’ as a policy solution was born in a train between London and Paris in a conversation between an economist and an accountant. While PE A did not remember any more details about the events surrounding this train ride, it seems plausible that they occurred in June 1999. PE A’s description matches the timing of the introduction of the first accrual budget cycle at the federal government level for the financial year 1999/2000 and the OECD’s annual meeting of Senior Budget Officials took place on 3-4 June 1999. The statement is also in accordance with the first written evidence found of the GAAP/GFS harmonisation project. This was in an AASB agenda paper from June 2000 (AASB 2000a). This agenda paper referred to the PSASB
Consultative Group on the GPFR/GFS harmonisation project being briefed about the project in October 1999. Based on the obtained data and in the absence of any contradicting information, it is concluded that the above presentation of events are a plausible explanation of the genesis of the idea of GAAP/GFS harmonisation.

The described events show that the PEs used their background ideational abilities to critically reflect on and evaluate public sector accounting issues. Their exposure to both micro-economic accounting and macro-economic statistical financial reporting gave them a deeper understanding of the two accounting frameworks. They realised that the differences were not as big as previously thought and that a ‘harmonisation’ might lead to synergy effects.

7.4 SUMMARY AND CONCLUSION

This chapter addressed the first research question:

1. What was the historic institutional context in which the policy idea of ‘GAAP/GFS harmonisation’ was identified?

The chapter demonstrated that until 1999, the dual GAAP and GFS reporting regime was not seen as a major issue. At the federal government level, the formal agenda was dominated by issues such as the adoption of accrual accounting and the scope of financial statements and ministerial portfolios.

At the standard setting level, the development of accounting standards AAS 27, AAS 29 and AAS 31 dominated the PSASB agenda during the early and mid-1990s. During the late 1990s, a review of these standards in the light of the looming introduction of international accounting standards preoccupied the agenda of the standard setters. While the PSASB was aware of the dual GAAP and GFS reporting regime and pursued a strategy of close consultation with Treasury and the ABS, the
data analysis suggested that the two frameworks were seen as competitive and serving different purposes. Any discussions were focused on avoiding differences where possible and the potential of reconciliation statements. There was, however, no mention of developing a harmonised accounting standard in the sense of integrating the two frameworks. Further, the project was not seen as a high priority.

The analysis of data found no evidence that issues relating to the dual reporting regimes were discussed in a meaningful way outside the governmental and standard setting arena. The only evidence in relation to one of the reasons cited later for GAAP/GFS harmonisation was the lack of audit of GFS numbers. This issue was pursued by the ABS, as they had arguably an interest in improving the quality of their data. In summary, issues discussed in public sector accounting were not associated with a dual GAAP and GFS reporting regime until at least 1999.

It was demonstrated that the federal government and, in particular, Treasury had increased their influence over public sector accounting standard setting through the CLERP reforms. Treasury not only overcame, but actively changed institutional organisational constraints and institutionalised new structures to further their interests. This led to the establishment of the FRC and the AASB in 2000.

The data analysis suggests that the policy solution of GAAP/GFS harmonisation was identified by two senior members from Treasury and Finance, who were closely involved with the preparation of the 1999/2000 Federal budget documents. This was the first budget for which GAAP and GFS data had to be prepared in one document. One of the individuals involved suggested that the idea was born on the train ride between London and Paris in 1999, where the two bureaucrats travelled from meetings with accountants (IFAC) and economists (OECD Senior budget Officials). In the absence of any contradictory data, it was concluded that the events described in
the interview with one of the participants are a feasible explanation for the emergence of the policy solution.

The chapter showed that two individuals encountered some issues and problems during the preparation of the budget and developed the idea of GAAP/GFS harmonisation as a direct result. The data also suggests that at the time the policy solution was identified, the issues and problems raised at a later stage by the policy promoters were not clearly identified and had not yet occurred. Discussions of public sector accounting issues were dominated by topics other than the dual reporting regime. This supports Kingdon’s assertion that sometimes, policy solutions can appear \textit{before} the issues at hand are clearly identified and considered and are not necessarily the result of a well thought through process.
CHAPTER 8 TRANSLATING THE IDEA OF GAAP/GFS HARMONISATION INTO REALITY

8.1 INTRODUCTION

The previous chapter discussed how the idea of GAAP/GFS harmonisation was identified as a policy solution for a range of anticipated, but largely unidentified issues during the preparation of dual GAAP and GFS budget documents at the Australian federal government level. Prior to the identification of GAAP/GFS harmonisation as a policy solution, the concept did not appear in any official governmental or standard setting agenda. This chapter considers the remaining research questions, which are:

2. How was the idea of GAAP/GFS harmonisation developed to gain agenda entrance at the FRC?; and
3. Having gained admission to the FRC, how did GAAP/GFS harmonisation become a strategic direction of the FRC to the AASB?

The structure of the chapter is based on the elements of the discursive agenda setting framework (DASF) and the research questions. The DASF assumes that policy entrepreneurs (PEs) manipulate the agenda setting process through a coordinated and communicative strategic process to further their policy idea. The communicative aspect of the process includes the identification and framing of the substance of the policy idea. This includes cognitive and normative aspects of the policy idea, and a consideration of its potential future constraints. The substance of the policy idea is discussed section 8.2. Section 8.3 presents how the PEs and other key individuals communicated the substance of the idea in a coordinated process and created a new epistemic community to further the project. It also explains the characteristics which defined the epistemic community. Coordination and communication are then
considered at the level of the key decision-making bodies - the AASB (section 8.4) and the FRC (section 8.5) - from 2000-2003. More specifically, these sections consider how the topic entered their formal agendas, its rejection at the AASB in December 2002 and the how the FRC decided to issue a strategic direction only a few days later. A timeline of the events is presented in Figure 8.1 below. The events since the issue of the strategic direction until the finalisation of the project in 2013 are not relevant for this thesis, but are summarised in Appendix 8.
Figure 8.1: Chronology GAAP/GFS Harmonisation 2000-2003

2000
- March: CLERP Bill 1998 passed with commencement date 13 March 2000
- May to October: BEFR undertaken by the Treasurer and the Minister for Finance and Administration through a Steering Committee lead by Finance recommends GAAP/GFS harmonisation

2001
- 9 November: SFPALC The Format of the portfolio budget statements Third Report

2002
- July: HoTs establishes a joint HoTARAC Working Group to consider GAAP/GFS harmonisation
- 28 June: Ian Watt (Secretary to Finance) writes to FRC to support GAAP/GFS harmonisation appears for the first time in FRC minutes
- 28 June: The HoTARAC Working Group determined seven key differences between AAS and GFS

2003
- 1 August: Meeting in Canberra to discuss GAAP/GFS harmonisation, including representatives from ANAO, ABS, FRC and AASB, Treasury, Finance
- 28 August: Ken Henry (HoTs Chair, Secretary to Treasury) writes to the FRC Chair requesting that GAAP/GFS harmonisation be given a high priority
- HoTs endorses GAAP/GFS harmonisation and conveys to the FRC a strong view that GAAP/GFS harmonisation should be given a high priority

Abbreviations:
- AASB = Australian Accounting Standards Board
- ABS = Australian Bureau of Statistics
- ANAO = Australian National Audit Office
- BEFR = Budget Estimates and Framework Review
- CLERP = Corporate Law and Economic Reform Program
- FRC = Financial Reporting Council
- GAAP = Generally Accepted Accounting Principles
- GFS = Government Finance Statistics
- HoTARAC = Heads of Treasury Accounting and Reporting Advisory Committee
- IFRS = International Financial Reporting Standards
- JCPAA = Joint Committee on Public Accounts and Auditor
- SPAFLC = Senate Finance and Public Administration Legislation Committee

The diagram illustrates the chronological events leading to the harmonisation of GAAP and GFS, highlighting key meetings, decisions, and endorsements by various committees and bodies.
8.2 THE SUBSTANCE AND SUCCESS FACTORS OF GAAP/GFS HARMONISATION

This section identifies the arguments and aspects that were addressed by the PEs to promote GAAP/GFS harmonisation over the course of the agenda setting process. The DASF assumes that ideas are translated into reality by communicating the substance of an idea in a coordinated process. The previous chapter showed that at the time of the identification of GAAP/GFS harmonisation, other public sector accounting issues dominated the agendas of various bodies and organisations. The DASF assumes that PEs will ‘surf’ for problems to justify their pet solution. This search for problems is part of a coordinated and communicative process and is intertwined with the arguments that the PEs make to promote the policy idea. According to the DASF, this substantive dimension includes arguments in three areas. They are:

- cognitive aspects (including technical feasibility; discussed in section 8.2.1);
- normative aspects (including value acceptance; discussed in section 8.2.2) at the program and policy level;\(^{57}\) and
- the consideration of potential future constraints.

In addition, the DASF assumes that there are increased chances for a successful agenda entrance when there is receptivity among elected decision-makers (discussed in section 8.2.3).

8.2.1 Cognitive aspects and technical feasibility

Cognitive aspects are also referred to as ‘causal’ aspects of ideas. They recognise that a solution is assumed to resolve the problem or issue (Dunleavy and Hood 1994; Hall 1993; Schmidt 2002, 2008). In the case of GAAP/GFS harmonisation, cognitive aspects are deemed to be of a technical nature. At the program level, this requires a

\(^{57}\) The philosophical level has been discussed in Chapter 7.
consideration of how the program defines problems. The identification and association of the problems with the policy solution was, therefore, vital to the agenda setting process.

It is, firstly, argued that the PEs connected existing but not necessarily related public sector accounting problems to the GAAP/GFS harmonisation policy solution. Secondly, the PEs anticipated potential problems from the introduction of the dual reporting regime. In other words, the policy solution was identified at a program level with little technical detail before the problems arose and before there was an expressed need or demand for policy change from users of the financial statements. This situation created a need for the PEs to raise awareness of the issues and to create the demand for the policy change through a coordinated and communicated process, described in sections 8.3 to 8.5.

Existing problems that were associated with the project after the identification of the ‘policy solution’ of GAAP/GFS harmonisation included:

- The provision of both GAAP and GFS outcome statements confused politicians;
- Budget papers were sometimes based on GFS, and were not comparable to GAAP based end-of-year financial statements; and
- GFS statements (this included budgets as well as outcome statements) were not subject to audit.

As presented in section 7.2.2.1, no evidence was found that ‘issues’ were debated in a formal manner or that evidence for them was provided. Instead, the political arena, as well as the standard setters’ agenda was dominated by different issues, such as the scope of GAAP statements versus the scope of ministerial portfolios or the review of existing
public sector accounting standards amid the looming adoption of international financial reporting standards.

One more issue that was used by promoters of GAAP/GFS harmonisation was the fact that budgets and financial statements were often not comparable across jurisdictions, even though no evidence was found that this issue was discussed at either the political or the standard setting formal agenda prior to the FRC strategic direction. In addition, some comparability across jurisdictions was ensured by the adoption of GFS statements in 1991.

The policy level considers how a proposed idea offers a solution to problems in technical detail. The DASF assumes that technical feasibility increases the chances of an item making a successful entrance onto the formal and decision agendas. In an accounting agenda setting process, such as in the case of GAAP/GFS harmonisation, this aspect might have an even more important role than in areas that are ‘less technical’. Examples for technical consideration included broader technical principles, such as the definition of the term ‘harmonisation’ or the entities to which GAAP/GFS harmonisation should be applied. There also is technical detail, such as the identification of actual differences and similarities between GAAP and GFS. As will be demonstrated in the following sections, the technical detail developed over time played the main role at the AASB level, but was considered to a much lesser extent at the political level or by the FRC.

8.2.2 Normative aspects and value acceptance

According to the DASF, normative ideas suggest how something should or ought to be. Normative aspects at the policy and program level are difficult to distinguish between. For the purpose of this thesis, it is assumed that there is no difference in the normative
discussion at the program level and at the policy level. It is assumed that ideas are framed by PEs to seek legitimacy by the public as well as the policy or epistemic community. Normative considerations are typically communicated to the public through political actors. The analysis of data found that any ‘public’ outside the policy community or epistemic community did not play an active role in the GAAP/GFS harmonisation agenda setting process. Public acquiescence was attained by default, as the public did not show any discernable interest in the GAAP/GFS harmonisation agenda setting process. Potential reasons for the passive role of the wider public could be the highly technical nature of public sector accounting standard setting or that the impact of any potential changes was not directly evident and difficult to observe.

Future research could reflect on such issues in more detail.

The individuals and groups that were aware of issues relating to the dual reporting regime were largely confined to actors in the political and policy arena. These were actors in parliament, government agencies and the standard setters. A number of organisations that did not fall directly within these categories are the professional bodies, rating agencies, the ‘Big Four’ accounting firms and academics. According to the data, their attitude was passive agreement. Only CPA Australia provided limited active support, for example in a submission letter.\(^\text{58}\) As these collective actors are all technical experts, they might be considered as part of the epistemic community, rather than the public. The data found that they were affected by dual reporting issues to the extent that they felt the need to do something about it. As such, both professional bodies and rating agencies fall within the categories of latent actors and are, hence, not further considered.

\(^{58}\) Traditionally, accountants in the public sector are members of CPA Australia, rather than other Australian professional accounting bodies. The letter was signed by CPA Australia’s national president, who was also a member of ACAG at the time.
The analysis of the data found that normative arguments were, nonetheless, important in the GAAP/GFS harmonisation agenda setting process, where value acceptance was sought within the policy community and the political arena. The arguments by the PEs and other promoters of GAAP/GFS harmonisation were concerned with improving the quality of public sector financial statements. This included improving transparency through avoidance of differing numbers, comparability by using a harmonised accounting standard and by providing assurance of these numbers through their audit. When and where normative arguments were addressed is discussed in detail in sections 8.3 to 8.5.

8.2.3 Further criteria for the survival of GAAP/GFS harmonisation

In addition to technical feasibility, value acceptance and public acquiescence, the DASF has adopted further MS criteria about improving the successful adoption of an idea. These criteria are the anticipation of future constraints and a reasonable probability of receptivity by elected decision-makers. In the GAAP/GFS harmonisation agenda setting process, potential future constraints include cost considerations and the inter-dependency of public sector financial reporting from authoritative international standard setting bodies such as the IASB for GAAP reporting and the IMF for GFS reporting.

Receptivity for GAAP/GFS harmonisation had to be considered at the FRC and the AASB level. It is important to note that while the members of these Boards are appointed, they are not elected by the wider public. In addition, they work within a selected field of specialists. As such, receptivity by decision-makers can be expected when there is support for a project by the policy or epistemic community or from political actors. An alternative reason might be that there is some other benefit for the board members, such as increased power or regulatory responsibility.
Figure 8.2 summarises the relevant aspects of the discussions of the policy solution GAAP/GFS harmonisation in the agenda setting process.

**Figure 8.2: Extended typology of types of ideas in the GAAP/GFS harmonisation program**

<table>
<thead>
<tr>
<th>Policy level</th>
<th>Program level</th>
<th>Philosophical level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea in the foreground of the policy debate</td>
<td>Concepts and theories in the foreground of the policy debate</td>
<td>Underlying assumptions in the background of the policy debate</td>
</tr>
<tr>
<td>Cognitive level</td>
<td>Programs</td>
<td>Paradigms</td>
</tr>
<tr>
<td>Policy – technical aspect</td>
<td>Ideas as elite policy prescriptions that help policy makers to chart a clear and specific course of policy action</td>
<td>Ideas as elite assumptions that constrain the cognitive range of useful solutions available to policy makers</td>
</tr>
<tr>
<td>By using only one set of principles, issues related to dual reporting, as well as other issues can be resolved</td>
<td>How does program define problem?</td>
<td>Microeconomic versus macroeconomic financial reporting principles in the context of accrual and mixed measurement valuations</td>
</tr>
<tr>
<td>Technical feasibility of hybrid approach demonstrated by HoTARAC working group</td>
<td>Problems arise from use of two different reporting frameworks for budgetary cycle documentation</td>
<td>How does policy and program ‘mesh’ with paradigm?</td>
</tr>
<tr>
<td>Normative level</td>
<td>Frames</td>
<td>Epistemic community/Public sentiment</td>
</tr>
<tr>
<td>Policy – normative aspect</td>
<td>Ideas as symbols and concepts that help policy makers to legitimize policy solutions to the epistemic community or public</td>
<td>Ideas as epistemic community/public assumptions that constrain the normative range of legitimate solutions available to policy makers</td>
</tr>
<tr>
<td>How does policy meet aspirations and idea of epistemic community/general public?</td>
<td>GAAP/GFS harmonisation as policy solutions to a wide range of public sector accounting issues which will improve public sector financial reporting and help governments to discharge their accountability and lead to better economic decision-making</td>
<td>Governments are accountable for use of public monies</td>
</tr>
<tr>
<td>How does policy resonate with epistemic community/public sentiment?</td>
<td>How does program resonate with public sentiment/public acquiescence?</td>
<td>No real interest from wider public; accepted in epistemic community and wider policy community</td>
</tr>
<tr>
<td>No normative debate on policy level.</td>
<td>No real interest from wider public; accepted in epistemic community and wider policy community</td>
<td></td>
</tr>
<tr>
<td>Potential future constraints</td>
<td>Cost consideration</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Dependency from IASB and IMF</td>
<td>Receptivity among decision makers</td>
<td></td>
</tr>
</tbody>
</table>

**8.3 COORDINATION AND COMMUNICATION AND THE CREATION OF A NEW EPISTEMIC COMMUNITY**

This thesis argues that the PEs had to operationalise the policy idea to convince the standard setters of its validity. This includes the identification and association of
problems that would be addressed by GAAP/GFS harmonisation, the communication of the substance of these problems and the policy solution, as well as aligning relevant actors from the policy and political arena. The thesis further argues that by doing so, the PEs created a new epistemic community to exert pressure on the FRC and the AASB.

The strategic nature of the process of the creation of the epistemic community is reflected in a quote from PE A. After recalling the identification of the idea of GAAP/GFS harmonisation, PE A (Interview 18/03/2011) continued:

“So that background is how it was all born and I lobbied then within the FRC. I lobbied the Auditor General and I knew the Auditor General, I lobbied him. [PE B] and I, I went to the Joint Committee of Public Account and Audit, I lobbied them for support and my message to all of them was: “We have got a kind of a reporting magnet, you know? We have got a treasurer and a government who has decided to you know, prepare their budgets, aggregates on one basis, but we have introduced an accounting standard to try and run reporting at the individual department level and they are not the same.”

The PEs communicated the cognitive and normative arguments and the anticipation of future constraints to gain support for GAAP/GFS harmonisation. Communication is traditionally placed within the political stream, where politicians try to gain public support, public acquiescence and/or legitimisation for their project. As suggested above, the technical nature of GAAP/GFS harmonisation limited the interest of the wider public. Communication did, however, play a role in the lobbying of the emerging epistemic and wider policy community within the policy stream.

Coordination considers when, where and with whom these substantive aspects were discussed, both formally and informally. Coordination also includes the inclusion or exclusion of relevant constituents and information from the agenda setting process.

59 The Auditor-General from 1995 to 2005 was Patrick Barrett AO. “His academic background is in Accounting, Economics and Public Administration at the Queensland and Stanford Universities” (ICAA 2013).
Traditionally, coordination occurs predominantly within the epistemic community and the wider policy community. In the case of the GAAP/GFS harmonisation agenda setting process, however, it was found that coordination also extended to the political stream. Political actors were identified by the PEs as powerful actors and were successfully lobbied to influence the FRC. As a result, both coordination and the communication of GAAP/GFS harmonisation are considered for both the policy as well as the political streams. A chronology of lobbying events and the arguments that were used by the PEs is shown in Appendix 9.

Because the epistemic community began as part of the GAAP/GFS harmonisation agenda setting process, there is a strong overlap with the coordinated and communicative lobbying process of the PEs. The difference of whether actors are classified as members of the epistemic communities or more general supporters of the project is based on the characteristics identified by Haas (1992) and was rephrased into the following questions in section 4.6.2 of this thesis:

- What were the shared causal and normative beliefs of the epistemic community?
- What were their shared notions of validity?
- What was their common policy enterprise?
- What do the findings from the GAAP/GFS harmonisation agenda setting project mean for the inclusion of the concept of the epistemic community in the DASF?

As presented in Chapter 7, prior to the GAAP/GFS harmonisation program, GAAP and GFS reporting were seen as two different reporting systems with different objectives. It is argued here, that a new epistemic community was created based on a shared belief that governmental accounting needed and could be improved through a GAAP/GFS
harmonised framework that would serve the purposes of microeconomic and macroeconomic financial reporting. Based on the criteria elaborated above, the epistemic community of the GAAP/GFS harmonisation agenda setting process comprised representatives and specific members of the following organisations:

- Australian Treasury and Finance Departments;
- the Australian Bureau of Statistics (ABS);
- Auditors-General and the Australasian Council of Auditors-General (ACAG);

and
- political actors, including the Joint Committee of Public Accounts and Audit (JCPAA) and the Senate Public Finance and Accounts Committee (SPFALC).

8.3.1 Commonwealth Department of Treasury (Treasury) and Department of Finance and Deregulation (Finance)

PE A (senior staff at Finance) and PE B (senior staff at Treasury) have been identified as the originators of the idea of GAAP/GFS harmonisation. They were also instrumental in its advocacy. According to the interview with PE A, immediately after identifying the idea of ‘GAAP/GFS harmonisation’ probably around June 1999 and returning to Australia, PEs A and PE B first gained the support of their respective superiors, who were key individual E in Treasury and key individual F in Finance, as well as F’s predecessor, individual H. As the PEs were in senior positions, they had relatively easy access to their superiors and their proposals had leverage. Interviews with two PEs indicated that they did not only get the support from their superiors, but that they were encouraged in their endeavours. Two PEs spoke about a ‘reformist climate’ at the time. Details of how and when senior officials inside Finance and Treasury were convinced to support GAAP/GFS harmonisation are available to a limited extent only. The interview with PE A is the only direct insight.
In Finance, individual H was an economist, who had undertaken a PhD at the University of Chicago and had worked at the International Monetary Fund (IMF). After his return to Australia, he worked as an advisor for the Deputy Opposition Leader at the time and was Chief of Staff for Treasurer Peter Costello when the Coalition was elected to government. As such, he would have had some involvement with the development of CLERP. He also promoted the introduction of accrual accounting in the public sector to improve efficiency and effectiveness. In a hearing before the JCPAA he argued that

“… there will be a read across from the appropriation bills to the portfolio budget statements through to the annual report where agencies will be reporting on their performance against key indicators. Probably for the first time we will have systematic reporting of outputs and outcomes by agencies against performance indicators, and agencies will be able to discuss where they succeeded and where they did not.“ (JCPAA 2000)

Individual H’s name was not mentioned in any documents associated with GAAP/GFS harmonisation directly. A Hansard of the SFPALC from 29 May 2001 (SFPALC 2001b) shows, however, that individual H was familiar with differences between GAAP and GFS. Considering his prior experience, training and involvement with the IMF and Treasury, it appears logical that he would have supported the project. As individual H moved on from his position in Finance in January 2002, more evidence about support for GAAP/GFS harmonisation was found from his successor, key individual F.

A number of interviewees, predominantly from Finance, the FRC and the AASB, noted the support for the project from key individuals E and F. They were present in government hearings when their staff promoted GAAP/GFS harmonisation and in October 2002, approximately two months before the FRC strategic direction, they attended an AASB meeting to express their support for GAAP/GFS harmonisation (AASB 2002c). Key individual E, as Chair of HoTs, also promoted GAAP/GFS harmonisation in this forum. During his time as HoTs Chair the HoTARAC working group on GAAP/GFS harmonisation was established, which was chaired by PE C. Key
individual E remained a supporter of the project throughout his time as Secretary to the Treasury and Chair of HoTs.

