How private national accounting standard-setters manage legitimacy
— an institutional work perspective

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List of abbreviations

AASB	Australian Accounting Standards Board
AcSB	Canadian Accounting Standards Board
AICPA	American Institute of Certified Public Accountants
AOSSG	Asian-Oceanian Standard-Setters Group
ASCG	Accounting Standards Committee of Germany
ARR	Accounting and Reporting Recommendations (Swiss GAAP FER)
ASAF	Accounting Standards Advisory Forum
ATAG	Allgemeine Treuhand AG
BCBS	Basel Committee on Banking Supervision
BEHG	Federal Act on Stock Exchanges and Securities Trading (Bundesgesetz über die Börsen und den Effektenhandel)
BSV	Swiss Federal Social Insurance Office (Bundesamt für Sozialversicherungen)
BVG	Federal Law on Retirement Provisions, Survivors Pension, and Disability Pension (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge)
BVV	Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (Verordnung über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge)
CFSS	Consultative Forum of Standard Setters
CHF	Swiss Francs
CPA	Certified Public Accountant
CVM	Securities and Exchange Commission of Brazil
EC	European Commission
ED	Exposure Draft
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FAF	Financial Accounting Foundation
FASAC	Financial Accounting Standards Advisory Council
FASB	Financial Accounting Standards Board
FER	Fachempfehlungen zur Rechnungslegung
FINMA	Swiss Financial Market Supervisory Authority (Eidgenössische Finanzmarktaufsicht)
FSB	Financial Stability Board
FSC	Financial Services Commission (South Korea)
GAAP	Generally Accepted Accounting Principles
GLASS	Group of Latin American Accounting Standard Setters
IAIS	International Association of Insurance Supervisors

IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFIAR	International Forum of Independent Audit Regulators
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IFRSF	International Financial Reporting Standards Foundation
IOSCO	International Organization of Securities Commissions
IPSAS	International Public Sector Accounting Standards
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
JFSA	Japanese Financial Services Agency
MOF	Ministry of Finance of the People's Republic of China
NASS	National accounting standards setter(s)
No.	Number
NZZ	Neue Zürcher Zeitung
PCAOB	Public Company Accounting Oversight Board
OECD	Organisation for Economic Co-operation and Development
OPSC	Occupational Pension Supervisory Commission (Oberaufsichtskommission Berufliche Vorsorge OAK BV)
OR	Swiss Code of Obligations (Obligationenrecht)
RAG	Law on Audit Supervision (Revisionsaufsichtsgesetz)
RRV-EBK	Guidelines of Swiss Banking Commission governing financial statement reporting (Richtlinien der Eidgenössischen Bankenkommission zu den Rechnungslegungsvorschriften)
SBG	Schweizerische Bankgesellschaft
SBV	Schweizerischer Bankverein
SEC	Securities and Exchange Commission
SIX	Swiss Stock Exchange
SMEs	Small and medium-sized enterprises
SRS-CSPCP	Swiss Public Sector Financial Reporting Advisory Committee
STG	Schweizerische Treuhand Gesellschaft
UBS	Union Bank of Switzerland
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States

US GAAP	United States Generally Accepted Accounting Principles
VASR	Ordinance on Accepted Accounting Standards (221.432 Verordnung über die anerkannten Standards zur Rechnungslegung)
WBG	World Bank Group