Despite Treasury’s strong support for GAAP/GFS harmonisation, there is, however, some indication that Treasury would have preferred a more GFS based ‘harmonisation’. Three interviewees suggested that key individual E, PE C and even HoTs were promoters of GFS within the GAAP/GFS harmonisation project. Further, shortly before the FRC strategic direction, in November 2002, Greg Smith, Executive Director of the Budget Group in Treasury voiced his preference for GFS for budgeting purposes. He also argued that there is no problem with having both GAAP and GFS reports.

“Senator WATSON—I can understand it if you are comparing budget figures with budget figures but a lot of people also compare the budget figures with the actual figures of what happens. So there is going to be a difference, isn’t there?
Mr G. Smith—No, we present both. You will find both are presented. There is a consistent set of GFS results—they are the statistician based results as well—and there is a consistent set of financial reports from the tax office on accounting.
Senator WATSON—There is no problem with that, then?
Mr G. Smith—No. You have to make sure you do not swap from one to the other when you make your comparison.” (SELC 2002, E 141)

At the same hearing, Treasury was accused of “picking and choosing” accounting treatment for some assets and liabilities (SELC 2002, E 77). Notes to the GFS statements stated that the Commonwealth did not value all assets and liabilities at current market price because the accounting standards allowed a choice of treatments. Senator Conroy suggested that Treasury valued bonds that it had repurchased at cost as this was the only way to avoid losses. Key individual E countered that Treasury had followed historic accounting treatment and that there were “practical issues” with valuation because the Commonwealth was “in the process of moving to GFS”. This is surprising, considering the AASB had just rejected the GAAP/GFS harmonisation project and the FRC had not yet issued its strategic direction at the time.
8.3.2 Heads of Treasuries

Data analysis suggests that one of the most influential collective actors of the GAAP/GFS harmonisation process was the group of Heads of Treasuries (HoTs). A number of interviewees confirmed this view. HoTs were mentioned in 18 interviews as instrumental to the process. The PEs were aware of the importance of this body, as evidenced in an interview (18/03/2011) with PE A:

“Heads of Treasury is a forum of Heads of Treasury and we (PE A and PE D) use that forum to try and gauge the stage to try and bring them into the same space.”

Unfortunately, access to documents about HoTs meetings was denied by Treasury. However, six of nine members of HoTs or their deputies were interviewed.

These interviews suggested that the dual reporting regime was mostly an issue of the Commonwealth and that discussions about these issues originated there. In addition, interviewees suggested that the HoTs of two jurisdictions at the State or Territory level were proactive in GAAP/GFS harmonisation. Hansards in these jurisdictions were searched for the names of the HoTs, GAAP, GFS and synonyms from 1998 to 2003. The analysis of Hansards showed that issues existed, for example in Victoria, with one Hansard documenting a debate over GFS and GAAP numbers. The search found no evidence that GAAP/GFS harmonisation was mentioned or discussed at the State or Territory level prior to the FRC strategic direction in December 2002.

Interviewees suggested that the opinions and attitudes of HoTs, as well as the political support, at the States and Territory level varied. One HoT (Interview 3/12/2012) provided the following picture:

“I think [support for GAAP/GFS harmonisation] varied across different Treasuries I’m sure. I’m sure in Victoria as I mentioned, that Government came to power with a strong commitment to having their budget and their financial reports audited by the Auditor-General because of the past history of poor financial management perhaps and accounting transactions being off budget if you like. So they had a very strong political commitment to accounting standards
which then sort of caused difficulty with other jurisdictions in terms of making comparisons and so on, as I mentioned. So I think while Heads of Treasury drove the technical and influenced the sort of framework to the FRC and so on, I think it reflected also the political reality of the need to have a common basis of reporting.”

A number of interviewees suggested that HoTs from two jurisdictions had shown a ‘neutral’ attitude throughout the discussions, but supported the project when it was voted on. Three HoTs were described by interviewees as traditionally strong supporters of GFS, yet they supported GAAP/GFS harmonisation. An AASB member (Interview 23/12/2010) remembered:

“[HoTs member X] used to say that’s a complete waste of time, no one is interested in those standards and the government ought to adopt the GFS. […] Now on the FRC there were two guys who were very influential government reporting. There were amongst others, but [PE C] was by far the main guy, but [PE C] believed the AASB should just adopt the GFS for public sector, the whole of government accounting in public sector.”

The interviewees mentioned only two HoTs that ‘cautioned’ about the project. One was worried about resources and training, as he had been involved in the change of accounting systems. While in favour of GAAP/GFS harmonisation, the second HoT was facing political pressures from his government, because of different GAAP and GFS treatments of unfunded superannuation liabilities. GFS treatment allowed the revaluation of these liabilities every five to seven years, using a discount rate over which the respective government had some influence. The GAAP treatment, however, required discounting of this liability at the Commonwealth bond rate at every reporting date. According to the HoT, the liability was subjected to greater volatility and was more likely to have a negative impact on results in budgets and financial reports. This led to political pressure on the HoT (Interview 17/11/2010):

“This unfunded super stuff is a case in point. The thing that really made it difficult for me to be able to maintain my position was at about that time, there were a number of major US firms who were effectively sprung using excessively high earning rates to value their liabilities. So instead of using a reasonable long-term earning rate to discount their liabilities, they were using quite high double
digit type numbers. But because their assets were never going to earn that sort of rate, were under-reporting the value of the liabilities, and when you look at the differences between what was happening in a cash sense, and these reported numbers, and they got into trouble, and General Motors was a case in point.”

Interviews suggested that HoTs predominantly preferred the GFS system, as they were mostly economists. One interviewee reported that during the late 1990s and early 2000s, there was only one HoT who had an accounting background.

Ultimately, all jurisdictions supported GAAP/GFS harmonisation. Interview data indicated that HoT members were well aware of the importance of lobbying the wider policy community and to influence the FRC. One HoT (Interview 03/12/2010, emphasis added) noted:

“I think there was a common view amongst Heads of Treasury that we needed to find a solution to having two different basis of reporting. Now, to do that it was clearly necessary to work with the accounting profession and the standard setting bodies to the maximum extent possible, get them to harmonise with the GFS basis of reporting because we really needed to basically influence the way in which the accounting standards were being framed and the reporting standards were being framed. So to do that, we needed to have a high level of engagement with the accounting profession including through the FRC. And given that the FRC provided strategic direction to the AASB, it was important to use them as a way of seeking to progress this agenda of greater harmonisation between the two bases of reporting.”

This last sentence emphasises the status of HoTs. They were an important player in the GAAP/GFS harmonisation agenda setting process and were part of the emerging epistemic community, which lobbied for the project. It also shows the political sophistication of at least one of its members. It is reasonable to assume that HoTs have some political sophistication because of the nature of their position. They have close interaction with politicians and need to negotiate the jurisdictions’ finances with a range of constituents.

In particular PE C was widely perceived as possessing political skills. He was appointed to the Chair of HoTARAC in 2001 and it is reasonable to assume that this committee was established because HoTs wanted to further the project by providing
technical support. PE C became the ‘public face’ of GAAP/GFS harmonisation, and he lobbied the FRC and the AASB, but also other organisations and institutions.

When asked about the reasons why they supported GAAP/GFS harmonisation, all interviewed HoTs mentioned both cognitive and normative arguments. At the cognitive level, the most notable argument was the existence of different reporting regimes across jurisdictions. In June 2000, GAAP/GFS harmonisation appeared for the first time on the official agenda of the AASB. According to one interviewee, HoTs had played a main role in getting the project on it. However, this claim could not be confirmed by other data. During 2000-2002, there was little progress on the project at the AASB level. HoTs officially endorsed GAAP/GFS harmonisation only in October 2002, which was about one and a half months before the strategic direction was issued.

The establishment of the HoTARAC GAAP/GFS Harmonisation Working Group in July 2001, however, shows the commitment of HoTs to the project and the importance they gave to the cognitive aspects of the idea and the technical feasibility of the project. The establishment of the working group was another tool in the lobbying process to convince the standard setters of the technical feasibility of the project. The official endorsement shortly before the FRC strategic direction might have been necessary to convince the FRC, as the AASB was perceived as lacking action with regard to the project on GAAP/GFS harmonisation. Two interviewees (AASB Interview 23/02/2010, ACAG Interview 10/11/2010) suggested that throughout 2002, the AASB’s apprehension for the project became apparent. Public sector constituents, including HoTs, might have anticipated the AASB’s decision. HoTs provided further support in comment letters to the AASB. Key individuals E, as the Chairperson of HoTs, and F met on several occasions with the FRC and the AASB to promote the project (refer to Appendix 9).
With respect to normative considerations, all interviewed HoTs stated that they believed that GAAP/GFS harmonisation would improve public sector accounting, but no further comments were made about any detailed normative discussions. Four interviewees also referred to headline shopping and confusion by politicians (FRC Interview 06/05/2010, FRC, Interview 03/10/2010, HoTs Interview 17/11/2010, PE C Interview 09/03/2010).

It should be noted, however, that there was no evidence found that promoters of GAAP/GFS harmonisation provided any concrete evidence for headline or presentation shopping in any formal discussions. Instead, it was found that decision-makers from the FRC were satisfied with anecdotal evidence by PEs (FRC Interview 06/05/2010, FRC, Interview 03/10/2010, HoTs Interview 17/11/2010, PE C Interview 09/03/2010).

According to the interviews, there was limited attention to future constraints, including the dependency on the IMF and the IASB and costs. Dependencies on the IMF and the IASB were probably not a main concern for HoTs, as they were already required to report GFS data and most jurisdictions had also adopted GAAP. With respect to costs, one HoT (Interview 09/03/2010) suggested that

“Not a formal [cost-benefit consideration was undertaken] in the sense that one sits down and attempts to quantify the costs and benefits, but I mean it’s pretty easy in cases like this to make judgments about the costs and the benefits that leads you to a particular course of action without going to the methodologically very, very challenging process of trying to quantify costs and benefits. So, I mean the cost benefit methodology was brought to bear on the issue without actually trying to quantify things.

Interviewer: So you would class it as a professional judgment made by Heads of Treasuries?

P: Well professional judgment made by Heads of Treasuries but a number of other people as well and most particularly the judgment call had to be made by the full set of FRC members at the time and as you can imagine around the FRC table there was quite a lot of debate about costs and benefits and the judgment was made by the FRC in the end that the costs of doing this was small and the benefits considerable.”
There was no evidence of discussion of how GAAP/GFS harmonisation would benefit HoTs and their departments, or themselves. One HoT argued that the project was putting standard setting back into the hands of the standard setters. For HoTs, this would mean that they risked losing direct influence over standard setting arrangements. However, they had already agreed to use GFS and the use of GAAP was being heavily promoted. GAAP for the public sector was included in the first FRC strategic direction (FRC 2002b), which included the adoption of IFRSs for both the private and the public sector. By having an independent accounting standard setter responsible for public sector accounting, HoTs would be able to distance themselves from accusations that financial statements were politically motivated.

An ACAG member (Interview 10/11/2010) suggested another related motivation by HoTs:

“From my understanding, they were trying to get an authoritative reference point to help discipline their political masters. They had observed, or experienced, that politicians were using whatever numbers suited them and I think there was some frustration about that.”

This statement is consistent with the article by Challen and Jeffrey (2003), that GAAP/GFS harmonisation would reduce headline shopping. While there was only limited evidence that this had actually occurred, it was a strong normative argument that convinced decision makers and others to support the project.

In summary, it appears that the discussions of GAAP/GFS harmonisation at the HoTs level originated with the Commonwealth. With the exception of two jurisdictions, States and Territories appeared to experience issues directly related to the dual reporting regime to a lesser extent. While some jurisdictions were more proactive and supportive of the project than others, there was one HoT member associated with political opposition in their jurisdiction. HoTs became early strong supporters of the project, as
evidenced by the establishment of the HoTARAC working group in 2001 and the commitment of significant resources to the project. The establishment of this working group also demonstrated the importance that HoTs put on the cognitive aspect of GAAP/GFS harmonisation. There was no evidence of discussions of the normative aspects of the project and interviews suggested a very limited debate about potential future constraints.

8.3.3 The Australian National Audit Office and the Australasian Council of Auditors-General

The absence of an audit of GFS based financial statements was another issue that was raised at the political level. An AASB interviewee (Interview 23/10/2010) remembered:

“And you had this crazy business where two sets of accounts went back to the Parliament, one had an audit opinion and the other didn’t and that caused much angst.”

According to PE A, the Commonwealth Auditor-General was lobbied early on. PE A (interview 18/03/2011) recalled:

“I lobbied the Auditor-General and I knew the Auditor-General, I lobbied him.”

At the time, Patrick Barret was the Commonwealth Auditor-General. Ian McPhee was Deputy as well as acting Auditor-General in 2002. Barrett had previously worked in Finance and McPhee went on to work in Finance between 2003 and 2005, before becoming Auditor-General of the Commonwealth in 2005. McPhee was a member of the PSASB from 1991-1995 and Chair from 1992-1995. He was a member of the Australia Auditing and Assurance Standards Board from 1998-2008, a member of the International Auditing and Assurance Standards Board from 2002-2008 and has been a member of the AASB since 2009. Prior to 1998, he held positions at Finance and the ABS. He was familiar with the standard setting environment as well as GAAP and GFS reporting. For example, briefly after the FRC strategic direction was issued, in January
2003, Mr McPhee, while holding a position at the Auditor-General’s department, wrote a letter to Finance

“confirming that, pursuant to section 50A of the Audit Act, the Auditor-General had a statutory responsibility to audit the aggregate financial statements.” (SFPALC 2003b)

One month later, he took up a position in Finance.

The Australian National Audit Office’s (ANAO) and ACAG’s support was important because of the issue of the audit of GFS based statements. Treasury, Finance and the ABS also had an interest in the audit of these statements. Interviewees from Treasury and Finance suggested that it was important to obtain independent assurance and an audit opinion on the numbers they had produced. Three interviewees suggested that the ABS was interested in receiving better quality data, and it is reasonable to assume that they would take some assurance from an audit of GFS numbers. Professor Anthony Harris (JCPAA 2001) who was a long time public servant in Canberra and Auditor General of New South Wales from 1992-1999 raised the issue to the JCPAA on 22 June 2001:

“Prof. HARRIS— […] What you do not audit is the budget outcome. So when the Treasurer, if he ever does, says, ‘Last year, we incurred a surplus of $600 million,’ no-one audits that figure and no-one audits the extent to which the Treasurer, in his presentation of those budget figures, GFS—government finance statistic figures—has deviated from standards. He may voluntarily indicate that he has deviated from a standard—with the GST, for example—but no-one audits that adherence to standards. The ABS will eventually, in retrospect, come out with statements in its view of what the government financial statistics outcome was for the Commonwealth and each of the states, but you do not have any authoritative audit process.

Mr COX—Can we clarify one point of Tony’s? I am vaguely aware that there is a certain amount of tension at the moment between the ABS and the states in relation to some of their budget presentation. Are you aware of that fact?

Prof. HARRIS—I am aware that some states would wish the ABS to agree with some states’ presentation of GFS data, which the ABS should not agree with, in my view, and probably will not agree with.
**Mr COX**—This is an important point. Are you aware of any situations where the states—and you do not have to name the states—have given information that is not correct to the ABS?

**Prof. HARRIS**—No, I am not aware of that.”

The conversation suggests that no incorrect information had been provided to the ABS and the need of such audits, as promoted by the PEs could be questioned.

At the same meeting (JCPAA 2001), Mr McPhee was asked about his willingness to audit GFS statements in his role as Deputy Auditor-General. He responded:

“Mr Chairman, on the particular matter of interest to you, about whether the Audit Office would like to expand its small empire to take on the audit of the budget, I have to say that this comes up from time to time. The approach that we have taken through our performance audit process is to look at the budget preparation at various points in time. A few years ago we did do an audit of the budget processes. In terms of giving a particular opinion, we have not been strongly in favour of that, because there are many other factors which drive the budget numbers other than just the financial numbers: the state of the economy, unemployment numbers, a whole range of other parameters which we would need to get across. We would obviously need a fair amount of resources if we were to do that, to assess the accuracy of the estimates. The biggest concern is that I am very conscious that economists can never pick the downturns—or rarely pick the downturns. So I hesitate to add our credibility to some of those numbers some of the time, but of course we would be guided by the parliament at the end of the day.”

Another indication of the ANAO’s attitude for GAAP/GFS harmonisation was provided at a SFPALC hearing from 10 February 2003 (SFPALC 2003b, emphasis added):

“**Senator CONROY**—[The FRC strategic direction] stated:

The strategic direction agreed by the FRC involves including within Australian GAAP applicable to the public sector, the key features of the GFS framework.

Do you think that is a broad direction, or is it a standard setting? To me, that is directing content; what do you think it is directing?

**Mr Barrett**—Let me answer that indirectly by saying that one interpretation of that is a reflection of the view that there should be harmonisation—and that is clearly what the government has asked to occur—between the GFS framework and the Australian GAAP. As I said earlier, in principle I do not think any of us disagrees with that. The question goes to how that occurs. One suggestion was simply, ‘Why don’t you adopt GFS and that would be the end of the matter?’ Quite frankly, the basis of the GFS, as we have already said, reflects more or less the economic transactions rather than the basic accounting transactions. So the Australian National Audit Office **would not regard that as a desirable way to go.**”
At the federal level at least, it appears that the auditors were willing to audit GFS or GAAP/GFS harmonised figures, if the governments requested them to do so. According to interviews with two ACAG members and PE A and D, the Commonwealth Auditor-General and Deputy Auditor-General were supportive of the GAAP/GFS harmonisation process. When exactly that support began, could, however, not be determined.

With the Commonwealth Auditor-General’s support, the PEs lobbied ACAG. Interviews with two members of ACAG suggested that despite the fact that such a reform could potentially result in major change and re-training of staff, ACAG members generally supported GAAP/GFS harmonisation. The interviewees also agreed that there was no resistance to GAAP/GFS harmonisation within the group.

ANAO or ACAG’s consideration of GAAP/GFS harmonisation appear to have focused on their responsibilities as a consequence of changes in the regulatory environment. The only evidence of consideration of cognitive aspects prior to the FRC strategic direction was the difficulty in auditing forward looking information. The normative argument that GFS statements should be audited was acknowledged. ACAG members also acknowledged that one harmonised standard would result in improved public sector reporting. There was limited evidence of any consideration of future constraints, such as the need for additional resources and expertise to perform audits of GFS data. Overall, the ANAO and ACAG members agreed with the project, but did not promote it actively.

8.3.4 Australian Bureau of Statistics

The only evidence found about the ABS’ motivation related to its desire for ‘good quality’ data. The ABS’ motivation to support GAAP/GFS harmonisation was confirmed in a number of interviews. When and how the ABS came on board, as well
as why they supported GAAP/GFS harmonisation remains unclear as the ABS declined to participate in interviews and written documentation about their role in the GAAP/GFS harmonisation agenda setting project is limited.

One of the proposals of the ABS to ACAG members in 1998 was that GFS data should be audited. The AASB June 2000 agenda paper shows that PSASB, AARF and ABS staff members were already cooperating. This was confirmed in interviews with members of the PSASB and the AASB. At that stage, however, the ABS also viewed GFS statements as clearly separate from GAAP statements.

Document analysis showed that Rob Edwards, then Deputy Australian Statistician, Economic Statistics, and Peter Harper, who had been with the ABS for approximately 15 years, played a role in the GAAP/GFS harmonisation agenda setting process. Only one interviewee (FRC, Interview 06/05/2010) referred to Edwards:

“Well you know yeah there’s a guy called Rob Edwards, I don’t know whether he went to the IMF after the ABS, I’m not sure whether he’s still there but he was, he used to look after the framework from the ABS’s point of view and he was very, I think you’d just call it progressive, I think the ABS you know has got an important role to, in all of their reporting, statistical reporting, and they were just open to the opportunity I think to improve their own frameworks and their own collections. And so they’re interested from that perspective, as well as the accounting body was interested to sort of hear their perspective and know. It might’ve been the very first seeds of harmonisation now that you mention it, but no one ever you know mentioned the word GAAP-GFS Harmonisation, but it might’ve been the very first seed of the harmonisation.”

The analysis of written documents also showed that Edwards and Harper represented the ABS at meetings of the SFPALC and the JCPAA in 2001 and 2002, and at the PSASB and AASB in 1999-2002. For example, Edwards was present at a JCPAA hearing about accrual accounting where he supported GAAP/GFS harmonisation:

“In discussing the issue of the two standards, the Australian Bureau of Statistics (ABS) witness told the Committee that efforts at harmonisation were limited because the statistical standards were really ‘a subset of wider national accounting standards and, in some areas of significance, there is a difference between the AAS31 approach and the statistical approach.’ He continued:
Our solution to that was that, whenever we publish accruals based government finance statistics, we will provide a reconciliation to get from our presentation of the data to the accounting presentation. Having said that, there are, in my view, some needless differences between the accounting presentation and the statistical presentation. We would be very keen to see whether we can remove those differences.” (JCPAA 2002, paragraph 6.73)

The ABS was also represented in the HoTARAC Working Group from 2001 onwards and continued its support of GAAP/GFS harmonisation after the FRC’s strategic direction in 2002 and provided staff resources to support the development of AASB 1049.

Interviews indicated that ABS staff members had close connections to the IMF. Australian statisticians were, with AASB staff, actively involved in the international development of the GFS frameworks from the mid-1990s. For example, a former staff member of the ABS prepared a working paper “The Case for Accrual Recording in the IMF’s Government Finance Statistics System” for the IMF:

“It was a key document in the debate over the shift from the cash basis of recording to the accrual basis. In August 1996, Government Finance Statistics: Annotated Outline was circulated for comment and the first draft of a manual was written by [xxx; former ABS staff] throughout 1996 and 1997.” (IMF 2001)

In 2004, Edwards became the Director of the Statistics Department of the IMF. Harper also worked at the IMF for three years, before returning to Australia, to become Deputy Australian Statistician of the Population, Labour and Social Statistics Group. The close relationship between the ABS and the IMF might have been a reason why there were minimum concerns about dependency on the IMF. There was no evidence that this was considered during the agenda setting process.

In summary, whilst the role and motivations of the ABS and its staff could not be directly confirmed, data from interviews, documented events and other material suggest that they actively supported the project with the motivation to improve the quality of data for GFS purposes. The analysis also suggests that the ABS relied predominantly
on actors from Finance and Treasury to promote the project publicly and was not involved in coupling the three streams of problems, policy and politics. There was no evidence that the ABS explicitly raised its own motivation for better quality data. Instead, they ‘went along’ with the arguments by the PEs for improved public sector reporting through GAAP/GFS harmonisation. It appears that the ABS provided background input into technical feasibility and public support for the project. There was no evidence about consideration of the normative aspects, costs or the dependency on two standard setting bodies.

8.3.5 Political actors

The PEs viewed political actors as being powerful and lobbied them to increase pressure on the FRC and the AASB to support their project. The two political committees that were lobbied were the SFPALC and the JCPAA. The lobbying process was predominantly concerned with cognitive and normative aspects, but included considerations of representation of public constituents at the FRC and AASB level. There was almost no evidence of consideration of costs or dependency on international standard setting bodies.

A number of interviewees referred to government inquiries and argued that GAAP/GFS harmonisation was supported by politicians. The first two reports of the SFPALC did not mention any issues related to GAAP and GFS reporting. The third report published in November 2000 emphasised issues about the different scope of budgetary portfolio reporting and financial statements and the difficulties in linking such statements to whole of government reports (SFPALC 2001a, paragraph 5.11). The report included a number of issues that were mentioned in Challen and Jeffery (2003), including a variety of bottom line numbers provided in differing reports and press releases. The report, however, did not associate these with the dual reporting regime, but with the
presentation format on either a functional basis or an output/outcome basis (SFPALC 2001a, paragraphs 3.34-3.37). The report suggested that:

“In this report, the committee has not considered the question of the accounting standards mandated for the public accounts. The matter received very little coverage in the estimates hearings. [...] While the harmonisation of public and private sector accounting standards and the role of DOFA in ensuring consistency in whole-of-government accounts are significant topics in their own right, they are too broad for the committee to address in this context.” (SFPALC 2001a, paragraph 3.38)

These issues were, however, discussed in the review of the accrual budget documentation at the JCPAA. All PEs were aware of the importance of the JCPAA. They referred to the JCPAA in the context of political/government support for GAAP/GFS harmonisation. PE A recalled:

“[PE B] and I went to the JCPAA, I lobbied them for support and my message to all of them was, we have got a kind of a reporting magnet, you know? We have got a Treasurer and a Government who has decided to prepare their budgets, aggregates on one basis, but we have introduced an accounting standard to try and run reporting at the individual department level and they are not the same. [...] And the benefit of the JCPAA is it’s a joint house, it’s a joint committee of both the senate and the house and of all the major parties. So it’s a very powerful voice [emphasis added], you know and so they wrote to the FRC saying there is a problem and we think this should be fixed.”

The Review into the Accrual Budget Documentation by JCPAA was conducted between 2000 and 2002. It was advertised in April 2001 and received 21 submissions, including follow-up submissions after the roundtable hearing on 22 June 2001. Only CPA Australia’s submission remarked on the desire for greater harmonisation between GAAP and GFS. The letter was signed by the National President, who was also a State Auditor-General and member of ACAG. The submission of Finance included a comment about differences between GAAP and GFS numbers, but did not make any recommendations or suggestions about how these differences might be a problem or should be addressed (Finance 2001). The Hansards of the roundtable hearings were the first documented evidence that was found that discussed the issue of differences
between GAAP and GFS and the desire for harmonisation (JCPAA 2001). PE A from Finance, PE B and another senior bureaucrat from Finance, and the Deputy Australian Statistician from the ABS voiced their desire for greater harmonisation between GAAP and GFS.

The General Manager of the Budget Group at Finance, noted that:

“My own view is that there should be no difference between the GFS and AAS presentations. …
At present there are some differences between them. One of the longer term projects that [PE D]—the head of our Accounting Centre of Excellence—has on his plate is to seek to harmonise them. It will be a long-term project because the GFS statistics have their origins in the International Monetary Fund system of national accounts and there will be a need to liaise internationally to get some changes. But I cannot see any reason that over time we should not bring those into alignment and, if this committee were so minded, to also look to pushing in that direction. That, I think, would give us some help.” (JCPAA 2001, PA 22)

At the same meeting, PE B also voiced his support for GAAP/GFS harmonisation:

“One other thing I want to mention is the harmonisation issue between GFS and AAS 31 standards. We would agree very much with Finance that it is highly desirable to get greater harmonisation between those standards. It is true that the GFS standards are derived from national accounting standards, overseen by, ultimately, the United Nations and IMF, but there may well be sensible ways in which we can modify the accounting standards applying to government to provide for greater harmonisation between GFS and AAS31.” (JCPAA 2001, PA 23)

PE A also promoted GAAP/GFS harmonisation at that meeting:

“Finance does take the role of harmonising GFS and AAS as a serious part of our business. Under the charter of budget honesty, we prepare financial information with reference to external standards. We refer to the ABS as the keeper of the keys of the GFS standards. We refer to the ANAO as the keeper of the keys of the AAS standards. We would be delighted if they were the same.” (JCPAA 2001, PA 46)

Mr Edwards, an ABS representative noted:

“In the development of our accruals based government finance statistics, we had extensive discussions with the accounting people with a view to harmonising the statistics to the greatest extent possible. At the end of the day, we were limited to the extent that the statistical standards are really a subset of the wider national accounting standards and, in some areas of significance, there is a difference between the AAS31 approach and the statistical approach. Our solution to that was that, whenever we publish accruals based government finance statistics, we will provide a reconciliation to get from our presentation of the data to the
accounting presentation. Having said that, there are, in my view, some needless differences between the accounting presentation and the statistical presentation. We would be very keen to see whether we can remove those differences.” (JCPAA 2001, PA 32)

The meeting also showed that issues related to the adoption of accrual accounting were mixed up with the dual reporting regime:

“My point about the whole of government—nine governments—view is that I think in those statistics it is GFS based.

That is correct.

Senator MURRAY—I do not want it that way. I want it on an accruals basis so that I can look at a particular group in this country and say that they are low, medium or high taxed in particular areas, and look at how we should adjust it. I am talking to you as a policy driven person. The GFS does not assist me in that approach.

Mr P. HARPERS—With due respect, I think you are overstating the extent of differences between GFS and AAS31. They are both accrual based systems. They both generate very similar analytical balances. There is a clear and well defined reconciliation between the two sets of statistics. I do not think the consolidated information that is provided by the ABS across all of the jurisdictions is deficient in the regard that you are suggesting it is.” (JCPAA 2001, PA 46)

During this meeting, PE D also commented on the representation of public sector members at the AASB:

“Regarding the public sector representation on the Accounting Standards Board, I think I have made it clear in other fora, such as Senate estimates, that from our perspective we are not satisfied with having a minority on the board. I am pleased to say that, since I discussed this issue at Senate estimates last month, the vacancy on the AASB has been taken up by the Victorian Auditor-General […], so we are hopeful that we have another public sector leaning person on the board. But, at the end of the day, that will give us three out of 10 and, in votes, that is not too helpful.” (JCPAA 2001, PA 24)

To this, the Chairman of the JCPAA responded:

“[PE D], I do not know what assistance this will be, but I find that for some reason or other I am a member of the advisory committee to the Australian Accounting Standards Board, but I have never attended a meeting. Can I give you a hand?” (JCPAA 2001, PA 25)

Another relevant issue that was raised was the audit of GFS statements. One participant, for example, remarked that the ABS did not agree with the presentation of

60 Mr P. Harper was an ABS representative, First Assistant Statistician, Economic Accounts Division, Australian Bureau of Statistics.
GFS numbers in some jurisdictions. Others noted that the audit of these statements should be considered for assurance purposes (JCPAA 2001).

Surprisingly, none of the follow-up submissions raised the desire for greater harmonisation between GAAP and GFS. Three submissions after the roundtable hearing included comments about the Auditor-General’s capacity to audit budget statements, including GFS statements (Australian National Audit Office 2001; Finance 2001; Treasury 2001). The ANAO’s submissions suggested that, while it might be within the Auditor-General’s capacity to do so, it was a matter for government and parliament to decide whether this should be done and that expert advice would need to be sought by the Auditor-General to conduct such audit in a timely manner. Finance raised concerns about the timeliness of the audit.

The resulting Report 338 Review into Accrual Budget Documentation (JCPAA 2002) was issued in June 2002, which was the same month when GAAP/GFS harmonisation appeared in the minutes of the FRC for the first time. It (JCPAA 2002) included an acknowledgment that there were issues relating to GFS and GAAP reports on final budget outcomes and concluded that:

“6.76 The Committee supports greater harmonisation between the GFS and AAS standards and encourages Finance to maintain its efforts to achieve this goal.

6.77 The Committee also believes there would be benefit in greater public sector representation on the AASB as this would assist in the development of accounting standards as they relate to the public sector.”

Although the JCPAA proposed ‘greater’ harmonisation, this proposal was not included in the main recommendations and there were no details about how harmonisation could be achieved. Despite the exclusion of GAAP/GFS harmonisation in the main recommendation, the JCPAA wrote to the Chairman of the FRC on 5 December 2002 conveying the support of the Committee for a strategic direction for GAAP/GFS
harmonisation. PE A (Interview 18/03/2011) recalled:

“The JCPAA, they wrote to the FRC. [...] when I presented it to the JCPAA, they asked, could they help? And I said, yes you could write to the FRC and tell them that you think this needs to be worked on and fixed and they did.”

A third review, the Budget Estimates Framework Review (BEFR) was undertaken from May to October 2002 at the request of the Prime Minister, the Treasurer and the Minister of Finance and Administration. The review was conducted by a Steering Committee comprising the Secretaries of Finance (Chair), Treasury, Family and Community Services, and Agriculture, Fisheries and Forestry, and a Deputy Secretary from the Department of the Prime Minister and Cabinet (SFPALC 2003a, Question 20H). According to PE A (Interview 18/03/2011), the review was also used for the lobbying process.

“There was a, I don’t know if it was public information, there was a, the review I did was called the Budget Estimates and Framework Review, I think. It was done while I was with the Department of Finance and in that there was a recommendation that I put in that report for [GAAP/GFS] harmonisation.

The review was headed by a Finance led working group. The recommendations were not released. However, PE D (Interview 25/02/2011) recalled:

“During 2002, the Department of Finance together with the Treasury here in Canberra did a complete review of the budget, the budget processes and accruals. And out of that review came what we call a Cabinet submission and one of the recommendations was to move to GFS/GAAP harmonisation.

This recommendation was confirmed in two other interviews (ACAG, Interview 10/11/2010; PE A, Interview 18/03/2011). The BEFR recommendations were finalised in October 2002, two months before the FRC issued the strategic direction to the AASB.

All PEs and the FRC Chairman mentioned a ‘reformist climate’ that was characterised by encouragement for change by top level bureaucrats within the policy stream and by

61 The Cabinet submissions from 2002 become publicly available only after 30 years.
politicians in the years 2001 and 2002. Two PEs and one other interviewee suggested
that this was the result of a new administration following the elections in 2001. One PE
and another interviewee noted that Senator Nick Minchin, who became the newly
appointed Minister for Finance and Administration in November 2001, was lobbied to
support GAAP/GFS harmonisation. One PE also noted that the BEFR was undertaken
“when Ian Watts came to Finance”.

As demonstrated in the Hansard for the 22 June 2001 Roundtable, cognitive aspects of
GAAP/GFS harmonisation were discussed only at a superficial level in the political
arena. The analysis of Hansards in relation to public sector issues provide evidence that
politicians were indeed confused by the numbers provide in financial statements by
Treasury and Finance (see, for example, SFPALC 2001b). Most of the discussions
were in the SFPALC, the JPCAA, but also the Senate Economic Legislation Committee
(SELC). These committees were most affected by financial statements. There were
few discussions about GAAP and GFS reporting. This supports the argument of this
thesis, that the PEs were successful in associating existing public sector financial
reporting issues to support the policy solution GAAP/GFS harmonisation. The audit of
budgets is a good example. This was a recurring proposal at the Commonwealth level,
and the Auditor-General had noted that it would be within the capability of his office to
perform such an audit. It was not something that had to be addressed by harmonisation.
The PEs, however, wanted one set of numbers that would facilitate the audit of budgets.
It would also address accusations of politically motivated choices in the preparation of
budgets.

Political actors were mainly interested in understanding the financial reports that were
provided to them to discharge their accountability. As such, normative arguments that
emphasised increased transparency and comparability of budget and end-of-year
statements were important. These normative arguments were the basis of the enquiries and reviews. There was no evidence of any consideration of the comparability of financial reports across jurisdictions, future constraints or other issues that would be associated with the development and implementation of a harmonised accounting standard.

8.3.6 Summary

The PEs had worked continuously to get support for GAAP/GFS harmonisation. By mid-2002, they had ensured broad support from their departmental superiors, HoTs, the Commonwealth Auditor-General and the ABS. At the political level, two main political bodies, JCPAA as well as the SFAPLC were generally supportive of GAAP/GFS harmonisation, even though at this stage they had not given much consideration to the project. During this process the PEs created a new epistemic community that was united by the belief that one GAAP/GFS harmonised standard would satisfy both macro and microeconomic financial reporting objectives for whole of government financial reporting and address existing problems of public sector accounting.

Cognitive considerations were more prominently discussed or were more important where technocrats, including organisations such as Treasury and Finance, HoTs and the ABS, were involved. The ANAO and ACA were mostly concerned with the regulatory environment. Normative arguments were more important at the political level, underpinned by a desire by politicians for more transparency and ‘easier to read’ financial statements that allowed them to fulfil their obligations as parliamentarians.

The PEs were able to cater to the various interests of each forum and to discuss and to frame the project from different aspects. At all fora, however, the data suggests that the PEs were able to normatively frame GAAP/GFS harmonisation as the policy solution
that would improve public sector reporting. As a result, by mid to late 2002s the PEs had successfully coupled the three streams of problems, policy and politics. What was left to do was to convince the decision-makers, who were in the first instance, the AASB, and if this failed, the FRC of the benefits of GAAP/GFS harmonisation.

8.4 COMMUNICATION AND COORDINATION AT THE AASB

In 2000, the Public Sector Accounting Standards Board (PSASB) and its staff had been amalgamated into the newly created AASB as a result of CLERP. The first written reference to GAAP/GFS harmonisation was in AASB agenda papers from June 2000 (AASB 2000a, b), which contained a brief history of the project, including a reference to briefings about the project in October 1999. It referred to the “PSASB Consultative Group on the GPFR/GFS harmonisation project being briefed about the project in October 1999”. It confirmed the awareness of the PSASB that with GAAP reporting, GFS reporting also applied in the public sector. One agenda paper (AASB 2000b, p. 2) noted that:

“As requested by the PSASB, AARF staff have continued to liaise with ABS staff since the March 1999 PSASB meeting.

The agenda paper further noted that staff of the Australian Accounting Research Foundation (AARF) had promoted the adoption of GAAP reporting to HoTs and the Fiscal Reporting Committee, which had been established to review the UPF during 1998. At that time, however, HoTs decided to continue the use of GFS reporting, after modifying it for accrual principles. According to the agenda paper and interviews with an AARF staff member and a PSASB member, there had been a number of meetings and consultations between AARF staff, the PSASB, HoTs and the ABS. The agenda paper also confirms that prior to the staff briefing in October 1999, GAAP and GFS reporting were viewed as two competing reporting regimes and that the choice was for governments to report according to either one or the other or both.
The next reference to the project was in the AASB and FRC annual report for 1999-2000 published in October 2000, in which GAAP/GFS harmonisation was added to the AASB’s formal agenda as a ‘highest priority’ project in the work program for the financial year 2000-2001. The circumstances of how this happened are not clear. Interviewees from the AASB did not recollect the events and only one interviewee suggested that it might have been because of the initiative and influence of HoTs. However, whilst an issues paper had been considered by the Board, it decided to transfer the project to the 2001/2002 work program (FRC and AASB 2000).

In 2001, the HoTARAC working group was established to consider the technical feasibility of GAAP/GFS harmonisation. This task would have typically been undertaken by the AASB. The initiative of HoTs demonstrates a number of points. First, the investment of time and other resources into the working group highlights the significance of GAAP/GFS harmonisation for HoTs. Second, it shows that HoTs recognised the importance of demonstrating the feasibility of the project. In addition, establishing the working group gave influence to HoTs in the potential development of such a standard. Despite the working group, in the following year, the standard setters had made little progress with GAAP/GFS harmonisation. The work program noted:

“The objective is to determine whether or not such a reconciliation should form part of general purpose financial reports and if so, whether such inclusion is presently feasible” (FRC and AASB 2001).

Despite its ‘highest priority’ status, it appears that the AASB was not going to address GAAP/GFS harmonisation to the satisfaction of the PEs and other public sector constituents. Interviewees argued that public sector constituents were discontented with the slow progress. An AASB member (Interview 04/11/2011) with a public sector background commented:
“From my point of view I would not be particularly worried if we did not produce a single new or revised standard for the next six months and spent the time instead thrashing through some vital issues of philosophy, objectives and work priorities, including the reopening of some standards for review, such as AAS31 in my own area of particular interest.”

The matter was, however, considered on 7-8 August 2002, 22-23 October 2002 and 4-5 December 2002, as part of the review of the whole of government reporting accounting standard AAS 31. At the 7-8 August meeting, representatives from HoTARAC made a presentation to the AASB, but it was not on GAAP/GFS harmonisation. During the meeting, the Board decided that AASB staff should prepare an issues paper that would consider the commentary in the revised AAS 31:

“that would effectively acknowledge that the General Government Sector (as defined in Government Finance Statistics) or the Budget Sector of a Government may be a reporting entity that would prepare general purpose financial reports (GPFRs).” (AASB 2002b)

At the 22-23 October 2002 AASB meeting, key individuals E and F “discussed strategic issues relating to the Government Finance Statistics report, the implementation of IASB Standards in Australia and Share-based Payment and Director and Executive Disclosures” (AASB 2002c). PE A suggested that key individuals E and F lobbied for the GAAP/GFS harmonisation at this event. The Board also considered the staff paper requested at its August meeting, but decided that more detailed examples of the current reporting by jurisdictions of the GGS were needed to re-examine the issue (AASB 2002c).

At its 4-5 December 2002 meeting, the AASB decided that whole of government financial reports should be prepared using GAAP and that any GFS information in the
GAAP report should be given a “lower prominence than the GAAP” report. In addition, the AASB action alert\(^{62}\) provided the following justification for its decision:

“The AASB noted that its current role is to set accounting standards for ex-post general purpose financial reports rather than for budgets, and therefore its discussion focused on ex-post financial reports.” (AASB 2002a)

This meant, in essence that GAAP/GFS harmonisation would not be pursued any further.

The discussions at the AASB focused on cognitive aspects of potential GAAP/GFS harmonisation. The documents indicate that the project was viewed as a GAAP project and how GFS could be incorporated into GAAP, rather than a harmonisation approach. There was no evidence about detailed considerations of normative issues of the project or a discussion of future constraints. An AASB interviewee (Interview 23/02/2010) noted:

“I would have thought there were politically some very good reasons for making the decisions [to issue the FRC strategic direction], it just wasn’t documented.”

The data suggested four main reasons for the AASB’s decision not to pursue GAAP/GFS harmonisation at that stage. First, the AASB was busy with other matters. After the first FRC strategic directive in June 2002 about Australia’s adoption of IFRSs for both private and public sector reporting entities by 2005, the AASB was concentrating on these issues. An AASB interviewee (Interview 23/02/2010) remembered:

“We probably spent 10% [of AASB time on public sector issues] because we had such a back log of other things and you know and that started off with these strategic directions from the FRC.”

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\(^{62}\) More detailed issues and justifications of the AASB’s decision can be found in the AASB’s action alert (AASB 2002a).
Second, public sector constituents were still outnumbered 8 to 2 and were arguably not able to significantly influence the AASB’s agenda. An indication of a third, more technical, reason was the notion that the AASB believed that GFS reporting was not within its regulatory space, because GFS reporting was directly associated with budgetary ex-ante reporting (AASB 2002a). Fourth, the AASB considered itself to be an accounting standard body with an interdependent relationship with the IASB. GFS reporting and its associated organisation, such as the IMF and the ABS, were viewed outside the regulatory accounting standard setting space.

8.5 COMMUNICATION AND COORDINATION AT THE FRC AND A WINDOW OF OPPORTUNITY

The influence of the PEs and their backing by the epistemic community was evident at the FRC level. Interviews suggested that FRC members without a public sector accounting background, including the Chairman, relied heavily on the expertise of the PEs and support for GAAP/GFS harmonisation by the epistemic community.

PE A (Interview 18/03/2011), an FRC member, noted that he spent much time in lobbying for GAAP/GFS harmonisation at the FRC.

“It took me quite some time to gain the attention of the FRC members, who were all largely private sector. For them, to essentially educate them to what the problem was. So the first job was to say, I have got to get new FRC, my colleagues in the FRC to understand there is a problem. And I recall at the time saying to them, when the Treasurer announces his budget surplus, tell me what you think that number is. I asked them all around the table and everyone said, “Oh it’s the surplus.” And I said, “What sort of surplus?” And then said, oh and then various views, you know. Some people said it was the operating result, some people said it was the cash surplus and I said it was none of those, it’s none of those. Do you know the country is being run against an aggregate that the markets work on, that the capital market’s deeply interested in? That the foreign market is deeply interested in etcetera, because a surplus in macro-economic sense is a very important indicator of cash, you know, of macro-economic activity; very important. And so for a macroeconomic construct that the Treasurer did at the time and still to this day refers to as its key aggregate. And once I had got through to the FRC members that this was not your normal GAAP construct, it
was a macroeconomic construct, then they all started to listen to, there is a problem. There is something that has to give.

[...] I spent a lot of time with the [FRC] Chair and convinced him of the importance of this. [...] So it was just basically bringing the FRC to a point of understanding of what to do.”

Four of 12 FRC members in 2002 had a public sector background. One of these resigned in February 2002. There were also informal nominees who were observing rather than taking action during the meetings. Two of these had a public sector background. Of the members that did not have a public sector background, three agreed to participate in this study. They supported GAAP/GFS harmonisation for both cognitive and normative reasons. At the cognitive level, they stated that they believed that there were issues in public sector financial reporting that could be addressed by the project. The data suggests that technical issues were discussed at a superficial level with FRC members from non-public sector backgrounds who relied heavily on the expertise of the PEs and the epistemic community. One FRC member (Interview 11/05/2011) from a non-public sector background recalled:

“I think it would be fair to say that the non-public sector people were to some extent disinterested, and that they would have taken as a clue to how they should react to this matter, what the opinion of the … of those experts who have been affected by it, that there was no criticism from the public sector representatives. I’m not sure whether there was one at all, but if there was no criticism or objection from that quarter, well, then if that’s something that the Standards Board thought was worthy of doing, well then support was given.”

Another FRC member (Interview 17/11/2010) from a non-public sector accounting background noted:

“I think any director in any board where a matter is of a technical nature or specific issues being discussed in which they personally do not have a deep understanding – and that happens frequently in all boards, not just this one – they rely heavily on the papers that are made available. Obviously the more detailed and fulsome the papers are the easier it is for people to grasp the issues. Obviously the presentations that are made are very important. And then the debate, they may not be able to participate as actively in a debate on that sort of issue compared to a matter in which they have a deeper understanding obviously. That’s the fact of life – where none of us are experts on everything.
And therefore one tends to be heavily influenced by the comments and the arguments that are put into the debate by those who one would regard as an expert. So on public sector accounting the views of people such as [PE C] who was a member and others from the public sector such as [PE A], who I recall had a very strong interest in this matter. Their views would be heavily influential upon other members who are less knowledgeable on that particular topic.”

Another FRC member (Interview 06/05/2010) with private sector background remarked on the reasons for his support for GAAP/GFS harmonisation:

“I guess the thing that is important to add is that, to the best of my knowledge, there was agency support, but also political support. […] … the Secretary of the Department of Finance, he was very strongly supportive. He came to the FRC and spoke to us about a budget cycle as, in his view, was far and above the best he has ever been engaged in and was benefiting from 1049 and the GFS. […] And the Auditor-General […] , the Department of Finance, Treasury […] and the representative of Heads of Treasury, [PE C], was so emphatic in what he was saying and […] he spoke with the full support of his constituents […]

To the very best of my knowledge, there was always strong political support from Canberra and I was not made aware of any State or Territory having any view against it. […] And I was encouraged by that. And I think the FRC was, because we were seeing this as an improvement in general accountability and more liable accounting, etc., etc. and, therefore, if there was a political level of support that had to be a good thing for Australasian citizens.”