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Abstract

In a globalized world with ever-increasing adherence to IFRS and growing influence of the IASB, it is surprising to find that a private national accounting standard-setter like Swiss GAAP FER continues to see growth and increased influence. Several scholars have explored sources of legitimacy and related deficiencies, focusing on the accounting standard-setting process of the IASB. They have particularly highlighted the importance of the due process for gaining and maintaining legitimacy. Even though legitimacy is a core concept in organizational research and hence affects the survival and performance of an institution, only few scholars have analyzed legitimacy questions in terms of national accounting standard-setters. And if so, they have concentrated on large players with a long tradition in accounting standard-setting. Yet, national accounting standard-setters continue to play a vital role in preserving the interests of their local constituents and in maintaining a strong local accounting community. Therefore, this dissertation seeks to answer the question of how private national accounting standard-setters manage legitimacy over time. For this purpose, it has taken the case of Swiss GAAP FER, a private national accounting standard-setter in Switzerland, and has conducted a longitudinal qualitative case study analysis covering a period of 34 years. Drawing on insights from institutional work theory and legitimacy research, this dissertation shows that gaining and maintaining favorable legitimacy judgments by external stakeholders requires ongoing active and passive "legitimacy work" on behalf of organizational actors. Introducing a process model, it demonstrates that legitimacy management is an ongoing recursive exercise and that it requires sensitivity to external developments due to the dynamic and fragile nature of legitimacy. The results explain the context and influence of actions on legitimacy judgments and categorize them into different legitimacy work forms. Thus, they expand the theoretical understanding of managing legitimacy from an action-based perspective. Moreover, this dissertation also contributes to the legitimacy debate on accounting standard-setters by depicting an unexpectedly successful private national accounting standard-setter despite its marginal engagement and influence in the transnational accounting standard-setting process.

Zusammenfassung

In einer globalisierten Welt mit zunehmender Anwendung der IFRS und einem wachsenden Einfluss des IASB ist es überraschend festzustellen, dass ein privater nationaler Rechnungslegungsstandardsetzer wie Swiss GAAP FER weiterhin Wachstum und zunehmenden Einfluss erfährt. Verschiedene Wissenschafter haben die Legitimationsquellen des IASB und die damit zusammenhängenden Mängel untersucht und sich dabei speziell auf den Rechnungslegungsstandardsetzungsprozess des IASB konzentriert. Sie haben dabei insbesondere die hohe Bedeutung des Standardsetzungsprozesses (due process) hervorgehoben, um Legitimation zu erlangen und aufrechtzuerhalten. Obwohl Legitimation eines der Kernkonzepte der Organisationsforschung darstellt und das Überleben und das Leistungsvermögen einer Institution beeinflusst, untersuchten bislang nur wenige Wissenschafter Fragen der Legitimation im Zusammenhang mit nationalen Rechnungslegungsstandardsetzern. Und wenn doch, dann fokussierten sie auf grosse Akteure mit einer langen Tradition im Bereich der Rechnungslegungsstandardsetzung. Nichtsdestotrotz spielen nationale Rechnungslegungsstandardsetzer weiterhin eine wesentliche Rolle bei der Wahrung der Interessen ihrer lokalen Mitglieder bzw. Anspruchsgruppen und bei der Aufrechterhaltung einer starken und lebendigen lokalen Rechnungslegungsexpertengemeinschaft. Daher beabsichtigt diese Dissertation die Frage zu beantworten, wie private nationale Rechnungslegungsstandardsetzer Legitimitation im Zeitablauf sichern. Zu diesem Zweck wurde eine qualitative Langzeitfallstudie mit einem Untersuchungszeitraum von 34 Jahren am Beispiel der Swiss GAAP FER, einem privaten nationalem Rechnungslegungsstandardsetzer in der Schweiz, durchgeführt. Basierend auf Erkenntnissen der Institutionsarbeitstheorie und der Legitimationsforschung zeigt diese Dissertation auf, dass es kontinuierlicher aktiver und passiver "Legitimationsarbeit" auf Seiten der Akteure einer Organisation bedarf, um eine positive Legtimationsbeurteilung von externen Anspruchsgruppen zu erreichen und aufrechtzuerhalten. Mittels eines Prozessmodels wird veranschaulicht, dass Legitimationsmanagement eine fortwährende rekursive Angelegenheit ist, die aufgrund der fragilen und dynamischen Eigenschaft von Legitimation Sensitivität gegenüber externen Entwicklungen erfordert. Die Ergebnisse erklären den Kontext und den Einfluss von Handlungen auf Legitimationsbeurteilungen und kategorisieren die Handlungen in verschiedene Formen von Legitimationsarbeit. Somit erweitern sie das theoretische Verständnis von Legitimationsmanagement aus einer handlungsbasierten Perspektive. Zudem trägt diese Dissertation zur Legitimationsdebatte über Rechnungslegungsstandardsetzer bei, indem sie einen unerwartet erfolgreichen Rechnungslegungsstandardsetzer trotz marginalem Engagement und Einfluss im transnationalen Rechnungslegungsstandardprozess beschreibt.