The last paragraphs show, that the legitimisation by the political actors was also a factor in the decision-making process of FRC members.

By mid-2002, the PEs had successfully coupled the three streams of problems, policy and politics. At the same time, it became more obvious that the AASB would not pursue GAAP/GFS harmonisation to the extent desired by the PEs. Involving the FRC more with the GAAP/GFS harmonisation agenda setting process was a logical step.

The first reference to GAAP/GFS harmonisation at the FRC was in its minutes for the FRC June 2002 meeting. It is possible that this timing was triggered by the first FRC strategic direction. An observer (Interview 23/02/2010) of the 2002 FRC meetings recalled the following:
“And they [the FRC] made a resolution a strategic direction for the AASB, that Australia would adopt International Financial Reporting Standards in the same timetable as the European timetable which is what, 2005?

Now that, that sparked the imagination of [PE C] and this other guy and at the next meeting, I think without any prior notice again, they dumped the resolution on the table that Australia, that Australia should adopt GFS and the International Accounting Standards but where they are different they should adopt GFS. Now you have to say what they really meant was we ought to adopt GFS.

Now there was a bit of shemozzle over that and this was discussed at one of the Senate Estimates Committees at the time. [Someone] objected to it, [saying] the FRC did not have the right to, you know; establish accounting standards which in effect they had done. Anyway they, at the next meeting, […] they modified the resolution which is the strategic direction you’ve probably seen. […] And [PE C] and […] [PE A], they really took advantage with what they saw at the previous meeting when [the FRC Chairman] and these other guys adopted the international and financial reporting standards.

And put up the argument orally and they convinced the board. […] They just took advantage of that situation.”

Similarly, one of the PEs (Interview 09/03/2010) remembered:

“Ultimately with some wonderful leadership from then Chairman of the FRC, the FRC gave a strategic direction to the AASB which effectively required them to adopt the IASB standards. That having happened, it raised in a number of people’s minds whether there should be a similar strategic direction to give the AASB some strong guidance about the direction in which we wanted to see our public sector accounting standards setting going in Australia.”

The minutes for the June 2002 meeting, when the FRC issued the strategic direction for adoption of IFRSs, state:

“[Person X] addressed the meeting on a Commonwealth proposal to bring Australian Accounting Standards and Government Finance Statistics together into a single reporting regime for the public sector. It was agreed that a small working group of FRC members, with the participation of the AASB Chairman, would meet to further consider this issue and report back to the full FRC.” (FRC 2002b)

One interviewee (AASB, Interview 23/02/2010) suggested the following motivation for the FRC to issue the strategic direction:

“[…] and as you know they issued the [strategic direction] on IFRS adoption, so to me, if I were the FRC I’d say: “What’s my role? Issue broad strategic direction to AASB. What does AASB do? Well, they do stuff for the private sector, stuff for
the public sector. We need to treat each equally. I know what we can do for the private sector: Let’s make them adopt IFRS from 2005. Now we need something for the public sector.””

The first strategic direction applied to both the private and the public sectors. The PEs, however, were able to convince the FRC that it was time to issue a separate strategic direction for the public sector by implying that the first strategic direction was for the private sector.

GAAP/GFS harmonisation had been pursued by the PEs for some time. However, it is possible that it hadn’t occurred to the PEs before the FRC’s first strategic direction that they could ‘use’ the FRC to pursue GAAP/GFS harmonisation. The issue of the FRC’s first strategic direction might have triggered the ‘instincts’ of the PEs who recognised this situation as a window of opportunity.

From June 2002 onwards, things happened very quickly. The minutes of the FRC September 2002 meeting (FRC 2002a) stated:

“The FRC also discussed the broad strategic direction for the Board in relation to the public sector. It was noted that Commonwealth, State and Territory Heads of Treasuries support an approach in which IASB standards would be used for the Australian public sector except where they were inconsistent with Government Finance Statistics (GFS) in which case GFS would prevail.

The FRC acknowledged the need to understand the merits of alternative approaches in order to give strategic direction consistent with Government policy, and recognised that this may preclude an early decision.

It was agreed that:

- the FRC, in consultation with the AASB Chairman and public sector stakeholders, would further examine the appropriate harmonisation target for public sector accounting standards, including the approach of comparable countries overseas; and
- the AASB would, in the meantime, pursue the 2002-03 public sector work program endorsed by the FRC, and supported by the Commonwealth, State and Territory Treasuries, in June 2002.”
The full extract relating to the strategic direction of the meeting is reproduced in Appendix 10. The minutes show HoTs preference for GFS.

Despite the caution expressed in the last two paragraphs of the FRC September minutes, at the following meeting in December 2002, the FRC approved the strategic direction for GAAP/GFS harmonisation. Between the two meetings, there were a number of important events. The FRC Chairman stated at an SELC meeting on 13 February 2003:

“Then in October I attended overseas meetings. In particular, I attended the UK Treasury and discussed with them in detail what their views were regarding public sector accounting. They advised that, as far as they were concerned, they would never adopt IFAC PSC accounting within the UK. We also met with the UK Department of Industry. We also met formally with Ian McIntosh and the IMF to again discuss what in their view were the issues that Australia needed to have proper regard to in respect of public sector accounting. At that stage, the feedback that I found concerning was that there were two strongly polarised views. There seemed to be no middle ground. The views were either that IMF- GFS that is - was absolutely the way to go for all these reasons or, alternatively, that GAAP was the way to go, similarly for very strong reasons. At that stage there appeared to be no middle ground. What was also of concern to me and the FRC was that, if we have a look at the manner in which private sector standards are issued, there was a very robust process by which standards are contemplated and ultimately delivered by the IASB, including, for example, Australia’s role as a regional standard setter. No such process exists for either the IFAC PSC or the IMF. Again, that caused us some concern. Again, we were unsure as to why there was not a greater level of dialogue between the two. As the chairman pointed out last night, the IFAC PSC is not an independent board. It is appointed by the accounting profession around the world. It is not appointed in the same robust manner as the International Accounting Standards Board is. We had and have some reservations about the processes under which the IFAC PSC determined its process and released standards.” (SELC 2003, E 179)

In October 2002, HoTs officially endorsed GAAP/GFS harmonisation and wrote a letter to the Chair of the FRC conveying their support. The BEFR was finalised in October 2002. It also recommended GAAP/GFS harmonisation. On 5 December 2002, the Chair of the JCPAA wrote a letter to the FRC to express the support of political actors of the Commonwealth government for harmonisation. The FRC Chairman remembered at the aforementioned hearing:
“At that stage, we had as part of our papers a letter dated 5 December by the Chairman of the Joint Committee of Public Accounts and Audit addressed to me as chairman, stating:

*As the government has set a date of 2005 for Australia’s adoption of international accounting standards, the committee believes that harmonisation of the AAS and GFS should take place no later than that date.*

From our perspective, that was a letter directed to the FRC by the Joint Committee of Public Accounts and Audit making a straightforward statement.” (SELC 2003, E 180)

In essence, the PEs successfully activated the main and politically relevant supporters they had previously lobbied to exert pressure on the FRC. The FRC unanimously voted for the second strategic direction:

“The FRC agreed to issue the following broad strategic direction to the AASB under paragraph 225(2)(d) of the *Australian Securities and Investments Commission Act 2001*:

"The Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.

The strategic direction agreed by the FRC involves including within Australian GAAP applicable to the public sector, the key features of the GFS framework. This will enable comparability across the public sector within Australia, without sacrificing the high level of international comparability which currently exists through GFS reporting.” (FRC 2002c)

After the issue of the strategic direction, tensions arose between the FRC and the AASB. In essence, the AASB felt that the strategic direction was too prescriptive and went beyond the authority of the FRC. The AASB Chairman wrote a letter to the FRC Chairman, which was publicised in the press:

“I have significant concerns about a recent decision of the FRC to direct the AASB to write an accounting standard that allows government financial reporting to adopt GFS principles. In my view, the FRC decision was unduly influenced by the views of government without having the views of a broad cross-section of users and without adequate regard to the more general public interest. In fact, the AASB has already deliberated on this issue publicly and notified its views in the negative. I therefore strongly believe the action of the FRC to effectively direct
the AASB to endorse different accounting treatments for identical transactions merely because they occur in different sectors of the economy is [in]appropriate [sic].” (SFPALC 2003b, F&PA 149)

The issue was argued in front of the SELC, which considered the oversight of the FRC over the AASB, on 12 and 13 February 2003. With respect to this letter, Senator Conroy stated:

“That is about as strong a statement as you can get from the chair of the Accounting Standards Board, saying, ‘We’ve already looked at this and we’re not satisfied with GFS and we believe it should be AAS31,’ yet the FRC, a group that is not a trained set of accountants, auditors or public sector accounting experts, have on the basis of almost no deliberation—and we will come to that when we deal with them—directed the experts on how they should write a standard.” (SFPALC 2003b, F&PA 150)

He went on to state a couple of days later at a SELC hearing that:

“If your resolution talked about harmonising, there might not be quite the concerns about your interference in the standard setting process that [the AASB Chairman] has, that I have and that a number of other people who have raised this issue with me have.” (SELC 2003, E 180)

Most interviewees mentioned the tensions between the FRC and the AASB at the time. In general they believed that the tensions did not necessarily arise because the AASB did not believe that it was a good project, but because it was forced onto them, and that the FRC had overstepped its authority and had invaded the responsibility of the AASB. A FRC member recalled:

“The AASB received the strategic direction and considered it and it formed the view that this second paragraph wasn’t helpful and in fact some people on the AASB were on the view that it had the potential to go beyond the FRC’s remit as it specified in the ASIC Act which you’ll recall says rather specifically that we can give strategic direction to the AASB but we can’t tell them about the content of a standard.”

As a result of these discussions, the FRC issued a revised strategic direction in April 2003, which essentially omitted the second paragraph of the initial strategic direction.

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63 The last word of the quote should be “inappropriate” and was incorrectly transcribed. This was confirmed with the then AASB Chairman.
Some interviewees associated the issues around the strategic direction with the relatively short period between agenda entrance and strategic direction. An observer (Interview 23/02/2010) of the FRC meeting in September 2002 recalled:

“[PE C] and [PE A], they drafted [the strategic direction] during the meeting.”

A FRC member (Interview 17/11/2010) mentioned:

“I do recall that there was one member of the Council who mentioned to me after a council meeting that he personally felt, and he was not from the public sector, that there had been insufficient debate about the issues and I think what he was reflecting was that he didn’t have a deep enough understanding of the issue and yet it was because it was being promoted if that’s the right word, by the public sector, it was marching to its own drum beat. I think he would have preferred to have had more time and a deeper understanding of the issues and the ramifications. But that’s the only concern that I can recall being raised as a result of the FRC’s deliberations, and that wasn’t within the actual council discussion. It was more an informal comment made by one individual to me personally after a meeting.”

Four interviewees (one FRC member, two AASB members and one PSASB member) noted criticisms about the relatively brief consideration of the issue or the lack of an appropriate due process. One FRC member (Interview 17/11/2010) noted:

“The process that we followed there was I think a more transparent process and involved significant interaction with relevant stakeholders than had been the case with either of the two strategic directives issued in 2002. And part of that reflected my learnings and my observations based on how we did what we did in 2002. I felt that there was room for improvement and that was reflected in the process that was adopted for arriving at the strategic directive for the auditing Board. […] Recognising that criticism and that observation and having participated in those early meetings of the Council and like any new body it’s going to take a little while feel its way. Bear in mind we lost our first Chairman fairly quickly. He had some health issues and the time commitment of the Council became too much. So that’s when [Person x] became Chair. So there’s a bit of evolution and learning in the early days of the Council and by the time we were given the responsibility for the Auditing Board I think we’d matured somewhat.”

It is, however, important to stress that all interviewees supported the GAAP/GFS harmonisation project in general and believed that it would improve public sector financial reporting.
8.6 SUMMARY AND CONCLUSION

The Chapter addressed the following research questions:

2. How was the idea of GAAP/GFS harmonisation developed to gain agenda entrance at the FRC?; and

3. Having gained admission to the FRC, how did GAAP/GFS harmonisation become a strategic direction of the FRC to the AASB?

The data suggested that the potential benefits of the project and the problems that might be addressed with GAAP/GFS harmonisation were not well defined when the policy idea was identified. The PEs had to search for problems to justify their policy idea to the relevant decision making bodies. Existing public sector accounting problems as well as emerging issues in relation to dual reporting were associated with GAAP/GFS harmonisation by the PEs over the course of the agenda setting process.

Because of the influence that Treasury had gained over the accounting standard setting process as a result of the CLERP reforms, the PEs were able to obtain positions in these bodies. This gave them direct access and influence over the agenda of the decision-making bodies. At the AASB level, GFS reporting and its differences with GAAP reporting had already been on the agenda. The consideration of the harmonisation of the two frameworks, however, was a result of the lobbying process of the PEs.

The PEs used their foreground discursive abilities in a coordinated and communicative process to gain the support of the policy community and political actors to achieve more influence over the decision-making process of the AASB and the FRC. During this process, the PEs created a new epistemic community that was bound by the belief that one harmonised accounting standard could address both micro-economic and macro-economic financial reporting objectives. Members of the epistemic community included the PEs’ superiors, HoTs, and individuals from the ANAO and ACAG, the
ABS, the SFPALC, the JCPAA and SELC. The wider public did not participate in the GAAP/GFS harmonisation agenda setting process. The motivations and reasons of the actors in these bodies were varied and the PEs’ cognitive and normative aspects were tailored to the forum they were addressing.

The PEs initially focused their lobbying attention on the PSASB and, later, on its successor the AASB. After realising that the AASB was not going to address the issue to their satisfaction, the PEs refocused their attention on the FRC. In addition, the PEs increased their level of lobbying activity at the policy and political level. At the political level, cognitive aspects were discussed at a superficial program level, but with little technical detail. Normative arguments were implicit and discussed to the extent that politicians expressed concern and confusion about the dual reporting regime from approximately 2001 onwards. The PEs proposed that GAAP/GFS harmonisation could resolve this confusion and other issues.

The increased lobbying activities with political actors resulted in a parliamentary committee review, BEFR, specifically recommending GAAP/GFS harmonisation and communication from politicians to the FRC that stated their support for the project. No evidence was found that costs or other future constraints were discussed in any meaningful manner outside the AASB. However, it was agreed at the FRC level that Treasuries around Australia would provide support, including additional resources to the AASB.

In June 2002, the PEs recognised a window of opportunity to catapult GAAP/GFS harmonisation onto the FRC’s agenda when the FRC issued its first strategic direction to the AASB. They were able to convince the FRC that this strategic direction was predominantly a private sector initiative and that a similar directive was needed for the public sector. At this point in time, the PEs had managed through a combination of
direct access and a window of opportunity to bring their chosen solution onto the FRC’s agenda without having demonstrated to the FRC the support of the epistemic community, technical feasibility or normative considerations of the project or a discussion of potential future constraints.

Addressing research question 3, it is argued that the PEs were able to exploit this window further and convinced the FRC to issue a strategic direction on GAAP/GFS harmonisation to the AASB. These factors also supported the PEs’ objectives to convince the FRC to not only to consider but to act upon GAAP/GFS harmonisation. By mid to late 2002, the PEs had coupled the three streams of problems, policy and politics. They had identified and articulated a clear set of public sector accounting problems that could be addressed by GAAP/GFS harmonisation. They had the support of the newly created epistemic community within the policy stream and the support of political actors and were able to communicate their support to the FRC. In addition, the data suggested that there was a certain receptivity of the FRC to this project, as the board saw it as one of its responsibilities to issue strategic directions.

The FRC strategic direction in December 2002 to the AASB to develop and implement an accounting standard that would harmonise GAAP and GFS reporting principles was issued with minimum discussion. FRC members with non-public sector backgrounds relied on the expertise and assurance of public sector members and the support of the epistemic community. They did not pay much attention to the cognitive discussions at the AASB. The events of the GAAP/GFS harmonisation agenda setting process had an influence on the relationship between the FRC and the AASB and the concept of the strategic direction was renegotiated in the process of its application. The AASB felt that the FRC had overstepped its authority with the depth of its direction. As a result, the FRC redrafted its direction and the final version was issued in April 2003.
CHAPTER 9 ASSESSMENT OF THE RESEARCH PROJECT AND A FUTURE RESEARCH AGENDA

9.1 OVERVIEW AND GENERAL RESEARCH OBJECTIVE

Australia is the first jurisdiction to develop and adopt an accounting standard to harmonise GAAP and GFS principles for consolidated governmental financial reporting. This research project has considered the “why?” and “how?” of the events leading to this decision. To investigate the research questions, the thesis has adopted a qualitative case study approach based on an assumption that accounting standards for the public sector are a type of public policy. As a result, the “how?” and “why?” questions were investigated through an agenda setting approach. The thesis adopted a social constructionist epistemology, which is reflected in all stages of the research project.

The thesis made contributions in two main areas. First, it investigated the early stages of the GAAP/GFS harmonisation in Australia. Second, the case was investigated using an epistemologically and theoretically sophisticated framework which is labelled the discursive agenda setting framework (DASF). Compared to previous studies in accounting agenda setting, the DASF considers all critical elements of public policy change that had been previously identified by public policy scholars and is epistemologically and theoretically grounded. In essence, these include institutional factors, the role of individual and collective actors and the relationship between institutions and actors. In addition, the DASF brought the concept of discourse into the literature of the accounting agenda setting process.

This chapter is arranged in three sections. First, the findings of the case study investigation are briefly summarised before the implications of the findings are drawn.
out. This is followed by a discussion of the application of the DASF, including an assessment of the identification of the policy entrepreneurs (PEs) and the inclusion of the concept of the epistemic community. It also includes a discussion of the limitations and the contributions of the DASF. The chapter concludes with a call for action arising from this research project.

9.2 CONCLUSIONS FROM THE CASE STUDY OF THE GAAP/GFS HARMONISATION AGENDA SETTING PROCESS IN AUSTRALIA

This section summarises the main findings from the qualitative case study of the GAAP/GFS harmonisation agenda setting process. The boundaries and limitations of the case study are then briefly described, before the implications of the investigation are discussed.

9.2.1 Summary of main findings

The GAAP/GFS harmonisation agenda setting process was investigated using three questions:

1. What was the historic institutional context in which the policy idea of ‘GAAP/GFS harmonisation’ was identified?
2. How was the idea of GAAP/GFS harmonisation developed to gain agenda entrance at the FRC?; and
3. Having gained admission to the FRC, how did GAAP/GFS harmonisation become a strategic direction of the FRC to the AASB?

Research question 1: What was the historic institutional context in which the policy idea of ‘GAAP/GFS harmonisation’ was identified?

According to the DASF, the historic institutional background is important because existing structures affect, but do not necessarily limit the agenda setting process. First,
actors have to make sense of and negotiate their way in this environment. Second, the DASF assumes that a critical event, such as a crisis, a regulatory or political change, furthers change processes. Third, while in most circumstances it would be expected that the identification of a policy idea or solution is a response to existing problems, researchers of public policy processes have found that ideas can be identified before problems occur or that PEs develop proposals and go ‘problem surfing’ to advance their policy idea (Boscarino 2009; Kingdon 2011). It was, therefore, important to consider which issues and problems were identified and discussed before the policy idea was found and which problems and issues were used to later justify the enactment of the policy solution. Last, the in-depth discussion of the context of a study provides a ‘thick description’ necessary to ensure credibility of the research from a methodological aspect.

Prior to the identification of the idea of GAAP/GFS harmonisation, a number of public sector accounting issues were discussed at the Public Sector Accounting Standards Board (PSASB) and in the agendas of the government or government organisations. The PSASB was focused on the development and later the review of public sector accounting standards AASB 27, AAS 29 and AAS 31. At the federal Government level, inquiries and reviews were focused on the adoption of accrual accounting and the format of portfolio budget statements.

The only two issues that were discussed before the identification of the policy idea was the lack of audit of GFS documents and that there were differences between GAAP and GFS. Evidence for these discussions was only found within the policy stream by the Australian Bureau of Statistics, the PSASB and Treasury. The audit discussions had, however, not been recognised or framed as a problem of the dual reporting regime. The differences between GAAP and GFS were discussed in the context of providing
reconciliation statements and avoiding differences where possible. They were, however, not discussed in the sense of developing a harmonised set of principles until 2000.

The thesis found that the lack of comparability between budget and end-of-year financial statements was a relevant issue for at least two jurisdictions, where budgets were prepared on a GFS basis and only GAAP end-of-year financial statements were presented. Other jurisdictions did, however, not see this as an issue because they prepared both budgets and end-of-year financial statements on the same basis. No evidence was found that comparability across jurisdictions was discussed as an issue, or that there was confusion among users between GAAP and GFS reports. There was no evidence that this issue was discussed at the standard setting level or across jurisdictions in the context of GAAP/GFS harmonisation.

In addition to these technical issues, there were also structural developments that had an effect on the GAAP/GFS harmonisation agenda setting process. This critical event was the rearrangement of the accounting standard setting structures as part of the Corporate Law Economic Reform Program (CLERP). The thesis has argued that as a result of these reforms, Treasury increased its influence over standard setting arrangements by the establishment of the FRC as the oversight body of the AASB and by merging the PSASB into the AASB. Treasury was responsible for appointing members to the FRC and the FRC was responsible for appointing members to the AASB. In addition, the FRC could issue broad strategic directions to the AASB.

Based on the evidence gathered, it was argued in this thesis that a PE from Treasury and one from Finance encountered issues during the preparation of the budget documentation for the financial year 1999-2000 where GAAP and GFS numbers were
presented together for the first time. Both PEs were charged with the development of the budget papers in their respective capacities and both PEs had some familiarity with GAAP and GFS. One of these PEs emphasised that the exposure to, understanding of and appreciation for each other’s discipline was a main factor in the identification of GAAP/GFS harmonisation. One of the PEs suggested that the idea of GAAP/GFS harmonisation was born during 1999 in a train ride from Paris to London, the cities where they met with representatives of GAAP accounting and GFS accounting. In conclusion, the thesis found that the PEs identified the policy solution of GAAP/GFS harmonisation in anticipation of and before actual problems occurred.

Research question 2: How was the policy idea of GAAP/GFS harmonisation developed to gain agenda entrance at the FRC?

The evidence indicated that the PEs had to build an argument to convince the standard setters that GAAP/GFS harmonisation was a worthwhile project. This process had two components. The PEs, first, had to search for significant problems to justify the project. Second, they engaged in a coordinated and communicative process to convince influential actors in the policy and political arena of the worth of the project. By doing so, they coupled the problems, policy and politics streams and managed to convince the FRC to consider GAAP/GFS harmonisation.

Finding problems for the policy idea

The thesis showed that the policy idea of GAAP/GFS harmonisation was identified in anticipation of and before certain issues occurred or were associated as issues of dual GAAP and GFS reporting. The PEs then went ‘surfing’ for problems that would be addressed by the policy solution to strengthen its chances of a successful agenda entrance. The thesis found that the PEs were able to associate existing, previously
unrelated issues and discussions with the policy solution. These issues included confusion among users, the lack of audit of GFS numbers, the lack of comparability between budgets and end-of-year financial statements and the lack of comparability across jurisdictions. These reasons were cited as a justification for GAAP/GFS harmonisation in the FRC strategic direction, approximately three years after the identification of the policy idea.