1. Introduction

Research motivation

> "In close cooperation with private and public actors from Anglo-American countries, the IASB managed to out-compete the rival initiatives and became the central actor developing global standards for financial reporting."
>
> Botzem and Dobusch (2012, p. 750)

The need for a common set of accounting standards beyond national borders in an increasing interdependent world is uncontested, supposedly facilitating the objectives of efficient markets and resource allocation[1]. Global accounting standards are seen as means to further enhance transparency, accountability and efficiency in financial markets (Durocher, Gendron, & Picard, 2016). The EU's decision to compel all listed European companies from 2005 onward to prepare their consolidated financial statements in accordance with International Financial Reporting Standards has further strengthened the positioning of the IASB (enactment of the (EU) regulation No. 1606/2002), especially in Europe. As boundaries of the regulatory field have continuously been redefined due to progressing transnationalization, not only new actors have evolved, but some actors have been pushed to the periphery (Botzem & Quack, 2006; Durocher et al., 2016). Therefore, it is surprising to see that a national accounting standard-setter like Swiss GAAP FER continues to see growth and increase its influence in a globalized world with an ever-increasing adherence to IFRS and growing influence of IASB.

Mirroring the rising importance of transnational accounting standard-setters and multinational accountancy firms, accounting literature has devoted great attention to transnational accounting standard-setters such as the IASB and its processes. The lack of democratic underpinning and weak accountability mechanisms in the transnational realm have triggered a debate on the legitimacy, the governance and the accountability of transnational standard-setters (Botzem & Quack, 2006; Esty, 2006; Quack, 2010). The global financial crisis particularly heated up the debate on legitimacy and governance of the IASB both in literature and in practice[2] (Bengtsson, 2011). Taking into consideration the political nature of accounting standard-setting, scholars have thoroughly examined the standard-setting process, the type of involved

[1] Economists consider the availability of timely and reliable financial information of firms a functional requirement of an economy aiming to efficiently allocate resources through capital markets. International Financial Reporting Standards (IFRS) contribute to efficiency by helping investors identify opportunities and risks across the world. Fair value-based accounting standards such as the IFRS are expected to increase management efficiency and reduce principal-agent issues. IFRS foster transparency by improving the comparability and quality of financial information and reflect the financialization of the economy over the last decades (Nölke & Perry, 2007).

[2] Political actors have accused IFRS of being a contributing factor or even intensifying the crisis due to fair valuation accounting principles and have sought to influence the accounting standard-setting process. In particular, fair valuation accounting has been criticized (Bengtsson, 2011).

actors and the resulting standards and emphasized the necessity of ensuring legitimacy in different dimensions (Botzem, 2014; Richardson & Eberlein, 2011). They have highlighted the significance of IASB's due process adherence and transparency on the perceived legitimacy of the IASB. By depicting and analyzing the growing importance of transnational standard-setting, research provides evidence that self-regulation on a transnational level was fostered by professionalization and globalization and that systems of self-(co)regulation at the national level have been transformed into systems of self-regulated global systems (Gillis, Petty, & Suddaby, 2014).