The first evidence of references to GAAP/GFS harmonisation in a formal political arena was at a parliamentary inquiry into accrual budgeting in 2001. Submissions to the inquiry confirmed that the Commonwealth Auditor-General felt that the audit of GFS data was feasible if it was required by the government. The resulting report in 2002 was the first government report that supported greater harmonisation between GAAP and GFS. The reasons cited for harmonisation were confusion amongst users and difficulties in interpretation when moving between the GAAP and GFS based end-of-year financial reports. The audit of GFS data was a separate issue.

The thesis found that a number of new issues emerged when the Commonwealth government introduced the dual reporting regime for the budget cycle of 1999/2000. In particular, it was found that politicians were confused by the different bottom lines and treatment of a number of items in GFS and GAAP. Despite being cited as one of the four reasons for GAAP/GFS harmonisation, no evidence was found that comparability across jurisdictions was discussed in the context of a dual reporting regime in any formal and meaningful way at the governmental or standard setting level prior to the identification of the policy idea.

The first evidence of the complete set of these problems being formally presented was in the draft strategic direction at the FRC meeting in September 2002, the meeting
before the direction was issued. Even a HoTARAC discussion paper presented in an AASB meeting in July 2002 only noted that there were inconsistent approaches to whole of government reporting across Australian jurisdictions (HoTARAC 2002).

There was also evidence that the Budget Estimates and Framework Review was initiated by a PE as part of the lobbying process in 2002. This review included a recommendation for GAAP/GFS harmonisation. As the review is not publicly accessible, no evidence was available about which issues were associated with GAAP/GFS harmonisation at this time.

The events demonstrate that the policy solution of GAAP/GFS harmonisation was not the result of a well-thought through assessment of the costs and benefits and a well-defined set of problems. Instead, the process shows evidence of the satisficing behaviour of the PEs as assumed by the DASF. The PEs came up with a solution to some anticipated problems. As part of the agenda setting process, they associated a number of existing, previously separately discussed problems to the policy idea and added them at the ‘last minute’.

Coordination and communication

The thesis argued that the PEs originally focused their lobbying activity on the PSASB which was aware of the two reporting regimes, but saw them as serving different purposes. By 2000, the CLERP reforms were implemented and the PSASB was incorporated into the newly formed AASB. The thesis showed that Treasury increased its influence on accounting standard setters with the establishment of the FRC as the AASB’s oversight body. Public sector board members and constituents felt that the AASB did not make sufficient progress on public sector issues. One potential reason for this was the imminent adoption of international financial reporting standards. While
GAAP/GFS harmonisation was officially a high-priority project, the Board’s actions suggested otherwise. It kept deferring the issue. By approximately 2002, the PEs became increasingly aware of the likelihood that the AASB was tending towards a negative decision about the development of a GAAP/GFS harmonised accounting standard. This prompted the PEs to move their focus to the FRC. The AASB finalised its decision not to pursue GAAP/GFS harmonisation at its December 2002 meeting. One of the reasons was that the AASB did not see itself as an ‘ex-ante’ budget accounting standard setter.

During 2002, when the PEs realised that the AASB might not address the project to their satisfaction, they increased their lobbying activities at the policy and political level. Using a coordinated and communicative process, the PEs created an epistemic community, which was united in a belief that the GAAP microeconomic objectives and the GFS macroeconomic objectives could be served by one GAAP/GFS harmonised accounting standard. Such a project could also address other issues of public sector accounting. Members of this epistemic community included HoTs, ACAG, federal government departments and parliamentary committees. The coordination included the appointment of PEs to the FRC and the AASB, and bringing GAAP/GFS harmonisation to the attention of relevant individuals and bodies. The communicative aspect included presenting cognitive and normative aspects of GAAP/GFS harmonisation. The emphasis and content of these presentations was tailored to the audience. As expected, discussions of cognitive detailed technical issues played the most important role with the AASB and HoTs. Cognitive issues were discussed at a superficial level at other fora, including parliamentary committees and the FRC, where normative arguments dominated the communication process. Discussions about potential constraints were negligible.
Through direct access, the PEs managed to bring the project to the attention of the FRC. This was, however, not sufficient to convince the FRC to include it in its official agenda until June 2002. There were no records of the project in the FRC minutes prior to this date. In June 2002, the PEs recognised and utilised a window of opportunity to convince the FRC to consider GAAP/GFS harmonisation more seriously. This window of opportunity was the issue of the FRC’s first strategic direction that required the AASB to adopt IFRSs for both the private and the public sectors. The PEs saw this as an opportunity for a strategic direction for the public sector. They argued that the adoption of IFRS was basically a private sector initiative and that a strategic direction for public sector accounting was also needed. In the case of GAAP/GFS harmonisation, this window of opportunity was utilised without the explicit support of the policy and political streams.

The success factors assumed by the DASF, the coupling of the three streams and the demonstration of technical feasibility, value acceptance and a consideration of potential future constraints were, however, formally demonstrated to the FRC only after the project had made its successful agenda entrance. It is, therefore, argued that a combination of the CLERP restructures of the agenda setting arrangements, the direct access of PEs to decision makers and the window of opportunity provided by the first FRC strategic direction was responsible for the successful agenda entrance of GAAP/GFS harmonisation.

**Research question 3: Having gained admission to the FRC, how did GAAP/GFS harmonisation become a strategic direction of the FRC to the AASB?**

GAAP/GFS harmonisation got onto the FRC’s agenda entrance without a demonstration of the coupling of the three streams or a discussion of technical feasibility, value acceptance or a consideration of potential future constraints. The thesis found,
however, that these success factors were helpful in ensuring the issue of the FRC strategic direction to the AASB.

By late 2002, the PEs had successfully coupled the three streams of problems, policy and politics. They had associated existing and emerging public sector issues with GAAP/GFS harmonisation, which had now turned from a policy idea to a policy solution. The PEs had also managed to convince actors from the policy and political arena of their project.

In essence, the AASB lost control over its agenda and the issue of the strategic direction led to friction between the FRC and the AASB. The AASB felt that the FRC had overstepped its responsibilities by instructing the AASB to develop an accounting standard, rather than asking it to consider the issue. These events were leaked to the press and the Chairmen of the FRC and the AASB had to appear before a Senate committee. Interviewees who spoke about these frictions emphasised that the AASB was not opposed to the project, but wanted to consider it on its own terms. The issue was that the FRC had intruded on the AASB’s position as an independent standard setter. The FRC eventually revised its strategic direction by removing the prescriptive elements of the scope of the harmonisation standard, but leaving the requirement that a GAAP/GFS harmonised accounting standard should be developed.

9.2.2 Implications for accounting agenda setting processes

The implications of this case study arise from the differences of what would be typically expected about independent oversight or an accounting standard body and what was actually found in the investigation of the GAAP/GFS agenda setting process. Such expectations include that:
the desired level of independence of the accounting standard setting body is reflected in the formal and informal regulatory institutional environment;

in addition to having technical expertise, key actors in the agenda setting process should be politically sophisticated;

decisions are based on information that is as complete and unbiased as possible. This requires that decision-makers are familiar with different aspects of the issue under consideration, including a consideration of cognitive and normative arguments and potential future constraints and benefits; and

that, at a minimum, the main affected participants are involved in the due process.

The case study, however, identified a number of deficiencies in the GAAP/GFS harmonisation process in three main areas:

- the regulatory institutional environment;
- individual and collective actors in the agenda setting process; and
- discourse.

Deficiencies attributable to the regulatory institutional environment were evident at four levels. First, Treasury had a high level of direct, indirect, formal and informal influence on the FRC and the AASB as a result of the CLERP reforms. This meant that it had increased influence over public sector accounting standard setting and, therefore, the accounting standards that would apply. This influence was, however, undesirable, because the AASB was supposedly an independent accounting standard setting body.

This thesis argued that this influence was a significant factor in the decision making process of the FRC to issue the GAAP/GFS harmonisation strategic direction and that,
as a result, the FRC and the AASB lost control over their agendas. The independence of the FRC and the AASB throughout this time are, therefore, questioned.

Second, the newly created FRC had little experience as an oversight body and in issuing strategic directions. At the time of the GAAP/GFS harmonisation agenda setting process, the FRC had arguably not yet clarified and operationalised its identity, role or raison d’être. The result was a flawed due process before the FRC strategic direction was issued. The GAAP/GFS harmonisation project was considered only briefly by the FRC. FRC board members with non-public sector backgrounds made little contribution to the debate in the GAAP/GFS harmonisation agenda setting process and were found to be overly reliant on the expertise of public sector members and the support from members of the newly created epistemic community. This reliance, however, hardly satisfies common expectations of members of an oversight body. By analogy, private sector company directors are expected to adopt sufficient scepticism and make sufficient inquiries to inform themselves even in areas in which they may not have technical expertise. This process allows them to make informed and professional decisions. Over-reliance on others’ judgement or pressures from certain lobby groups is not acceptable. In essence, these events describe a failure in the FRC’s governance process as an oversight body and the loss of control over its agenda.

This deficiency was recognised by the FRC. In February 2003, shortly after the FRC’s strategic direction on GAAP/GFS harmonisation, a new FRC Chairman was appointed. He recalled (Interview, 17/11/2010)

“The responsibilities of the FRC were expanded, and this was during the time when I was Chairman, to include oversight of the Auditing Standards Board. And so one of the first actions when we were given that responsibility was to undertake a review, an internal review, that led to a strategic directive being issued with regard to the Auditing Standard Board. The process that we followed there was I think a more transparent process and involved significant interaction with relevant
stakeholders than had been the case with either of the two strategic directives issued in 2002. And part of that reflected my learnings and my observations based on how we did what we did in 2002. I felt that there was room for improvement and that was reflected in the process that was adopted for arriving at the strategic directive for the auditing Board. So for example one of the things that we did then was that there was actual discussion between the FRC and the Auditing Board which gave us a good understanding of the Board’s view.

After the GAAP/GFS harmonisation experience, the FRC also adopted a formalised due process before issuing strategic directions. This process includes an “adequate opportunity” for the FRC and the AASB board members and stakeholders “to consider a draft direction and to provide comment on that draft to the FRC” (ASIC Act 2001, section 225(2A)(c), paragraph 7).

Through the FRC’s strategic direction, the AASB, too, lost control over its agenda due to the lack of a formalised agenda setting process and clarity around the issuance of broad strategic direction. While the FRC has taken measures to ensure a due process before issuing strategic directions, the AASB has not developed a more formalised agenda setting process to safeguard against losing control over its agenda.

Third, the new regulatory institutional environment resulted in a situation where private sector and public sector accounting standard setting issues had to compete in the context of a majority of private sector board members at the FRC and the AASB. As noted above, at the FRC, members with private sector backgrounds over-relied on the expertise of members with public sector background. At the AASB, public sector members felt disadvantaged because private sector issues dominated the AASB’s agenda. This indicates that there are efficiency and effectiveness issues when there is a single standard setting body that considers both private and public sector accounting.

Last, the regulatory institutional environment also provided a justification for why the AASB initially rejected the GAAP/GFS harmonisation project, despite the fact that public sector constituents highlighted a need for consideration of a certain issue:
budgetary reporting. The AASB did not see itself as a standard setter for ex-ante budgetary reporting. The PEs and other public sector constituents saw budgeting as a main component of the GAAP/GFS harmonisation project. This issue has not yet been addressed despite the recognised importance of budgets in the public sector and requests from public sector constituents. The IPSASB has, for example, identified budget reporting “as a key public sector specific issue” (IPSASB 2004a, Preface). The IPSAS has also recognised that whether budget reporting falls within its mandate is a contentious issue (IPSASB 2004b). This recognition suggests that there might be a regulatory space to be filled or contested considering current accounting standard setting bodies focus their activities on ex-post financial reporting, whereas statistical bodies have already developed frameworks for ex-ante financial information, such as the GFS framework.

The thesis confirmed the political nature of the agenda setting process and highlighted the desire and need for key actors in this process to be politically sophisticated. The thesis showed that the PEs were highly skilled and politically savvy individuals who managed to sidestep the AASB’s decision by applying these skills. This suggests that members of standard setting boards and, in particular, the Chairpersons as leaders of these boards, should be able to act and negotiate in a political environment to ensure that they are not ‘overrun’ by PEs or strong collective actors and don’t lose control over their agendas. The political environment includes other standard setting national and international standard setting organisations, oversight and funding organisations and a wide range of collective and individual constituents. Of course, the need for institutional and political sophistication can be equally applied to actors who try to instigate change in accounting standard setting.
The political sophistication of the PEs was mostly evident in the coordination and the communication of the agenda setting process. These findings highlight the importance of the coordinated discourse for agenda setting processes, in other words, the ability to tailor arguments to the respective audiences. For initiators of change, this includes a consideration of in- and exclusion of certain groups and or arguments in the agenda setting process. In the GAAP/GFS harmonisation case, the PEs were, for example, able to avoid or dismiss discussions of potential future constraints. They were also able to avoid the perception to act in their own self-interest.

In contrast, for standard setting bodies, the aim is to ensure that relevant arguments by relevant constituents should be considered to ensure that decisions are based on information that is as complete and unbiased as possible, which suggests, again, the need for a formalised agenda setting process.

What lessons can be learned from the investigation of this case study? First and foremost, the case study highlights the need for a more formalised agenda setting process for public sector accounting standard setters to mitigate against the deficiencies that were identified in the GAAP/GFS harmonisation process. This finding is supported by Howieson (2009a), who provided insights into the practical application of judgements that are currently made by agenda setters in this informal environment. He suggests that despite early developments of formalised agenda setting criteria at the FASB and the IFRIC, there are many unresolved issues. Arguably, the complete lack of formal criteria is even less desirable. Such a formalised process should include explicit requirements to consider cognitive and normative arguments. It should also include discussions of potential future constraints, costs and benefits of projects and a debate of how these elements should be weighed against each other. Such considerations will
allow decision-makers to reach conclusions based on the best possible set of information and safeguard against pressures from constituents and lobbies.

As many of the deficiencies were a result of the restructure of the standard setting arrangements and a lack of experience with the new arrangements, the findings from the GAAP/GFS harmonisation agenda setting experience are particularly relevant to policy makers that consider the establishment or restructure of public sector accounting standard setting bodies. An example is the current discussion about the governance structure surrounding the potential adoption of IPSAS (or a European equivalent) in the European Union (European Commission 2013).

The level of desired and actual independence of the standard setting bodies should be clearly identified in form and implemented in substance to ensure that the respective bodies do not lose control over their agendas. It is also important that formalised due process procedures based on experiences of established accounting standard setting bodies for agenda (and arguably standard) setting are developed and put into action from the very beginning to avoid the pitfalls of the Australian experience.

9.2.3 Boundaries and limitations of the case study

There are a number of boundaries and limitations to the research project. They relate to the content of the case study and to the methods used. The research questions focused on the agenda setting process of GAAP/GFS harmonisation at the FRC level. The study does not consider the development and the implementation of the resulting accounting standard. This means that the study does not allow an assessment of whether the claims and arguments made by the promoters of GAAP/GFS harmonisation have been achieved. Due to the study’s focus on the FRC, the decision-making process at the AASB level was only considered with respect to its influence on the FRC’s agenda setting process. This means, that the consideration of GAAP/GFS harmonisation at the
level of the AASB were not investigated in the same depth as the FRC agenda setting process and not all AASB members at the time were contacted for an interview. While it is recognised that further interviews with AASB members, as well as more members from the epistemic communities might have offered further insights into the agenda setting process, mitigating techniques were used to ensure the quality of the research, including data triangulation and interviews until data saturation was achieved.

The use of oral history had a number of limitations. A number of individuals and organisations decided not to participate in the research project, could not be contacted or had already passed away. Despite extensive interviews and supplementation with written data, some details of the lobbying activities, including information about timing and content, could not be obtained. This was because individuals were sometimes not able to remember details about informal events. Future studies about agenda setting processes could conduct interviews closer to the events or attempt to observe directly relevant activities.

A general limitation of single in-depth case studies is that findings cannot be generalised. Nonetheless, by ensuring the quality of the research through the elements presented in Chapter 5 of this thesis, the findings of this case study provided trustworthy and useful information about and insights into (accounting) agenda setting processes to inform future research and practice.

9.3 THEORETICAL CONCLUSIONS

This section summarises the theoretical aspects of this thesis. This includes a review of the application of the criteria and characteristics that were derived to identify the PEs and the epistemic community of the GAAP/GFS harmonisation agenda setting process. This section also includes a discussion of the limitations of the DASF. The section concludes with a statement of the main contributions of the DASF.
9.3.1 Summary of theoretical findings

The main theoretical contribution of this thesis is the development and application of the Discursive Agenda Setting Framework (DASF), which was developed to address the limitations of existing constructs that have been used to examine agenda setting processes in accounting. The literature review focused on agenda setting studies in accounting from the mid-1990s. The models, theories and frameworks from these studies were assessed using elements that had previously been used to contrast and compare public policy constructs (Schlager 2007; Schlager and Blomquist 1996; Zahariadis 1998). The review identified the following limitations:

- a lack of ontological, epistemological and/or theoretical depth;
- a neglect of relevant elements of the agenda setting process, in particular
  - institutional factors; and
  - collective or individual actors and assumptions about influences on their behaviour.

As a result of the review, the DASF was developed. It is based on Kingdon’s (2011) multiple streams (MS) framework and Schmidt’s (2008, 2010, 2011a, b) discursive institutionalism (DI). DI was added to MS to address its lack of institutional considerations. As neither MS nor DI include details about collective actors, the DASF was further supplemented with Haas’ (1992) concept of the epistemic community.

The DASF is set within an epistemology which assumes that ‘reality’ is a social construct. In this case, the ‘reality’ was the GAAP/GFS harmonisation agenda setting processes within an institutional background. MS, DI and the concept of epistemic communities all have characteristics of social constructionism and are, therefore, suited for this epistemological context. The epistemological and theoretical underpinnings guided the analysis and interpretation of the data and allowed, therefore, an in-depth
consideration and explanation of the GAAP/GFS harmonisation agenda setting process, rather than a mere description.

The DASF assumes that a historic institutional background is important for the consideration of public policy agenda setting. It assumes a critical juncture that influences this process. In the case of GAAP/GFS harmonisation it was argued that the project was furthered through the restructure from the CLERP reforms that increased the influence of Treasury over public sector accounting standard setting arrangements. The thesis argued that this structural environment allowed PEs from the public sector to take up strategic positions at the FRC and the AASB. The thesis also suggested that the FRC was filled with a number of members who had a history of working with Treasury and could, thus, be assumed to be sympathetic to its cause.

Consistent with the DASF, the PEs undertook a coordinated and communicative process to bring together the three streams of problems, policy and politics. Communication and coordination efforts were found to occur at the policy and political level. The thesis showed that PEs tailored their cognitive and normative arguments to the audience. Cognitive arguments were discussed at the AASB and HoTs level, whereas normative arguments were emphasised at the FRC and with political actors. Any discussion of potential future constraints was limited.

Coordination also occurred with both policy and political actors. The thesis argued that the PEs coupled the problem and policy streams by associating existing and emerging problems with the policy idea of GAAP/GFS harmonisation. During this process, the policy idea became a policy solution. They also brought the policy stream on board the project by creating an epistemic community, which was identified by the belief that a harmonised accounting standard could address both macro and micro objectives, whereas GAAP and GFS had been perceived as independent reporting frameworks that
served different purposes. The epistemic community also included actors from the political stream and, in particular, from Senate and Joint Committees.

An issue in the application of the DASF was the identification of the policy and the political streams. Traditionally, public policy constructs consider the elected government as the political stream, whereas the bureaucracy is within the policy stream. This setting needs to be re-defined, however, for public sector accounting standard setting. In this study, the FRC and the AASB were included in the policy stream, because they were specialist boards concerned with highly technical issues. Further, members of both boards were appointed, rather than elected. The study found, however, that both bodies were exposed to political pressures, similar to actors in the political arena. The biggest difference to traditional political actors is probably that the wider public is not typically involved or interested. However, the DASF had to be modified to include consideration of communication and legitimisation in both the policy and political streams. Future applications of the DASF might have to reconsider whether the standard setting bodies should be placed in the policy or the political stream to accommodate the specific institutional context.

The investigation of the case study confirmed the role and existence of a window of opportunity. This window was provided by the FRC’s first strategic direction which required the adoption of IFRSs by both the private and the public sector. The PEs recognised this opportunity and framed an argument that there should be a strategic direction for the public sector. While the AASB rejected the idea to develop a GAAP/GFS harmonised project on cognitive technical grounds, the PEs were able to convince the FRC to issue a strategic direction. The thesis found that the FRC did so because of normative arguments and the support for the project that was provided by the
newly created epistemic community. This support exerted pressure on the FRC to issue the strategic direction.

Inherent in the DASF’s social constructionist epistemological perspective is the emphasis on human actors. The identification of these actors and their characteristics provided some challenges in the application of the theoretical concepts. The application and some of their theoretical implications of the elements of the PEs and the epistemic community are, therefore, reviewed in more detail in the following sections.

9.3.1.1 Policy Entrepreneurs in the GAAP/GFS harmonisation agenda setting process – A special consideration

According to the DASF, PEs are boundedly rational individuals who display satisficing behaviour. They also have a set of ‘acquired’ skills that distinguishes them from general supporters of policy ideas and solutions. They have a claim to hearing, political connections and negotiation skills and are persistent. PEs are also sentient (thinking and speaking) agents who use their background ideational and foreground discursive abilities in a coordinated and communicative process to bring together the three streams of problems, policy and politics.

Due to the difficulties in applying these criteria, a number of characteristics capable of being operationalised were developed to assess the ‘acquired’ skill set of the PEs and to enable a distinction between PEs and general supporters of the GAAP/GFS harmonisation program. A number of key individuals were initially identified as potential PEs. While four PEs were eventually identified, the application of these characteristics also presented some challenges. The application of the characteristics and their implication for the theoretical development of the concept of PEs are presented in the remainder of this section. Last, an issue that emerged throughout this
thesis was the motivation of the PEs. Albeit not specifically considered in this thesis, the motivation of the PEs is also briefly discussed in this section.

**Boundedly rational actors: decision making under uncertainty and satisficing behaviour**

PEs are boundedly rational because they are assumed not to have access to, nor a capacity to, process all information, including future information. As a result, PEs make decisions under uncertainty and display satisficing behaviour. This can lead to situations where policy ideas or solutions are identified before related problems are clearly identified and associated with them. In these cases, PEs need to look for problems to justify their preferred policy idea.

The decision-making in uncertainty was evidenced by the PEs’ original focus on the AASB. Only after realising that the AASB might not deal with GAAP/GFS harmonisation in the way the PEs desired, did they refocus their lobbying activities to other actors in the policy and political arena. The fact that the GAAP/GFS harmonisation idea was identified by the PEs before existing problems were associated with it and emerging problems had occurred, provides another indication of the limited rationality and satisficing behaviour of the PEs.

From the bounded-rationality argument it follows that PEs are satisficers. As it is not possible to find the ‘optimal’ policy solution, they find a solution that is ‘good enough’. An illustration of the satisficing behaviour is the emergence of the term ‘GAAP/GFS harmonisation’. There were essentially four options to deal with the problem. They were (1) to do nothing, (2) to use only GAAP or (3) only GFS or (4) some form of hybrid of GAAP and GFS. Rather than, however, exploring these options based on their rational merit, the PEs pushed for their preferred policy solution (option 4), essentially circumventing option 1. Option 1 would have included a discussion of the
potential merits of dual reporting. While the AASB decided at some stage that GAAP/GFS harmonisation should not be pursued, it did not base this decision on such cognitive arguments, but on the basis that it did not feel that is was the responsible standard setting body.

The data showed that options 2 and 3 were, to some extent, included in option 4. A possible explanation for this situation is that it would have been politically and institutionally difficult to dispose of either GAAP or GFS reporting.