Legitimacy is a fundamental concept in organizational research because it affects the performance and survival of an institution (Deephouse, Bundy, Tost, & Suchman, 2017; Scott, 2014). Since national accounting standard-setters have faced marginalization pressures in recent decades following the spread of IFRS, only few studies have analyzed national accounting standard-setters with respect to legitimacy (Durocher & Fortin, 2010; Howieson, 2017). Moreover, these studies have mainly dealt with larger, more influential national accounting standard-setters that have a long-tradition in standard-setting.

Accounting literature involving national accounting standards and standard-setters has devoted much attention to value relevance questions, showing mixed results in terms of economic benefits of increased disclosures following accounting standard changes (Leuz & Verrecchia, 2000). Furthermore, the influence of IFRS on national accounting legislation has been subject to several analyses (André, 2017; Marton, 2017) and confirmed the harmonization and standardization trends in accounting. National accounting standard-setters (NASS) have been found to play a vital role in bridging the standard-setting processes between the transnational and national realm. They often substantially affect the transfer of transnational regulation into local legislation. They usually have strong relationships to their local constituents and are aware of their constituents' requirements and local peculiarities. Thus, it is important not to lose sight of NASS, since they remain important actors both in the transnational and the national realm despite marginalization pressures.

Research question and relevance

While the geographical focus of activities is a lot larger with accounting standard-setters such as the IASB, private NASS lack democratic underpinnings as well. They also need to establish and maintain legitimacy in an ever-changing local environment that has been heavily influenced by the increasing globalization in recent decades. The rising influence of transnational accounting standard-setters and the fast spread of international standards such as IFRS have resulted in a loss of influence of NASS, whose role and regulatory power have been altered and narrowed. Moreover, these developments also call into question the overall necessity of private national accounting standards — especially beyond national accounting legislation. In light of these power shifts and the transformations that have taken place, private NASS more than ever need to pay attention to maintaining their legitimacy. Therefore, this dissertation seeks to answer the question of *how private national accounting standard-setters manage legitimacy over time.* For this purpose, it relies on insights from institutional work theory and legitimacy research and takes Swiss GAAP FER as a case. Swiss GAAP FER is a privately established national accounting standard-setter in Switzerland that issues accounting standards on a soft-law basis[3]. A more detailed theoretical conceptualization of legitimacy management of private NASS is relevant for three reasons:

First, a (successful) management of legitimacy of a NASS appears counterintuitive to arguments brought forward by standardization literature that point in the direction of increasingly harmonized and standardized rules (Tamm Hallstrom, 2004). Technically inferior standards usually get superseded and only rarely experience a revival. To understand our modern world, it is important that we know how standards are created and what their consequences are (Brunsson & Jacobsson, 2002). The case of Swiss GAAP FER indicates that separate national accounting standards beyond national accounting legislation have a “raison d’être” and even may create added value for a national accounting community. After facing a difficult period at the turn of the millennium, the diffusion rate of Swiss GAAP FER in the last decade has again continued to increase.

Second, we know relatively little about legitimacy issues and legitimacy management of private NASS, as transnational accounting standard-setters dominate the legitimacy debate in the accounting standard-setting literature. The few studies on legitimacy issues of NASS mainly focus on internationally well-known accounting standard-setters recognized for their expertise in standard-setting, such as, for example, Canada or Australia. Thus, only very little is known about legitimacy concerns of small, less influential private NASS that hardly engage in the transnational accounting standard-setting process.

Third, accounting standard-setting literature borrows its conceptualization of legitimacy from a functional political science perspective. At the same time, researchers in the field outline the importance of managing the different dimensions of legitimacy to ensure institutional survival (Botzem, 2014; Richardson & Eberlein, 2011). However, they do not take an action-based perspective as, for example, outlined by institutional work theory. Thus, a focus on activities and actors will add in-depth insights beyond normative considerations to the theoretical debate and shed light on both intended and unintended consequences. The context of standard-setting fits particularly well with institutional work theory due to the colliding of

[3] Swiss GAAP FER refers to both the standard-setting organization and the set of accounting standards.

different interests and the necessity of applying different institutional strategies (Hampel, Lawrence, & Tracey, 2017).

This dissertation seeks to make explicit the casual connections between organizational actions directed toward influencing legitimacy judgments of stakeholders (both intended and unintended), their implications on structure and processes and the impact of changes in the institutional environment. The objective is to demonstrate the recursive dynamics of legitimacy management and changes on a micro- as well as macro-level in an accounting standard-setting context. Theoretical insights from institutional work theory appear a well-suited lens to examine the legitimacy of a NASS (Hampel et al., 2017). Institutional work theory has been applied inter alia by Slager, Moon, and Gond (2012) for analyzing the regulatory power of an investment standard and by Canning and O'Dwyer (2016) for examining regulatory change in the accounting profession in Ireland. Lawrence, Suddaby, and Leca (2011, p. 52) highlight that “research on institutional work examines the practices of individual and collective actors aimed at creating, maintaining, and disrupting institutions.” Compared to institutional theory, research on institutional work brings the individual back and helps to examine the relationship between agency and institutions. An institutional work perspective rather asks “why” and “how” than “what” and “when” questions. Thereby, it remains closer to practice and process than to outcome and thus takes a broader view of actions and explains why actors behave in a certain way. Thus, it is an appropriate and promising way to answer the research question of this dissertation.

Empirical background and further considerations

> "Thus, skillful legitimacy management requires a diverse arsenal of techniques and a discriminating awareness of which situations merit which responses."
>
> Suchman (1995, p. 586)

In order to answer the research question, I have taken the case of Swiss GAAP FER and conducted a longitudinal qualitative case study analysis. Given the depth and the longitudinal nature of the analysis, a single case study is a common research design (Yin, 2018). The analyzed period from 1984 to 2017 includes the difficult founding years and the turbulent times after the turn of the millennium, when legitimacy was impaired due to upheavals in the institutional environment. However, it also covers times with favorable circumstances and examines actions of different generations of organizational actors. The distance of time (Suddaby, Bitektine, & Haack, 2017) unfolds actions and their consequences and puts them not only in a chronological perspective but also in the perspective of context. Swiss GAAP FER is also an interesting case to study because, from its inception, it has been an entirely private standard-setting organization which had to fiercely fight to establish legitimacy for accounting standard-setting during its founding years. It was established in 1984 to fill the regulatory gap in accounting legislation and was internationally oriented. As more and more larger organizations adopted IAS/IFRS in the 1990s and the Swiss Stock Exchange decided to limit the adoption of Swiss GAAP FER in 2002 effective from 2005 onward, Swiss GAAP FER restructured the standards into a modular setup to specifically target SMEs with national reach. This restructuring brought Swiss GAAP FER as a standard-setting organization and set of standards back to the road of success. Remarkably, Swiss GAAP FER has remained a militia-based organization from inception. Members have worked for the standard-setter on an honorary basis throughout the entire research period. Public agencies have participated in the standard-setting process as observers and did not provide financing. The adoption of Swiss GAAP FER is voluntary in principle (apart from pension plans). Swiss legislators defined Swiss GAAP FER as acceptable accounting standards only in 2012, together with IFRS and US GAAP. Thus, it represents a very interesting case for studying legitimacy, because it is a unique success story involving difficult periods for the standard-setter and the standards, where legitimacy could not be taken for granted. Organizational actors skillfully applied different work forms to positively influence the legitimacy judgment of stakeholders or to protect favorable legitimacy judgment.

Based on different data sources and the application of process and longitudinal coding (Saldaña, 2016), the dissertation leads to several findings:

First, I have identified eight different legitimacy work forms[4] that can be classified into active and passive legitimacy work. Active legitimacy work forms seek mobilization and support from existing and new stakeholders by constructing identities, advocacy, convening, negotiating and educating. Passive legitimacy work focuses on maintenance, preservation and protection of legitimacy and involves mimicking, protecting and monitoring. The eight legitimacy work forms are present in all four identified phases of the research period. However, they occur in varying degrees and emphasize different activities across phases.