The term ‘harmonisation’ was for a long time left open and the explanations for why individuals supported a harmonised approach in the end, varied widely. PE A (Interview 18/03/2011) recalled:

“[Initially], it was to adopt an approach to try and bring Australian GAAP into the GFS world basically. […]

Harmonise can mean a lot of different of things of course. Harmonise can mean take the best of both. Harmonise can mean, we just adopt one and the other one is consumed. […]

At the end of the day we were very clear that we wanted one system. One accounting, one set of accounting standards. “

PE C (Interview 09/03/2010) described the purpose of the FRC strategic direction as something entirely different:

“[The FRC strategic direction] has been widely misinterpreted as an attempt to impose a GFS framework on GAAP. That is a very severe misunderstanding of what the strategic direction was all about. When you distil it down to its most important essence, it was about one thing and one thing only, and that was putting the AASB back in charge of accounting standard setting for the public sector in Australia. That’s what it was really about.”

A number of interviewees suggested that PE C was initially a strong promoter of GFS reporting. One interviewee suggested that PE C might have changed his perspective on the term ‘harmonisation’ and the purpose of harmonisation over time:

“Now I must say that’s what I’ve heard [PE C] talk about more recently but in the past I haven’t heard him talking about, if you like, this project being the saviour of GAAP. I’ve perceived it – and I could be totally wrong – but I’ve
perceived it more as it’s a way for [PE C] to overcome GAAP, to beat GAAP. Because [PE C] wouldn’t regard GAAP as being the most useful information for users in the public sector. In those days I think [PE C] would argue GFS was more useful and therefore GAAP should be replaced. So, now I don’t know why [PE C]’s changed that tune and I might be wrong. [PE C] might be consistent throughout, but certainly my perception was [PE C’s] view was GFS is better than GAAP. Now [PE C] is saying GAAP is good and we need to protect it and the only way to protect it is for it to open itself up a bit and let GFS in a bit.” (Interview 23/02/2010)

It is difficult to determine why the PEs proposed ‘GAAP/GFS harmonisation’ and not either or the other. One plausible explanation is that if they wanted the AASB to develop an accounting standard, the chances of the AASB to work on something outside of GAAP were slim. It appears, however, that the purpose of the strategic direction and what ‘harmonisation’ meant was not clearly defined. This could have been coincidental, in which case it would be satisficing behaviour. It was ‘good enough’.

On the other hand it could have been strategic behaviour. The PEs could have realised that an open definition of the term ‘harmonisation’ would provide a basis to ensure that the problems identified would be addressed, leaving the more detailed conceptual and technical solutions for a later stage. In this case, the political, strategic and manipulative aspects of PEs would be confirmed. The data does not allow a conclusive interpretation of this issue. What is clear, however, is that not all logical options were discussed in any meaningful way, supporting the assumption that the PEs were satisficing.

Claim to hearing, political connections and negotiation skills and persistency

The DASF assumes that PEs have a claim to hearing through expertise, an ability to speak for others and/or authoritative decision making positions. They also typically have political connections or negotiation skills and persistency. These criteria were investigated in a relatively straightforward manner as summarised in Figure 6.2. All but one key individual satisfied these criteria and characteristics. These characteristics
were, therefore, necessary, but not sufficient to distinguish PEs from general supporters of GAAP/GFS harmonisation.

**Sentient agents**

Sentience is reflected in the PEs background ideational abilities and their foreground discursive abilities. The application of the characteristics representing the background ideational abilities of PEs and other key individuals was relatively straight forward. All key individuals were university-educated in economics, accounting or statistics and worked within the Australian public sector. All key individuals had a minimum of a senior public service position, some were in leading positions as heads of departments. While all key individuals worked in an environment that saw GAAP and GFS as different and competing financial reporting frameworks, they were also exposed to both reporting regimes to varying degrees. Through the PEs background ideational abilities and their exposure to both frameworks, they were able to reassess and change this perspective. They developed a new perspective that both reporting systems were moving towards each other and could be used in a complementary, harmonised way.

The degree of exposure provided a first difference in the identification of PEs. Two of the individuals identified as PEs were directly charged with developing the first budget documents that required GAAP and GFS numbers in the same report. Another PE was also directly involved at a later stage. Again, however, the background ideational abilities were not sufficient to distinguish the PEs from the other key individuals.

The deciding criterion was, therefore, the foreground abilities of the PEs. The PEs used this ability to communicate and coordinate the agenda setting process of GAAP/GFS harmonisation. Only four individuals were deeply involved in the communication and coordination in the policy and political stream and were responsible for associating
problems with the policy solution. While some individuals appeared in key meetings to promote the project, they did not show the same level of involvement in the coupling of the three streams as the PEs.

The thesis showed that the PEs recruited actors from the policy and political arena by tailoring their communication to the respective audiences to convince them of the benefits of GAAP/GFS harmonisation. The only organisation that resisted their efforts was the AASB which rejected the project on cognitive, technical grounds. The PEs, however, anticipated the AASB’s decision and focused their lobbying activities on the FRC. This included the creation of the new epistemic community described in Chapter 8. The PEs were able to recognise and utilise a window of opportunity, resulting in the second FRC strategic direction, which directed the AASB to develop and implement an accounting standard that would harmonise GAAP and GFS. The foreground abilities were found to be the differentiating criteria in the GAAP/GFS harmonisation agenda setting process.

The summary of characteristics in Figure 6.2 demonstrated that despite the development of operationalisable concrete characteristics, it was difficult to differentiate PEs from other promoters of the GAAP/GFS harmonisation program. It is not possible or desirable to identify a PE by a fixed number of characteristics. Some characteristics might weigh more than others depending on the circumstances and context of the processes under investigation. The identification of PEs is further complicated, as PEs might be ‘hidden’ and their actions not recorded and not obvious, even to observers of these events. For example, all interviewees mentioned Individual C (the ‘public face’ of GAAP/GFS harmonisation) as an influential person. Individual A whose status as a PE became evident only by a more in-depth analysis, was, however, mentioned by only
four interviewees. The identification of PEs, therefore, remains to an extent dependent on the judgement of the researcher.

An element of professional judgement by the researcher based on available data remained and was necessary to evaluate the importance of events, documents or activities. Quantitative assessments of participation are not necessarily appropriate.

The application of the criteria and characteristics suggests a hierarchy of criteria. To coordinate and communicate a new policy idea as part of the ‘foreground discursive ability’ criterion, having a claim to hearing and political connections or negotiation skills is a necessary pre-condition.

In addition, the difficulties in the identification of PEs in the GAAP/GFS harmonisation agenda setting process showed that a number of individuals made significant contributions to the agenda setting process without being identified as PEs. This suggests that it may be more helpful to develop a set of criteria to identify a continuum of levels of initiation and activity, rather than classifying individual actors as PEs or not. On one end would be PEs in the traditional sense. These observations highlight the need for future research into the operationalisation of the identification of PEs and other important individual actors.

**Motivation of PEs**

PEs are identified as individuals that invested time and resources to further the project. The question arises why do PEs make these investments? MS assumes that PEs act “in the hope of a future return” (Kingdon 2011, p. 122), which could be personal interest, promotion of one’s own values or changing the shape of public policy, or because they are ‘policy groupies’ who enjoy being close to power or being part of the action (Kingdon 2011, p. 123). DI does not consider this aspect in detail.
Interviewees were asked about their perceptions of the motivations of the PEs to push GAAP/GFS harmonisation. The interviews did not support any evidence that the PEs were motivated by personal gain. Two interviewees said that they did not know the PEs’ motivations. Most interviewees believed that the PEs thought it ‘the right thing to do’. This is in contrast to Kingdon’s assumption that PEs act for personal benefit but is consistent with a social constructionist approach in which individuals have a higher level of agency and are motivated by issues other than personal gain.

Considering all available data, there is, however, some evidence for an alternative self-interest perspective in the motivation of the PEs. All PEs were directly involved with preparing budgets, including end-of-year financial documents in Treasury or Finance Departments, and were directly responsible for these reports. As a result, any criticism or issues about these documents could be interpreted as criticism of their professional performance. This would lead to a desire by the PEs as well as HoTs to avoid such situations. The desire to avoid situations in financial reporting that could reflect negatively on the PEs or politicians was reflected in the reasons that were officially provided for GAAP/GFS harmonisation. The audit of GFS statements (including budgets) would provide independent assurance by Auditors-General and mitigate criticism from the public that the accounting choices were politically motivated or otherwise flawed. The audit of such statements would provide additional independence and assurance for the Loan Council, which used these reports to negotiate the distribution of taxes across Australian jurisdictions. Comparisons between ex-ante budget and ex-post statements would address calls by politicians for help in discharging their accountability, which they saw as an issue that should be resolved by Treasury and Finance. Ensuring such comparability, including audit, would be beneficial to PEs, HoTs and politicians.
Another perspective on the PEs’ motivation was raised by two interviewees. One interviewee referred to this motivation as HoTs wanting to “discipline their political masters” (ACAG, Interview 10/11/2010). This perspective could be viewed as either altruistic or self-interested. Through the objectives and arguments used for GAAP/FGS harmonisation, this potential motivation is feasible and consistent with previously mentioned motivations.

Another potential motivation was raised by two interviewees. This was a desire to have an independent standard setter for public sector reporting, rather than Treasuries deciding on the accounting standards, with different outcomes across Australian jurisdictions. Having an independent standard setter would provide Treasuries with an opportunity to refer any potential issues and ambiguities to the standard setting body and remove pressure from political actors to alter reporting rules. There was no evidence that these issues were debated in association with potential benefits to PEs and HoTs. Instead, the issues were always framed in the interest and for the benefit of the government and Australian citizens.

While the motivations of the PEs and other key individual actors was not a main focus of the thesis, the data highlighted the variety of perceptions of the PEs motivations. In particular, it is important that the PEs were able to avoid any perception that the project was in their self-interest. This stands in contrast with Kingdon’s initial assumption that PEs act for their self-interest and highlights the need for further research into this area.

9.3.1.2 The epistemic community of the GAAP/GFS harmonisation agenda setting process – A review

The thesis set out to investigate the existence and role of an epistemic community in the GAAP/GFS harmonisation agenda setting process. The thesis argued in Chapter 8 that the PEs created an epistemic community and lobbied individual and organisational
actors, including their superiors in their respective departments, the Commonwealth Auditor-General and the ACAG, HoTs and the ABS. The following answers were found to the questions set out in section 4.6.2 of this thesis:

**What were the shared causal and normative beliefs of the epistemic community?**

The shared causal belief of the epistemic community was that the objectives of both micro-oriented GAAP accounting and macro-oriented GFS accounting could be addressed by a single set of GAAP/GFS harmonised accounting principles. The shared normative belief was that such a harmonised accounting standard would improve public sector financial reporting.

**What were their shared notions of validity?**

Technically, it was up to each jurisdiction to choose their financial reporting framework. The PEs and the epistemic community, however, recognised the importance of a validation of public sector accounting standards developed by the AASB. The development of an accounting standard by the AASB would provide a notion of legitimacy, as the AASB was perceived as an independent standard setter with a reputation of providing world-class accounting standards that were subject to a well-established consultative process and due diligence. The notion of validity of the ‘independent’ standard setting process to develop the GAAP/GFS harmonised accounting standard was inherently evident in the acceptance by all interviewees. It was also reflected in PE C’s quote (Interview 09/03/2010) that the purpose of the GAAP/GFS harmonisation project was about putting the AASB back in charge of accounting standard setting for the public sector in Australia.
What was their common policy enterprise?

The common policy enterprise was the GAAP/GFS harmonisation program itself. The project meant that common practice (the application of two separate reporting frameworks) of financial reporting by public sector accountants and economists would be changed to the application of one harmonised framework with the intention to improve public sector accounting. The normative argument that GAAP/GFS harmonisation would improve public sector accounting was repeatedly emphasised by PEs and noted as a main argument why members of the epistemic community supported the project.

What do the findings from the GAAP/GFS harmonisation agenda setting project mean for the inclusion of the concept of the epistemic community in the DASF?

The concept of the epistemic community in the case of the GAAP/GFS harmonisation agenda setting process is distinctive because it was not an established community, but created as part of the agenda setting process. The community was created because the PEs realised that they needed its support to convince the decision-making bodies and in particular the FRC. The findings showed the importance of the inclusion of the concept of the epistemic community in considering the role of collective actors in an agenda setting process.

The concept of the epistemic community was chosen because it provided a better theoretical guide for the consideration of collective actors than Kingdon’s policy community. Kingdon’s describes the policy community as “a group of specialists”, Kingdon 20011, p. 117), but does not provide further guidance. DI did not offer a specific concept for collective actors. The application of the epistemic community as part of the DASF in the GAAP/GFS harmonisation agenda setting case study suggests
that it is a valuable inclusion and provides a sound theoretical basis to identify and explain collective actors within the DASF.

In the GAAP/GFS harmonisation agenda setting case, the application of the concept of the epistemic community worked well. The inclusion of the concept was supported by the collected data. The coding of the data identified themes that would not have fitted into the theoretical model without the inclusion of the concept of the epistemic community. An example is the recurring mention of ‘accountants and economists’ and the role of a mutual understanding for each other’s disciplines and accounting frameworks. Related quotes helped to identify the epistemic community by explaining the belief system which bound this newly created network. This example of the coding is provided in Appendix 7. Evidence was found that GAAP and GFS were seen as two separate reporting frameworks that served different purposes. The PEs were able to change this perception and to gain support for the project. However, the level of active engagement differed among the members. The boundaries of the epistemic community and its relationship to, and the overlap with, the policy community were difficult to establish and remain unresolved. The experience with the application of the DASF in the GAAP/GFS harmonisation program suggests that the identification of more precise characteristics and a continuum of levels and importance of members might be helpful for future research.

The observations made and challenges encountered in this case study highlight the need for further research in this area. It was argued that the PEs created a new epistemic community because of a need for support of the project. Two collective actors, the FRC and the AASB, were criticised for their decisions. The FRC was criticised by some AASB interviewees that its reason for issuing the strategic direction was “to justify its existence”. The AASB, dominated by private sector members with arguably little
knowledge about public sector accounting issues, was criticised by public sector constituents for focusing on private sector issues. As demonstrated above, individual actors were, however, not perceived to act out of self-interest.

9.3.2 Contributions of the DASF

The theoretical contribution of this research project is the development and application of the DASF. The DASF combined MS with DI to address the lack of institutional considerations identified in prior research. MS allowed a structured analysis of the roles and interactions of the three streams of problems, policy and politics in the agenda setting process. It also highlighted the integral role of the PEs in this process.

The incorporation of DI allowed a more holistic consideration of the GAAP/GFS harmonisation agenda setting process. A major contribution of the DASF is its focus on the discursive elements of agenda setting. This focus allowed an analysis of the arguments that were used by different actors who were involved in the agenda setting process. It included explanations of the arguments that were made to influence the agenda setting process in different fora.

By attributing discursive and ideational abilities to actors in the agenda setting process, the DASF can allow an assumption that actors have a high level of agency and relax the assumption that they are not simply motivated by self-interest and limited by existing structures. The DASF also provided a structure for the historical background against which the context of GAAP/GFS harmonisation was set and within which the actors had to operate. The research project showed that the PEs were able to target their arguments to the appropriate audience. The AASB was the exception. This challenge was, however, overcome by refocusing on the FRC. The focus on the discursive elements in the GAAP/GFS harmonisation agenda setting process also showed the FRC’s failure to participate in the full spectrum of the discourse. In particular, FRC members with
private sector backgrounds did not sufficiently engage in the cognitive aspects of the discourse and a consideration of potential future constraints or costs. This made it possible for the PEs to persuade private sector FRC members and to push a decision for GAAP/GFS harmonisation at the FRC level within a very short period.

The DASF also considered the role and relevance of collective actors as members of the epistemic community. The study found that collective actors were activated by the PEs, as the need arose. While there appeared to be resistance to collective pressures at the AASB level, these pressures played an important role in providing the background support needed to exert pressure on the FRC to enact the GAAP/GFS harmonisation strategic direction. This observation relates back to the question of independence of the FRC and its members and the composition of the FRC and the AASB.

The data analysis confirmed the findings of the review of public policy models that neither MS nor DI alone would have been adequate to cover all identified themes. MS provided a framework that focused the attention of the researcher on the three streams of problems, policy and politics and the role of individual actors in the agenda setting process. Identified themes outside MS were about institutional and discursive factors. DI would not have offered the same tailored structure as MS to investigate the agenda setting process. In particular, while DI refers to cognitive and normative arguments in general, the specific success factors identified in MS and, specifically, technical feasibility were found to have played an important role in the GAAP/GFS harmonisation agenda setting processes. DI alone would also not have specified the interrelationships between different factors and elements for an item to make a successful agenda entrance and be adopted.

Neither MS nor DI provided for a consideration of collective actors. The data analysis emphasised, however, the importance of the GAAP/GFS harmonisation epistemic
community. In essence, the data analysis confirmed the usefulness of the DASF in its application to the GAAP/GFS harmonisation agenda setting process.

In summary, the DASF enabled an epistemologically and theoretically sound analysis of the GAAP/GFS harmonisation agenda setting process that considered all elements critical to the process that had previously been identified by researchers of public policy and agenda setting. As a result, the DASF constitutes a sophisticated and holistic framework to investigate agenda setting processes.

9.4 A CALL FOR RESEARCH

The thesis concludes with a call for future research in the areas of GAAP/GFS harmonisation and agenda setting. The thesis has identified the circumstances that led to the world’s first GAAP/GFS harmonised accounting standard in Australia. It has, however, not investigated the development or implementation of this standard. Considering the international developments on this front, there is a need for future research in the following areas:

- the development, implementation and post-implementation phases of AASB 1049 in Australia; and
- developments in GAAP/GFS harmonisation in other national and international settings.

The thesis also highlighted the political nature and identified a number of deficiencies in the agenda setting process. While there is a body of literature that has considered these issues in accounting standard setting in general and, more specifically, public sector accounting standard setting (Barton 1999; Baskerville and Pont Newby 2002; McGregor 1999; Ryan and Dunstan 1999), there is little in the accounting agenda setting literature. Future research should, therefore, consider institutional influences on
the accounting standard setting process. This includes a consideration of formal and informal aspects. Questions arising from the findings of this thesis include:

- Have the experiences of the GAAP/GFS harmonisation had any influence on accounting agenda setting in Australia and have they changed since the GAAP/GFS harmonisation project?
- How do current regulatory and formal arrangements influence accounting agenda setting?
- How should the regulatory institutional environment of accounting agenda and standard setting look like?
- What are informal institutions of the accounting agenda setting process and how do they influence this process?

The case study also highlighted the role of the key individual and collective actors of agenda setting processes. Future research in this area could include investigations of:

- the identification and relative role and influence of key individual and collective actors in accounting agenda setting processes;
- the interrelationships between these actors; and
- the role of, and need for, political sophistication of participants in accounting agenda setting, in particular of PEs or Chairpersons.

Another theme that has emerged from this research project is the role of discourse in accounting agenda setting processes. The application of the DASF to the GAAP/GFS harmonisation agenda setting process showed how the PEs were able to frame and tailor their arguments to the respective audiences to gain their support for the project. It also showed that failure among members of the FRC to sufficiently engage in the discourse about the project led to a strategic direction that was arguably issued prematurely.
Future research of the role of discourse in standard setting could enable standard setters to safeguard against being ‘over-run’ by lobbyists. On the other hand, research in this area could be used to inform how policy makers can make use of discourse to initiate change in different institutional environments.

Most of the above mentioned research suggestions would be addressed by an application of the DASF or elements of it. This thesis presents the development and a promising first application of the DASF. There is, however, scope for future research in the development of the DASF. The DASF presents an epistemologically and theoretically grounded framework that considers the main elements that have previously been identified as relevant to public policy change and agenda setting processes. The future application of the DASF would contribute to the development of both theory and content and test its transferability and usefulness. Potential contexts could include:

- public sector and private sector accounting agenda setting;
- national and international accounting agenda setting;
- single, multiple and comparative case studies in accounting agenda setting;
- extended application of the DASF to complete accounting standard setting contexts;
- agenda setting cases outside accounting contexts.