Second, legitimacy requires ongoing efforts on behalf of institutional actors to be established, maintained and re-created, because it is a dynamic concept. In all four consecutive phases of the research period, the activities and strategies of organizational actors have played a vital role in influencing the legitimacy judgments of the organization's stakeholders. It is important to look at long periods of time, as sometimes legitimacy work only bears fruit after the passage of several years, and thus a long-term perspective is required to capture such later but often very significant effects. The case shows that, to maintain legitimacy, particularly in response to jolts, actions might be necessary with far-reaching impacts on the standard-setting organization. For example, legitimacy work may even involve changes in the identity, the strategy and the target group of the standard-setting organization.

Third, the case also shows that managing legitimacy of a private NASS is recursive (Botzem & Dobusch, 2012). To illustrate the recursive and dynamic nature of legitimacy management, I have depicted a process model that shows the embeddedness of actions in the institutional environment and in institutional structure, which it produces and reproduces (Lawrence et al., 2011). The model and case description outline the interplay and interrelatedness between organizational actors and actions, organizational structure and processes, influences of the institutional environment and repercussions to input, throughput and output legitimacy judgments by stakeholders.

This dissertation contributes both to theory and practice in several ways. Drawing on insights from institutional work theory and from legitimacy research, this work advances the understanding of legitimacy management in the context of private NASS by taking an action-based perspective. It outlines the scope of agency by actors and conceptualizes actions into eight different legitimacy work forms that enable private NASS to establish and maintain legitimacy over time.

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[4] Brown and Toyoki (2013) use the phrase internal legitimacy work in their article on identity work and legitimacy.

Furthermore, this dissertation contributes to the legitimacy debate of transnational and national accounting standard-setters by depicting a counter-intuitive case. Swiss GAAP FER, which is a peripheral actor in the transnational realm, has successfully managed to preserve legitimacy over time and has even been able to increase diffusion in its national environment in recent years despite the marginalization pressure caused by the growing trend toward standardization in accounting.

This work also contributes to legitimacy management literature by providing a rich case study analysis of how actors adapt their actions directed toward gaining and maintaining legitimacy over time and how and with what effects they affect legitimacy judgments of conferrers of legitimacy (stakeholder groups). Thereby, this dissertation refines Suchman's (1995) work on legitimacy strategies.

Finally, the longitudinal data in this case analysis also contribute to the body of literature on institutional work theory. As Hampel et al. (2017) outlines, the context of standardization has been under-researched and is of particular interest. The case study adds legitimacy considerations into the institutional work theory perspective and provides evidence that ontological complexity for maintaining institutions has been captured in literature often in an oversimplified manner. Maintaining an institution may involve varying forms of institutional work depending on the prevailing institutional environment, the time period and the actors involved.

From a practical perspective, this dissertation provides interesting insights to standard-setters and persons interested in standard-setting: It does not only show advantages of maintaining (private) national standards despite standardization trends but also depicts strategies of how organizational actors can manage legitimacy with which effects in different contexts.

Structure of the dissertation

Chapter 1 outlines the research motivation and the research question as well as its relevance. It describes the empirical case and provides a preview of findings and contributions.

As theoretical and practical background information to this dissertation, Chapter 2 summarizes the main developments in accounting standard-setting in the EU, the US and in the transnational realm in recent decades. Furthermore, it provides an overview of the theoretical discussion of legitimacy in the context of transnational standard-setting, which is then followed by a summary of findings of the discussion of benefits and concerns of uniform accounting standards. Subsequently, the changing role and implications on legitimacy of national accounting standard-setters are depicted, considering the standardization trend in accounting.

Chapter 3 elucidates the theoretical concepts and underlying assumptions that are used as analytical focus for addressing the research question. Thus, it summarizes basic concepts and assumptions of institutional work theory. It also refers to important articles that have applied and advanced institutional work theory in recent years. Moreover, the chapter contains a literature review on legitimacy research considering multiple theoretical perspectives. It discusses the link between legitimacy research and institutional work theory and also outlines delimitations of the concept of legitimacy.

Chapter 4 highlights the methods used for addressing the question of how private national accounting standard-setters manage legitimacy over time. It describes the most important characteristics of the methods and justifies the usage in the context of this dissertation. Additionally, it outlines the selected case of Swiss GAAP FER and explains how the case if an appropriate fit for the research question. Finally, the chapter delineates details on data collection and methods used for data analysis.

Chapter 5 lists underlying theoretical assumptions of this dissertation. Based on the case analysis, it proposes a theoretical process model of legitimacy management of private national accounting standard-setters and explains the model, including the interplay of different elements, in more detail. The chapter also shows the data structure and thus the process of how activities have been aggregated and conceptualized.

Chapter 6 outlines the findings of the longitudinal case study of Swiss GAAP FER. The chapter is separated into four subsections: one for each of the four distinct time phases identified. In each phase, major developments in the institutional environment and their impacts on the standard-setting organization and the standards are briefly summarized. To increase the understanding and implications of actions taken by organizational actors, the main changes in the organizational structure and the accounting standards are separately listed. The subheading “actors and actions” in each of the four periods provides empirical evidence for the eight legitimacy work forms as proposed in the previous chapter. To conclude each phase, implications of actions and developments on input, throughput and output legitimacy are discussed.

Chapter 7 discusses the findings of the case study along the elements of the proposed process model on legitimacy management of private national accounting standard-setters. Thereby, it specifically focuses on the different legitimacy work forms and discusses them across the different time periods. Furthermore, the chapter outlines the contributions of the dissertation to accounting standard-setting literature, to legitimacy research and to institutional work theory.

Chapter 8 summarizes the dissertation, outlines limitations of the research project and proposes an outlook for potential future research.