In addition, the DASF could be applied with other theoretical lenses to the same subject in comparative, competing and complementary research to investigate and assess the theoretical, analytical and explanatory potential of the DASF, as well as its strengths and weaknesses.
## APPENDICES

### APPENDIX 1: Summary of traditional agenda setting constructs in accounting studies

<table>
<thead>
<tr>
<th>Three approaches to agenda building</th>
<th>Accounting Cycles</th>
<th>Regulatory Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not considered</td>
<td>Not considered</td>
<td>Not considered</td>
</tr>
<tr>
<td>Not considered</td>
<td>External factors (low standardisation, criticism or economic events, international comparison, pro- and anti-standardisation forces)</td>
<td></td>
</tr>
<tr>
<td>Not considered</td>
<td>Not considered</td>
<td></td>
</tr>
<tr>
<td>Stages, linear</td>
<td>Cycles</td>
<td></td>
</tr>
<tr>
<td>• No further considerations of existing structures</td>
<td>• Assumed influence, but not further considered</td>
<td></td>
</tr>
<tr>
<td>• Can be influenced through actors</td>
<td>• Focus on organisational competition</td>
<td></td>
</tr>
<tr>
<td>Not considered</td>
<td>Self-interest, rationality, utility maximisers</td>
<td></td>
</tr>
<tr>
<td>Not considered</td>
<td>Assumed influence, but not further considered</td>
<td></td>
</tr>
<tr>
<td>Chronological structure</td>
<td>Comparatively easy scheme to structure agenda setting process</td>
<td></td>
</tr>
<tr>
<td>Comparatively easy classification of approaches</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oversimplifies process of multiple, interacting cycles involving numerous policy proposals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resulting in potentially inaccurate description</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited analytical and explanatory value</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Epistemological perspective**

- Three approaches to agenda building
  - Not considered
- Accounting Cycles
  - Not considered, but inherent rational/positivist assumptions
- Regulatory Space
  - Not considered

**Cause of change**

- Not considered
- External factors (low standardisation, criticism or economic events, international comparison, pro- and anti-standardisation forces)
- Not considered

**Type of change**

- Not considered
- Non-linear (Interdependence)
- Not considered

**Change progression**

- Stages, linear
- Cycles
- Consideration of various institutional
- Not considered

**Perspective on institutions**

- Not considered
- Consideration of various institutional
- Not considered

**Level of agency of actors**

- Not considered
- Assumed ability to influence, but

**Motivations of actors**

- • High (actors can bring about change)
- • No further consideration (e.g., boundaries of agency)
- Assumed ability to influence, but

**Potential contributions**

- Chronological structure
- Comparatively easy classification of approaches
- Assumed ability to influence, but

**Limitations/ reasons for not using theory**

- Oversimplifies process of multiple, interacting cycles involving numerous policy proposals
- Resulting in potentially inaccurate description
- Limited analytical and explanatory value
- Simplistic view of standard setting process, neglecting agenda formation process (cycles make very little sense)
- Problematic definition of ‘level’ of standardisation (including assumption of low level of standardisation as starting point)
- Neglects important institutional, political and economic influences
- Narrow identification of stakeholder (e.g., does not include public servants as downward force)
- Limited/inaccurate consideration of stakeholder motivations
- Neglects role and motivation of individual players.
- Does not explain how specific
<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Cause of change</th>
<th>Type of change</th>
<th>Change progression</th>
<th>Perspective on institutions</th>
<th>Level of agency of actors</th>
<th>Motivations of actors</th>
<th>Potential contributions</th>
<th>Limitations/ reasons for not using theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;regulatory space&quot;)</td>
<td>&quot;Does not deliberate on other causes)</td>
<td>acknowledged</td>
<td>factors (national peculiarity, historical timing, organizational structure and interdependence)</td>
<td>not considered further</td>
<td>Distinction between ‘technical’ and ‘political’ issues</td>
<td>problems are created or how they make their way onto an agenda.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-decision making</td>
<td>Not specified, however, clear position on structure versus agency debater</td>
<td>Focus on continuity, why change does not occur: (unobservable) exclusion from decision-making and even decision-identification</td>
<td>Not applicable</td>
<td>Not considered</td>
<td>Power of agents is limited by existing structures; Linking structure and agency: the more actors can influence structures the more powerful they are (Hayward and Lukes 2008, p. 12) Neglecting existing structures as potential ‘source’ of power</td>
<td>Not considered</td>
<td>High level of agency (source of power is located within actors), however, limited by existing</td>
<td>Particularly useful in consideration of alternatives and issues not selected on the agenda Useful to investigate motivations that are not easily observable</td>
</tr>
</tbody>
</table>
## APPENDIX 2: Summary of agenda setting studies

<table>
<thead>
<tr>
<th>Study</th>
<th>Subject</th>
<th>Theoretical framework</th>
<th>Methods</th>
<th>Contribution/relevance to thesis</th>
<th>Limitations</th>
</tr>
</thead>
</table>
| Walker and Robinson (1994)   | ABACUS: Standard setting for cash flow reporting in Australia, including agenda entrance from 1983 to 1992 | Three approaches of agenda building Cobb and Elder (1972), Cobb et al. (1976)          | • Case study                                                          | • Agenda formation process is result of complex interactions between regulatory entities | • Descriptive rather than analytical  
• Superficial use of theoretical framework  
• Does not provide examination of motivations of key actors |
| Klumpes (1994)               | ABACUS; and ABACUS; and Klumpes (1995) Pacific Accounting Review        | Three approaches of agenda building Cobb and Elder (1972), Cobb et al. (1976)          | • Case study (see subject)                                            | • Highlighting how one interest group can dominate agenda formation process (government agency) | • Descriptive, rather than analytical  
• Superficial use of theoretical framework |
| Jones et al. (2004)          | ABACUS: Restructure of accounting Standard setting arrangements, CLERP reforms | Three approaches of agenda building Cobb and Elder (1972), Cobb et al. (1976)          | • Analysis of primary source documents (=limitation)                    | • Thorough application of both chronological and approach element of Cobb and Elder (1972) and Cobb et al. (1976) agenda formation model. | • No consideration of motivations of individual key players  
• Limited ‘proof’ for certain claims, due to consideration of written sources only  
• Limited consideration of political circumstances |
| Hodges and Mellett (2002)    | ABACUS: UK’s private finance initiative                                 | Walker and Robinson (1993) Elements of the profession-sponsored rule-making process  | • Case study                                                          | • Confirmation that competing regulatory agencies seek to defend and expand their role through exercising influence in agenda formation process | • Agenda formation process only part of the focus, thus, no in-depth consideration  
• Use of simplistic chronological framework, rather than theoretical model |
| Nobes (1992)                 | ABACUS: Development of an accounting standard for goodwill in the UK    | Accounting cycles (Nobes 1991)                                                       | • Case study                                                          | Refer to figure xxx                                                                                                   | • Limitations born out of accounting cycle models |
• More sophisticated identification of additional stakeholders and their motivations | • Use of written documents  
• Limitations born out of accounting cycle models |
<table>
<thead>
<tr>
<th>Study</th>
<th>Subject</th>
<th>Theoretical framework</th>
<th>Methods</th>
<th>Contribution/relevance to thesis</th>
<th>Limitations</th>
</tr>
</thead>
</table>
• Analysis of political, social and economic events  
• Written primary and secondary sources (=limitation) | • More sophisticated identification of additional stakeholders and their motivations | • Limitations born out of accounting cycle models |
| Young (1994) AOS      | FASB agenda admission, process of accounting change (accounting for loan fees 1980-1984; accounting for leases 1983-1984; depreciation and contribution accounting for non-profit insurance from 1975 to 1985) | Regulatory space (Hancher and Moran 1989) and ‘logic of appropriateness’ (March and Olson 1989?) | • Three case studies including interviews and secondary data | • Model acknowledges complexities of agenda formation process  
• Recognises plurality of agenda formation process  
• Attempts to explain agenda entrance even though there is no ‘crisis’, urgent need (Howieson 2009)  
• Allows actions of accounting standard setters to be understood in multifactorial sense (beyond self-interest) | • Focus on divergence of accounting practices as reason for development of new accounting requirements (only part of the story for GAAP/GFS harmonisation)  
• Does not explain motivations of key players |
| Weetman (2001) AAAJ   | Lobbying activity relating to development of FRS 3 Reporting of Financial Performance, between FRED 1 and FRS 3 | Three dimensions of power (Lukes 1974) | • Written primary sources (=limitation) | • Consideration of non-action  
• Consideration of both micro and macro level  
• Consideration of non-action potentially useful model to explain alternatives that were not actioned (e.g. pure GFS or GAAP models, other public sector issues, such as control?) | • Limitation of consideration to phase between ED and standard  
• Limitation of consideration of only written documents  
• No change does not necessarily mean no consideration |
### Appendix 3: Summary of accounting agenda setting studies – Garbage can model and multiple streams

<table>
<thead>
<tr>
<th>Study</th>
<th>Subject</th>
<th>Theoretical framework</th>
<th>Methods</th>
<th>Main findings</th>
<th>Contribution</th>
<th>Limitations</th>
<th>Additional relevance to the thesis</th>
</tr>
</thead>
</table>
| Mezias and Scarsellett a (1994) | FASB decision agenda 1972 - 1990                                       | Organized anarchy      | Review of internal FASB documents “reports of Board meeting agenda decisions” from January 1978 to April 1990 35 Interviews with individuals representing the FASB, its staff and constituents | Empirical findings: (refer to text) Theoretical findings:  
  - Identification of FASB Board as organised anarchy  
  - First agenda setting study to apply concept of organized anarchies (Thompson 1967) |                                                                                       | • Silent on process by which interviewees were identified and selected  
• Superficial application of theoretical framework                                                                                       |                                                                                      |
| Ryan (1998) AAAJ             | Introduction of accrual accounting in the Australian public sector from 1976 to 1996 | Three approaches to agenda building (Cobb and Elder 1972) MS (Kingdon 1984) | Primary sources, such as government reports and minutes of meetings | Empirical findings: (refer to text) Theoretical findings:  
  - Although not explicitly stated, but inside access approach was used by policy entrepreneurs  
  - Confirmation of MS’ concept of  
    - primeval soup  
    - policy entrepreneurs  
    - coupling of different streams  
  - One of the first applications of more sophisticated public policy model in context of accounting agenda formation  
  - Thorough documentation of agenda formation process of introduction of accrual accounting in the Australian public sector  
  - Descriptive, superficial application ex-post, rather than ex-ante  
  - lack of consideration of epistemological and theoretical underpinnings  
  - potentially contradictory combination of three approaches of agenda building with MS |                                                                                       | • Application of MS  
• Consideration of agenda formation process in public sector accounting process  
• For highly technical issues, inside access approach might be useful |                                                                                      |
## APPENDIX 4: Summary of public policy theories and models

<table>
<thead>
<tr>
<th>Epistemological perspective</th>
<th>Cause of change</th>
<th>Type of change</th>
<th>Change progression</th>
<th>Perspective on institutions</th>
<th>Motivations of actors</th>
<th>Level of agency</th>
<th>Relationship between agency and structure/institutions</th>
<th>Compatibility of theoretical assumptions with epistemology</th>
<th>Suited for qualitative case study research?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rational Institution-alism</strong></td>
<td>Rationalism</td>
<td>Utility maximising behaviour of actors</td>
<td>Not considered</td>
<td>Stable, Utility functions Modify individual rational expectations and behaviour</td>
<td>Self-interested utility maximisation Rational or boundedly rational</td>
<td>Low, as actors are motivated by self-interest (external force)</td>
<td>Structural prevalence, agency limited, as actors actions are determined by maximisation personal benefit</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Historical Institution-alism</strong></td>
<td>Varied (from rationalism to social constructivism), but with focus on history</td>
<td>Historical events (PD) External crisis, partisan change, conflict (PEQ)</td>
<td>Incremental (PD) and radical (PEQ)</td>
<td>Stable, Utility functions Modify individual rational expectations and behaviour</td>
<td>Self-interested utility maximisation Rational or boundedly rational</td>
<td>Low, as actors are motivated by self-interest (external force)</td>
<td>Structural prevalence (Capano 2009, p. 20); focus on historic structures and institution that limit agency</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Social Construction Framework</strong></td>
<td>Social construction, focus on target groups</td>
<td>Not clearly defined, interdependent relationship between policy design, actors and policy outcome, including both exogenous (resource, institutions, culture) and endogenous (interpretive) factors and impacts</td>
<td>Incremental and radical</td>
<td>Non-linear</td>
<td>Wide, including historic and political elements (degenerative politics and professionalised or expert politics)</td>
<td>Not identified</td>
<td>High</td>
<td>Interdependent, with focus on agency and context</td>
<td>Yes</td>
</tr>
<tr>
<td>Epistemological perspective</td>
<td>Cause of change</td>
<td>Type of change</td>
<td>Change progression</td>
<td>Perspective on institutions</td>
<td>Motivations of actors</td>
<td>Level of agency</td>
<td>Relationship between agency and structure/institutions</td>
<td>Compatibility of theoretical assumptions with epistemology</td>
<td>Suited for qualitative case study research?</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------</td>
<td>---------------</td>
<td>-------------------</td>
<td>-----------------------------</td>
<td>----------------------</td>
<td>----------------</td>
<td>-----------------------------------------------</td>
<td>-------------------------------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td><strong>Advocacy Coalition Framework</strong></td>
<td>Eclectic (rational choice assumptions, historic considerations, as well as social construction assumptions)</td>
<td>Predominantly external factors</td>
<td>Incremental and radical</td>
<td>Linear</td>
<td>Unstable</td>
<td>Belief systems</td>
<td>Medium to high (agency attributed to actors, but limited by historic and other institutional factors)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Multiple Streams Framework</strong></td>
<td>Eclectic (rational choice assumptions, historic considerations, as well as social construction assumptions)</td>
<td>Predominantly external factors</td>
<td>Not considered explicitly, but tendency to explain incremental change</td>
<td>Non-linear</td>
<td>Unstable</td>
<td>Boundedly rational choice</td>
<td>Medium to high: structures not only limiting, but also enabling; specifically allows for reflection and learning effects of actors however, rationalist assumptions made about motivation of actors</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Discursive Agenda Setting Framework</strong></td>
<td>Social constructionism</td>
<td>Exogenous and endogenous factors</td>
<td>Incremental and radical</td>
<td>Non-linear</td>
<td>Unstable</td>
<td>Boundedly rational choice</td>
<td>Medium to high: Structures not necessarily limiting, but also enabling; specifically allows for reflection and learning effects of actors</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
## APPENDIX 5: List of Interviews

<table>
<thead>
<tr>
<th>Pseudonym</th>
<th>Date</th>
<th>Relevant Affiliation during 1998 to 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FRC</td>
<td>AASB</td>
</tr>
<tr>
<td>PE A</td>
<td>18/03/2011</td>
<td>✓</td>
</tr>
<tr>
<td>PE C</td>
<td>9/03/2010</td>
<td>✓</td>
</tr>
<tr>
<td>PE D</td>
<td>25/02/2011</td>
<td>✓</td>
</tr>
<tr>
<td>AASB</td>
<td>23/02/2010</td>
<td>✓</td>
</tr>
<tr>
<td>AASB</td>
<td>23/02/2010</td>
<td>✓</td>
</tr>
<tr>
<td>AASB or HoTs</td>
<td>4/11/2011</td>
<td>✓</td>
</tr>
<tr>
<td>ACAG</td>
<td>10/11/2010</td>
<td>✓</td>
</tr>
<tr>
<td>ACAG</td>
<td>7/08/2012</td>
<td>✓</td>
</tr>
<tr>
<td>FRC</td>
<td>11/05/2011</td>
<td>✓</td>
</tr>
<tr>
<td>FRC - non</td>
<td>17/11/2010</td>
<td>✓</td>
</tr>
<tr>
<td>FRC - non</td>
<td>3/08/2010</td>
<td>✓</td>
</tr>
<tr>
<td>FRC - non</td>
<td>6/05/2010</td>
<td>✓</td>
</tr>
<tr>
<td>HoTs</td>
<td>3/12/2010</td>
<td>✓</td>
</tr>
<tr>
<td>HoTs</td>
<td>4/02/2011</td>
<td>✓</td>
</tr>
<tr>
<td>HoTs</td>
<td>8/03/2011</td>
<td>✓</td>
</tr>
<tr>
<td>HoTs</td>
<td>17/11/2010</td>
<td>✓</td>
</tr>
<tr>
<td>HoTs - proxy</td>
<td>19/02/2010</td>
<td>✓</td>
</tr>
<tr>
<td>HoTs - proxy</td>
<td>6/05/2011</td>
<td>✓</td>
</tr>
<tr>
<td>PSASB</td>
<td>15/08/2012</td>
<td>✓</td>
</tr>
<tr>
<td>PSASB</td>
<td>12/12/2011</td>
<td>✓</td>
</tr>
</tbody>
</table>
APPENDIX 6: Consent Form

THE UNIVERSITY OF ADELAIDE HUMAN RESEARCH ETHICS COMMITTEE

STANDARD CONSENT FORM
FOR PEOPLE WHO ARE PARTICIPANTS IN A RESEARCH PROJECT

1. I, (NAME), consent to take part in the research project entitled:

   GAAP/GFS Harmonisation in Australia: Why did it happen and was it worth it? A qualitative case study

2. I acknowledge that I have read the attached Information Sheet entitled:

   GAAP/GFS Harmonisation in Australia: How and why did it happen?
   - An agenda setting perspective

3. I have had the project, so far as it affects me, fully explained to my satisfaction by the research worker. My consent is given freely.

4. I have been informed that, while information gained during the study may be published, I will not be identified and my personal results will not be divulged.

5. I understand that I am free to withdraw from the project at any time before publication.

6. I am aware that I should retain a copy of this Consent Form, when completed, and the attached Information Sheet.

............................................................... ..............................................................
......

   (signature)    (date)
APPENDIX 7: Example of Four-Level Coding

<table>
<thead>
<tr>
<th>Level four: Elements of the DASF</th>
<th>Epistemic community</th>
<th>PEs</th>
<th>Problem stream</th>
<th>etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level three: Overarching themes</td>
<td>common belief system</td>
<td>members</td>
<td>etc.</td>
<td></td>
</tr>
<tr>
<td>Level two: Interpretive coding</td>
<td>accountants versus economists</td>
<td>mutual understanding of each other’s frameworks</td>
<td>etc.</td>
<td></td>
</tr>
<tr>
<td>Level one: descriptive coding</td>
<td>Extract: Interview 18/03/2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I: When you were lobbying to get GAAP/GFS harmonisation on the FRC’s agenda, did you find anyone who was against it or people who thought there was no need to do anything about it or...</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P: I don’t think it was resistance, I just think it was lack of knowledge. Macroeconomics for most people in the private sector is something that they have never dealt with. And it was just that people didn’t understand, it was never a question in my view, it was never a question of resistance or things of that ilk. It was simply, here is an issue that had never been brought to their attention and I just happened to be a person that understood macroeconomics, I understood financial accounting and was able to bring that perspective to the table.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We were on this train together, we were over at the OECD and it was an accountant and an economist of the train to London, thinking about this problem, this reporting problem and it was the connection between, you know, micro economics and macroeconomics and reporting SG’s and so on and it just said, we have got to fix this, we have got to bring it together. And really for me, if you like, you know, accounting for companies is not what should have been applied to the Commonwealth.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I: Yeah.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P: Because this is not a company trying to make a profit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I: Yeah.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P: This is not a company trying to increase shareholder value. And these are the sort of concepts that I put to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extract: Interview 17/11/2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P: Yeah. So [Y] is sort of accounting policy person. And in this sort of debate between the economists and the accountants, [Y] was my internal accountant person on the opposite side of the debate to where I was. The other person, perhaps, to talk to is [X], who’s the Deputy Secretary of the [State], who went through all that as a more of a GPS type person. [...]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>So [Y] reports to [X].</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I: Oh, right.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extract Interview 3/12/2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P: I think definitively, reflecting where most Heads of Treasury came from. They had a strong preference to, if anything, getting the accounting profession to adopt as much as</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extract Interview 23/02/2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P: Well, all I can say is the FRC, because that’s all I understand it to be. Behind that I would say it would be the public sector members on the FRC at the time and the primary one would be [PE C] but behind that, I don’t</td>
<td></td>
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298
I: Can you give me an example?
P: Well you know, the whole evaluation thing.
I: Yeah.
P: One of the important things that you know, and leases are a very good example as well. You know, in a macro, in GFS or in a macroeconomic construct, increased wealth if you like or value that comes from the evaluation adjustment as opposed to transactional activity, yeah, no difference there.
P: So buying a building is economic value, it's an economic transaction. Economic activity. Increase in its value is not economic activity. They are economic flows.
I: Yeah.
P: And you know, so economic flows are part and parcel of GAAP/GFS and that's what I was saying, that [PE B] and I had this realisation because as I became to learn more about GFS, it actually made, I understood what they were trying to do and interestingly in my accounting career for many, many different, for a number of decades over many years, I personally had struggled with the accounting concepts that were part and parcel of the Australian GAAP.

[...] Leases, I mean all the work now that's you know, going to bring operating leases on to the balance sheet. You know, it's been a nonsense of so many decades to think you know, entering into an operating lease would not give rise to a liability, just a nonsense. But you ask yourself, why wasn't the Australian Accounting Standards Board, for many years you know, not just the current one, in the past why did they subscribe to the view that operating leases should not be booked to the balance sheet. GFS construct would have them there. Because it's an economic liability. It's an economic transaction with future value. [The Chairman at the IASB], where are they taking us? To exactly that point.

And interestingly and part of your research, if I was you, it would be fun to track GFS as it was, you know, as it was back when and accounting standards and just watch how the harmonisation, it's...
I: They are aligning anyway?
P: They're aligning anyway. And that's what PE B and I realised way back when. I said, gee whiz, look at this. This is before we adopted IFRS and I was looking at this IFRS thing and I said, "There is [Chairman of the IASB], he is an economist [...] and he's going to take standards towards macroeconomic thinking." Other economics flows, you know, that was a separation in GFS a long time ago back in the early nineties. So that's what really got us to think that harmonisation really means getting all the, what I call the bad bits of accounting standards out and you end up with alignment. You end up with almost adopted GFS and I thought it would be easy. It hasn't been easy because people hang onto other concepts. [...]
was owned by the bankers, has been owned by the bankers for such a long time. You know, conservative accounting principles and all that are all about saying the lenders don’t want balance sheets that are you know, not reliable and they don’t want the volatility of you know, moving the values in the balance sheet. But of course, that’s where we are heading now, you know, present value and all that sort of thing for a balance sheet...

Yeah but and so in the Commonwealth, it’s probably one of the few places where the economic accounting construct really hadn’t mattered for a long time and it’s kind of been ahead of where industry, you know, where corporate accounting is finally getting to, in my view.

Just another piece of the puzzle is a thing called The National Accounts. I mean if you look at the National Accounts and what they are trying to measure, which is what the Australian Bureau Statistics put together. And we used to send our information at the commonwealth level across to them. You know, there is another dimension in all of this and that’s a different accounting construct again to corporate Australia. And that was also part of my thing and the fact that we were producing information that they were using and they would use GFS information. […]

And be aware of the words statistical and GFS, government financial statistics. The word statistics comes out, is born more out of the Australian Bureau of Statistics who would use statistical means to do national accounting aggregates.

Yeah. So as you know they, when they put the national accounts together, they for instance will come to the commonwealth and say, “Can I have your financial statements?” They go to the broader Australian household sector, from you know, the private sector and they don’t get financial statements from everyone in the household sector. But they do statistically estimate what the economic activity has been. So these things called GFS, government financial statistics, they actually built a whole accounting construct, SNA93 I think it was called. System National Accountants.

But this thing called statistics, it often causes accounts to say that it’s not real accounting. What they don’t appreciate is that it is real accounting but it’s just statistical means to gather the data. Does that make sense to you?

I: Yeah I think so.

P: And it’s really important to no discredit or to disregard the GFS stuff because it’s not really about statistics, that just the means in which they gather the data, summon the data. And there is a fully fledged accounting system within that.

I: Yes. So actually one of the decisions the AASB made when they developed the standards was that I think because of that, we are taking the accounting principles from GAAP because they weren’t described in the GFS.

P: That’s right. Because GFS, the bunch of Australians over in Washington, working for the IMF I think, who put SOA together and they interestingly and if you ever talk to some of those guys, that would be interesting, because they are party to all of this. They basically looked back and said that we need to get some accounting rules in here, where do we get them from?
APPENDIX 8: GAAP/GFS harmonisation since the strategic direction

The FRC’s strategic direction for GAAP/GFS harmonisation originally anticipated an implementation date for 2005. The project, however, was only concluded in May 2013, eight years after its originally planned finalisation date and ten years after the strategic direction. The main discussions and decisions of the project are briefly recaptured in the following paragraphs to offer a more complete picture of the project.

After the final version of the strategic direction was issued, the AASB considered the way in which it should be interpreted and decided that GAAP/GFS harmonisation should be applied across the public sector and the standard should be developed in two stages. Stage one would consider the whole-of-government level and general government sector level, stage two would consider all other public sector entities, including government departments, local government, universities and government business enterprises (AASB 2003b). The AASB further decided that the direction did not direct the AASB to develop a budgetary reporting standard (AASB 2003b). Further, it decided that the directive meant “convergence [of GAAP and GFS] to a high quality standard” (AASB 2003b). They also noted the importance of regard to other international standard setting bodies, including the IASB, the IPSASB and the IMF (AASB 2003b).

The AASB started an extensive consultation process, including the establishment of a Project Advisory Panel (PAP) and a reference committee that worked closely with the HoTARAC working group.

In September 2003, the AASB decided to divide the project into three, rather than two phases, partially due to staff resources. Phase 1 would consider whole of government

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64 A complete list of relevant AASB documents can be found on the AASB website: (http://www.aasb.gov.au/Work-In-Progress/Projects/GAAP-GFS-Harmonisation-Project.aspx).
and sector reporting, Phase 2 would consider entities within the GGS, including government departments, and Phase 3 would consider all other public sector entities (AASB 2003a).

The AASB issued two consultation papers in 18 November 2003 and 17 December 2003 respectively for comment by 1 January 2004. Exposure Draft 142 Financial Reporting of General Government Sectors by Governments was issued in July 2005 and received 208 submissions. Of these, six departments of Treasuries or Finance referred to the HoTs’ submission and presented essentially the same arguments (AASB 2006a). One ACAG submission represented the views of all nine Australian members, except South Australia (AASB 2006a).

As already noted above, the AASB had already decided in its December 2002 meeting, that the”” underlying general principle”” under which the project would be considered was that GAAP definition, recognition and measurement principles should be adopted and where GFS treatment differed, they should be disclosed in notes. This fundamental approach was confirmed at the AASB October 2003 meeting (AASB 2003c) and followed largely through the development of the resulting accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting (AASB 1049). Examples of remaining differences are listed in AASB 1049, paragraphs 42 to 44. The most controversially discussed difference related to the status of the GGS as a separate reporting entity as the GGS as a subsector of the WoG violated against AASB 127 Consolidated and Separate Financial Statements that requires all controlled entities to be consolidated. As a result, financial statements that consolidated the GGS only would not be general purpose financial statements. In the end, the AASB decided that GGS statements had to be made available at the same as the WoG financial statements are made available (AASB 1049, paragraph 8) and that the WoG and the
GGS statements had to cross-reference each other if presented separately (AASB 1049, paragraph 39). The standard setters chose to remain silent with regard to whether a GGS report constituted a general purpose financial report.

In addition to the issue of the GGS as a separate reporting entity, the presentation of the financial statements and in particular whether and how GFS constructs and concepts could be accommodated within the principles outlined in AASB 101, was also considered in much detail. AASB 101 was, at the time, under review by the IASB, so the standard setters had to make judgements while considering the decision-making process of the IASB. In particular, the AASB debated whether GFS key aggregates could be accommodated in the face of the statements and whether the GFS distinction between ‘transactions’ and ‘other economic flows’ be incorporated. The AASB eventually decided that such a presentation would be in agreement with AASB 101 (AASB 2007, BC 48).

The AASB also discussed the accounting standards dependence on the IMF GFSM, more specifically, the Australian version, the ASB GFSM. In particular, the AASB considered the fact that they had no influence on the IMF, the ABS and, hence, the GFS framework. The PEs and the ABS argued that there were only a limited number of differences and were able to convince the standard setters that the frameworks were moving close and closer together. In addition, the ABS was able to adjust the IMF GFS version to the Australian environment, if appropriate. During the discussions, it was also noted that the ABS followed a policy of close interaction with the IMF and was closely and actively involved with the current review of the IMF GFS. The AASB decided that the financial statements should cross-reference to the relevant ABS GFSM that was used and that remaining differences with GAAP should be disclosed and a
reconciliation provided in the notes of the financial statements (AASB 1049, paragraph 39 and 41).

The AASB with the development of AASB 1049, at least one staff from Treasury was seconded to the AASB. When drafting the illustrative financial statements, the AASB received much support in expertise and resources from various - most notably the Commonwealth, the Tasmanian and the Victorian - Treasury Departments.

AASB 1049 *Financial Reporting of General Government Sectors by Governments* was issued on December 2006, which was superseded by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in October 2007, which included WoG aspects. It had an operative date of or annual reporting periods beginning on or after 1 July 2008, with early adoption allowed.

In March 2010, the AASB began a post-implementation review of AASB 1049, in which no major flaws were identified. One issue, however, arose due to the revised version of the IMF GFSM which now required the measurement of Defence Weapon Platforms (DWP) at fair value. In a letter from 10 January written by the Chief Finance Officer of the Department of Defence, PE A, the department requested and exemption from adopting the latest version of the ABS GFSM and to measure DWP at fair value, arguing that it was not possible to measure the DWP fair value reliably.

In September 2006, the AASB had finalised Phase 1 of the project and decided to seek further clarification on the remaining scope of the strategic direction (AASB 2006b), proposing two instead of three phases. In December 2006, the FRC decided that Phase 3 was not necessary to satisfy the FRC strategic direction. As a result, GAAP/GFS harmonisation would not apply to public sector entities that were outside the GGS. No rationale was provided by either the AASB or the FRC officially.
In May 2008, the AASB entered into the second phase of GAAP/GFS harmonisation to consider its application for entities within the GGS. ED 174 Amendments to Australian Accounting Standards to facilitate Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052] was issued for comment on 14 January 2009 and an Illustrative Example on 8 April 2009. The Board received 13 submissions and conducted two Roundtables. The responses to the ED were mixed. General supporters for Phase 2 included HoTs and Departments of Treasuries around Australia, Finance and ACAG, who argued that GAAP/GFS harmonisation should be applied to Phase 2 entities to ensure that the data for the WoG and GGS was flowing through from the same basis at the entity level and that this was necessary to satisfy the FRC strategic direction. Opposition came from representatives of local governments, for-profit entities within the GGS, and academics. A main concern was the proposed presentation that would split the statement of comprehensive income into transactions and other economic flows, rather than retaining a net cost approach. Another common concern questioned the appropriateness of GAAP/GFS harmonisation at an entity level, as GFS was only applied at an aggregate WoG level. The submission can be accessed on the AASB website (AASB 2013).

In July 2009, the AASB decided to pass the issue back to the FRC to reconsider Phase 2 of the project. In September 2009, the AASB discussed with the FRC a letter from PEA in Defence, outlining the benefits of GAAP/GFS harmonisation at the entity level “for the purpose of information” (AASB 2009). In October 2009, the AASB tentatively decided to issue mandatory guidance for entities within the GGS. The FRC, however, decided that this would not satisfy the strategic direction.

As a result, the AASB decided to develop ED 212 Not-for-Profit Entities within the General Government Sector, which was issued on 5 July 2011. It received 29
submissions and two Roundtables were conducted. The comments raised, again, concerns about the appropriateness of GAAP/GFS harmonisation and the AASB.

“...decided there was an insufficient basis for proceeding with Phase 2 of the project. In December 2012 the Board issued a report to the FRC Public Sector Task Force outlining the history of the project, the due process followed by the Board and the basis for the Board’s decisions in relation to the FRC direction. The Task Force reviewed the report and at the March 2013 FRC meeting recommended that the FRC withdraw the GAAP/GFS Harmonisation project. The FRC has subsequently withdrawn the phase 2 directive re GAAP/GFS harmonisation.” (AASB 2013)

One change was made in response to Phase 2, i.e., in May 2013, the budgetary reporting requirements were reallocated to a separate Standard AASB 1055 Budgetary Reporting. In essence, it requires budgets of controlled and administered that are presented to parliaments by Whole of Governments, General Government Sectors and entities within the GGS, the original budgeted financial statements should be disclosed and an explanation of the major variances should be disclosed (AASB 1055, pp. 5-6). In early 2013, the FRC and the AASB concluded the GAAP/GFS harmonisation project without requiring an application for GAAP/GFS harmonisation to any other entities than Whole of Governments and General Government Sectors.
### APPENDIX 9: Timeline of events

<table>
<thead>
<tr>
<th>Date</th>
<th>Organisation</th>
<th>Event</th>
<th>Attendance/ involvement of PEs and members of epistemic community</th>
<th>Consideration of cognitive substance</th>
<th>Consideration of normative substance, value acceptance</th>
<th>Consideration of future constraints</th>
<th>Other</th>
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<tbody>
<tr>
<td>June 1999</td>
<td>Identification of the idea of GAAP/GFS harmonisation</td>
<td>PE A (Finance) PE B (Treasury)</td>
<td>GAAP and GFS align anyway</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No evidence</td>
<td></td>
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<tr>
<td>October 1999</td>
<td>SFPALC</td>
<td>Report on the format of the portfolio budget statements – second report</td>
<td>No evidence</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td></td>
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<tr>
<td></td>
<td>AASB</td>
<td>PSASB Consultative Group on GPFR/GFS harmonisation project being briefed about the project</td>
<td>PSASB staff AARF staff ABS staff</td>
<td>Not enough evidence</td>
<td>Not enough evidence</td>
<td>Not enough evidence</td>
<td></td>
</tr>
<tr>
<td>31 May 2000</td>
<td>House of Representatives</td>
<td>Peter Costello responds to question by Simon Crean regarding the treatment of grants versus loans</td>
<td>No evidence</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td></td>
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<tr>
<td>October 2000</td>
<td>FRC and AASB Annual Report</td>
<td>GAAP/GFS harmonisation listed as project with highest priority for financial year 2000-2001</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No evidence</td>
<td></td>
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<tr>
<td>November 2000</td>
<td>SFPALC</td>
<td>Report on the format of the portfolio budget statements – third report</td>
<td>No evidence</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
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Evidence that GFS and GAAP treatments resulted in different treatments in States and Territories (treatment as loan under GAAP versus Commonwealth (treatment as grant under GFS).

Reference that whole of government reporting in the context of international harmonisation and the role of Finance are significant topic, but outside the scope of the report.
<table>
<thead>
<tr>
<th>Date</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>14-15 February 2001</td>
<td>AASB</td>
<td>Consideration of issues paper on GAAP/GFS harmonisation</td>
<td>No evidence</td>
<td>Consideration of reconciliation statement between AAS 31 and GFS statements</td>
<td>No evidence</td>
<td>No evidence</td>
<td>Decision of whether project should be included in work program and, if so, with which priority dependent on presentation by ABS and HoTARAC representatives in June 2001 meeting</td>
</tr>
<tr>
<td>29 May 2001 30 May 2001</td>
<td>SFPALC</td>
<td>Consideration of Budget Estimates</td>
<td>PE A(Finance) PE D (Finance) Stephen Bartos (General Manager Budget Group, CW Treasury) Dr P. J Boxall (Secretary Finance) Ian McPhee (Deputy Auditor-General)</td>
<td>Politicians ask about differences in treatments of items between GAAP and GFS, in particular net advances and proceeds from sales, to totalling approximately $1.1 billion, but also more general differences (origins) (SFPALC 2002)</td>
<td>No</td>
<td>No</td>
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<tr>
<td>22 June 2001</td>
<td>JCPAA</td>
<td></td>
<td>PE A PE B PE D S. A. Bartos (Finance) Rob Edwards (ABS) Peter Harper (First Assistant Statistician, Economic Accounts Division, Australian Bureau of Statistics, ABS) Ian McPhee (Deputy Auditor General) Professor Harris</td>
<td>High level discussion, emphasis on: There are some differences, but not too many and they should be avoided. GAAP/GFS harmonisation as the policy solution to this problem Conceptual argument: Principles of both frameworks is the same: to provide information for decision making (JCPAA 2001, PA 22) No technical details discussed</td>
<td>While no explicit discussion of normative aspects, underlying premise of review is assessment and improvement of public sector financial reporting.</td>
<td>Dependency on IMF limits opportunities to harmonise with GAAP: “there may well be sensible ways in which we can modify the accounting standards applying to government to provide for greater harmonisation between GFS and AAS31” PE B (JCPAA 2001, p. 27) “Our solution to that was that, whenever we publish accruals based government finance statistics, we will provide a reconciliation to get from our presentation of the data to the accounting presentation. Having said that, there are, in</td>
<td>There should be no differences (Bartos, PE A, PE B, PA D) PE D “has it on his plate to seek to harmonise [GAAP and GFS]” (JCPAA 2001, p. 26) GFS statements are not audited (JCPAA 2001, PA 15 and p. 35) Role of Finance is not to harmonise GAAP and GFS. GFS is ABS, GAAP is ANAO Evidence of politician’s confusion relating to accruals brought into association with issues due to GAAP versus GFS reporting Politician’s question: Who is the driving force behind GFS and GAAP/GFS harmonisation, as GFS statements presentation</td>
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<tr>
<td>Date</td>
<td>Organisation</td>
<td>Event</td>
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<td>Consideration of cognitive substance</td>
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<td>Consideration of future constraints</td>
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<td></td>
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<td>Submissions to JCPAA report</td>
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<td>my view, some needless differences between the accounting presentation and the statistical presentation. We would be very keen to see whether we can remove those differences. Mr Edwards (JCPAA 2001, PA 32)</td>
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<td></td>
<td>ABS</td>
<td>Follow up (sub 14)</td>
<td></td>
<td>Some differences due to different objectives of GAAP and GFS</td>
<td></td>
<td></td>
<td>Does not mention GAAP/GFS harmonisation</td>
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<td></td>
<td>CPA (sub5)</td>
<td>signed by ACAG member</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Sees merit in reviewing GFS and GAAP compilations</td>
</tr>
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<td></td>
<td>AASB (sub 6)</td>
<td></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Information about AASB public sector projects, including ABS reconciliation with GAAP, project on prospective financial reporting and comment on relating audit</td>
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<tr>
<td></td>
<td>ANAO (sub 7)</td>
<td>(ACAG member)</td>
<td>Conceptual consideration: Objectives and purpose of each GAAP and GFS should be clearly defined and understood Discusses some examples of different treatments of GAAP and GFS, in particular GST ANAO willing to audit GFS departments, if parliament and government would decide this was necessary. ANAO would</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Does not mention GAAP/GFS harmonisation</td>
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<td></td>
<td></td>
<td>Follow-up submission (19 July 2001, sub 11)</td>
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<tr>
<td>Date</td>
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<tr>
<td>26 June 2001</td>
<td>AASB</td>
<td>AASB meeting, Presentations by staff from ABS and discussion with HoTARAC representative</td>
<td>No sufficient evidence</td>
<td>Yes</td>
<td>No evidence</td>
<td>No evidence</td>
<td>deferral of decision on status of the project to later meeting</td>
</tr>
<tr>
<td>September 2001</td>
<td>AASB</td>
<td>Annual Report</td>
<td>Not applicable</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No evidence</td>
<td>Project transferred to 2001-2002 work program</td>
</tr>
<tr>
<td>June 2002</td>
<td>JCPAA</td>
<td>Report 338 Review of the Accrual Budget</td>
<td>PE A and PE B and Robert Edwards</td>
<td>Underlying purpose of review:</td>
<td>the difficulty was that the GFS originated from the IMF system</td>
<td>No evidence</td>
<td>Reports note dissatisfaction with minority public sector</td>
</tr>
</tbody>
</table>

- Seek expert advice.
- Importance of clear read between GFS and GAAP information
- Raised need for consideration of whether ANAO should audit GFS and timing of audit
- Improvement of budget documentation (including both GFS and GAAP reports):
  - Presentation on GFS basis
  - Not applicable
- Discussion of existing issues due to GAAP and GFS:
  - Divergence from GAAP to GFS treatment may lead to audit qualification
  - Does not mention GAAP/GFS harmonisation
- Large section explaining responsibilities of Treasury (GFS) and Finance (GAAP, WoG) and differences in GAAP and GFS
  - Explains why budget are primarily presented in GFS basis:
  - To improve readability
  - Does not mention GAAP/GFS harmonisation
  - Does not mention GAAP/GFS harmonisation

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<tbody>
<tr>
<td>May-October 2002</td>
<td>Finance Treasury</td>
<td>Budget Estimates and Framework review (BEFR)</td>
<td>cited as promoting GAAP/GFS harmonisation</td>
<td>GAAP and GFS presentation (JCPAA 2002, pp. 78-80)</td>
<td>Greater consistency, comparability, less aggregation</td>
<td>of national accounts, so achieving change would require international liaison (paragraph 6.74)</td>
<td>representation at AASB and concludes that greater representations might be beneficial (JCPAA 2002, p. 80) Recommendation: Final Budget Outcome (GFS based ex-post statements) should be audited</td>
</tr>
<tr>
<td>June 2002</td>
<td>HoTARAC Working Group</td>
<td>Determined seven key differences between AAS and GFS</td>
<td>Recommendations for GAAP/GFS harmonisation¹</td>
<td>Thorough assessment of the budget estimates and advice system and canvass ways to improve the accuracy, responsiveness and effectiveness of the Australian Government’s budget estimates and framework system. Assist agencies to improve financial management and reporting within their own organisation</td>
<td>No</td>
<td>No evidence</td>
<td>¹Interviewees suggested that GAAP/GFS harmonisation was a recommendation of BEFR. However, the only written documentation that was found about recommendations of BEFR did not list the project.</td>
</tr>
<tr>
<td>June 2002</td>
<td>FRC meeting</td>
<td>Consideration of GAAP and GFS as strategic direction</td>
<td>PE A and PE C</td>
<td>Explanation of issues and GAAP/GFS as policy solution (according to interviews)</td>
<td>GAAP/GFS harmonisation to improve public sector financial reporting</td>
<td>No evidence</td>
<td></td>
</tr>
<tr>
<td>August 2002</td>
<td>HoTs</td>
<td>HoTs endorses GAAP/GFS</td>
<td>PE C</td>
<td>Technical feasibility (development of</td>
<td>Yes (from interviews)</td>
<td>No evidence</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Organisation</td>
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<tr>
<td>August 2002</td>
<td>AASB</td>
<td>GAAP/GFS harmonisation if included in AASB work plan</td>
<td>PE A and PE C</td>
<td>GAAP/GFS harmonisation as policy solution to existing issues in public sector</td>
<td>GAAP/GFS harmonisation as policy solution to improve public sector reporting</td>
<td>No evidence</td>
<td>Additional resources offered to AASB</td>
</tr>
<tr>
<td>September 2002</td>
<td>FRC</td>
<td>GAAP/GFS harmonisation strategic direction is drafted and approved</td>
<td>PE A and PE C</td>
<td>GAAP/GFS harmonisation as policy solution to existing issues in public sector</td>
<td>GAAP/GFS harmonisation as policy solution to improve public sector reporting</td>
<td>No evidence</td>
<td>Additional resources offered to AASB</td>
</tr>
<tr>
<td>30 September 2002</td>
<td>FRC and AASB</td>
<td>GAAP/GFS harmonisation project with highest priority</td>
<td>&quot;The objective is to determine whether or not such a reconciliation should form part of general purpose financial reports and if so, whether such inclusion is presently feasible.&quot; (FRC and AASB 2002, Appendix E)</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No evidence</td>
</tr>
<tr>
<td>22-23 October 2002</td>
<td>HoTs</td>
<td>HoTs Chair and Secretary of Finance meet with the AASB Chair to discuss public sector issues</td>
<td>Key individual E Key individual F</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No evidence</td>
<td>No discussion of GAAP/GFS harmonisation Influence of ABS to make changes to GFS framework Emphasis that Auditor-Generals</td>
</tr>
<tr>
<td>21 November 2002</td>
<td>SELC</td>
<td>PE B Key individual E (Secretary Treasury, Chair, HoTs)</td>
<td>Evidence of confusion among politicians and discussion of differences between GAAP and GFS and change of GFS and</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>No discussion of GAAP/GFS harmonisation Influence of ABS to make changes to GFS framework Emphasis that Auditor-Generals</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Organisation</td>
<td>Event</td>
<td>Attendance/ involvement of PEs and members of epistemic community</td>
<td>Consideration of cognitive substance</td>
<td>Consideration of normative substance, value acceptance</td>
<td>Consideration of future constraints</td>
<td>Other</td>
</tr>
<tr>
<td>-----------------</td>
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</tr>
<tr>
<td>4-5 December 2002</td>
<td>AASB</td>
<td>AASB meeting</td>
<td>PE D</td>
<td>GAAP/GFS harmonisation should not be pursued by the AASB, rather GFS would be considered as part of the review of AAS 31</td>
<td>No evidence</td>
<td>No evidence</td>
<td>Treasury staff member explains that GAAP and GFS are “actually quite different” and argues that “rest of the world pretty much uses GFS.”</td>
</tr>
<tr>
<td>5 December 2002</td>
<td>Chairman JCPAA</td>
<td>wrote to FRC endorsing GAAP/GFS harmonisation</td>
<td>JCPAA</td>
<td>Not sufficient information</td>
<td>Not sufficient information</td>
<td>Not sufficient information</td>
<td>AASB does not view GFS reporting (in particular, ex-ante budget reporting) within its regulatory space</td>
</tr>
<tr>
<td>December 2002</td>
<td>FRC</td>
<td>The FRC issues broad strategic direction for the public sector, involving the harmonisation of GAAP and GFS</td>
<td>PE A PE C Chairman AASB</td>
<td>GAAP/GFS harmonisation as policy solution to existing issues in public sector Superficial discussion of technical and conceptual detail (interviews and agenda paper)</td>
<td>GAAP/GFS harmonisation as policy solution to improve public sector reporting (interviews and agenda paper)</td>
<td>Mention, but no discussion of different responsible bodies IMF and IASB Offer of additional resources to AASB (interviews and agenda paper)</td>
<td></td>
</tr>
<tr>
<td>December 2002</td>
<td>Letter of AASB to FRC Chairman</td>
<td></td>
<td>Chairman FRC Chairman AASB</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12-13 February 2002</td>
<td>SELC</td>
<td>Hearing</td>
<td>Chairman FRC Chairman AASB</td>
<td></td>
<td></td>
<td></td>
<td>Discussion about strategic direction, in particular extent of technical prescription</td>
</tr>
<tr>
<td>April 2003</td>
<td>FRC</td>
<td>Revision of Strategic direction</td>
<td>Chairman FRC Chairman AASB PE A PE C</td>
<td></td>
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</tr>
</tbody>
</table>
“Agenda item 2: AASB broad strategic direction for 2002-03, including approach to public sector issues

The FRC approved a broad strategic direction for the AASB for 2002-03 in relation to the private sector. This is at Attachment B.

The FRC also discussed the broad strategic direction for the Board in relation to the public sector. It was noted that Commonwealth, State and Territory Heads of Treasuries support an approach in which IASB standards would be used for the Australian public sector except where they were inconsistent with Government Finance Statistics (GFS) in which case GFS would prevail.

The FRC acknowledged the need to understand the merits of alternative approaches in order to give strategic direction consistent with Government policy, and recognised that this may preclude an early decision.

It was agreed that:

- the FRC, in consultation with the AASB Chairman and public sector stakeholders, would further examine the appropriate harmonisation target for public sector accounting standards, including the approach of comparable countries overseas; and
- the AASB would, in the meantime, pursue the 2002-03 public sector work program endorsed by the FRC, and supported by the Commonwealth, State and Territory Treasuries, in June 2002.

[...]

ATTACHMENT B

Broad strategic direction provided by the Financial Reporting Council to the Australian Accounting Standards Board for 2002-03 in respect of the private sector

In accordance with paragraph 225(2)(d) of the *Australian Securities and Investments Commission Act 2001*, the FRC sets the following broad strategic direction for the AASB for 2002-03 in respect of the private sector:

a. The Board's strategy and activities should be consistent with the objectives of accounting standard setting set out in section 224 of the Act, in relation to the characteristics of the financial information to be required by accounting standards, facilitation of the Australian economy and maintenance of investor confidence.

b. The AASB should strike an appropriate balance in allocating resources to the development of accounting standards for the private, public and not-for-profit sectors.
   o The AASB should advise the FRC promptly of any resource constraints on the Board's ability to fulfil its responsibilities.
c. The AASB should follow its stated objective of pursuing, through participation in the activities of the IASB, the development of an internationally accepted single set of accounting standards. In working towards this objective, the AASB should:

- work towards the adoption in Australia of accounting standards that are the same as those issued by the IASB - and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) - to ensure their applicability to Corporations Act entities for accounting periods beginning on or after 1 January 2005;
- continue to work closely with the IASB and align its work program with that of the IASB;
- continue its present harmonisation program, working towards the adoption of accounting standards in Australia that harmonise with standards issued by the IASB, unless such standards are considered not to be in the best interests of the Australian public and private sectors;
- promptly issue IASB exposure drafts in Australia for comment by constituents, and limit the need for subsequent issue of an AASB exposure draft to cases justified by the newness and complexity of a standard;
- continue to remove non-conformities between existing Australian and IASB standards on a planned basis;
- address, on a transparent basis, any transitional issues falling within the Board's mandate that may arise for Australian reporting entities, having regard to the cost of capital objective of the Act;
- ensure, as far as possible, that the work of the Urgent Issues Group has close regard to IFRIC pronouncements;
- in consultation with the FRC, communicate to constituents an overall strategy for adoption of IASB standards from 1 January 2005 to facilitate constituents' knowledge of and preparedness for the change.”
PRIMARY SOURCES


AASB (2006b). "Minutes AASB 6-7 September."