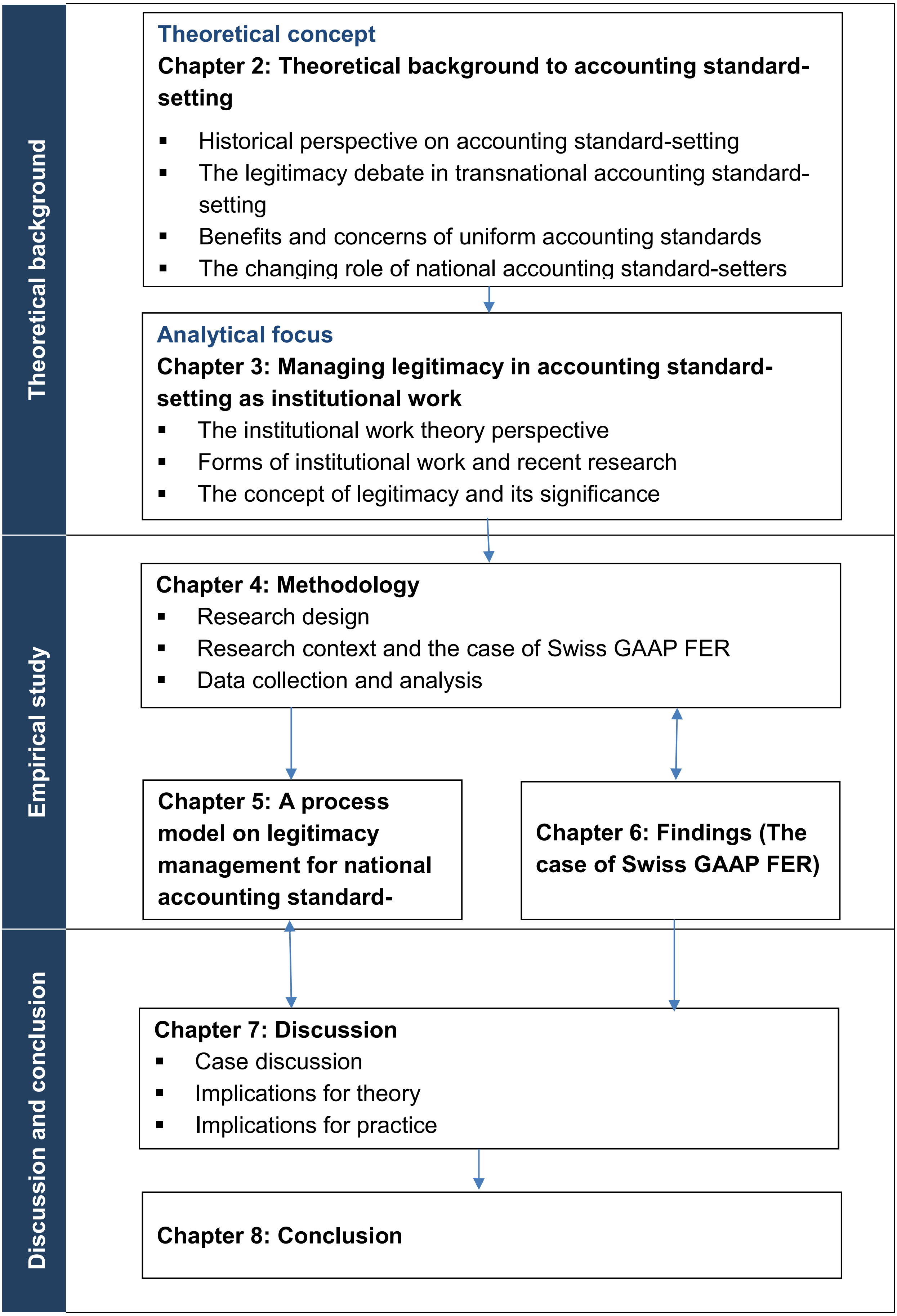

Figure 1: Structure of the thesis

2. Theoretical background to accounting standard-setting

Existing studies on accounting standard-setting often focus on transnational accounting standard setters such as the IASB reflecting the growing trend towards transnationalization[5] and standardization of accounting principles. This chapter provides an overview of existing accounting standard-setting studies, both on a transnational and a national level. It unfolds basic assumptions and findings in literature and proposes to look at an accounting standard-setting process through the lens of institutional work theory.

The *first section* provides a short historical review of main developments in the field of accounting standard-setting since the fourth quarter of the last century up to the present. Thereby, it concentrates on the most significant developments in the EU, the US and with IAS/IFRS. The purpose of this short historical review is to depict the broader institutional environment, the prevailing zeitgeist and important forces that affected accounting standard-setting processes and institutions on a national level.

The *second section* discusses legitimacy in the context of transnational standard-setting. Thereby, it summarizes the findings and assumptions of the research on the IASB. A particular focus is placed on the way the IASB gained and maintained legitimacy over time and on its relationship to national accounting standard-setters. It draws attention to the increased public scrutiny of the due process of the IASB and the actors involved.

The *third section* summarizes the main arguments of the debate over the benefits and potential concerns of uniform global accounting standards. More specifically, it outlines arguments in favor and against IFRS. Furthermore, it investigates implications on national accounting standard-setting processes.

[5] In this dissertation, I frequently refer to transnational standard-setting. Thereby, I rely on the characteristics of transnational rule-making provided by Dingwerth (2007, p. 5). Transnational means beyond the scope of individual states. Transnational rule-making or standard-setting refers to inter-societal rather than intergovernmental coordination.

The *fourth section* reviews the standard-setting literature on national accounting standard-setters with regard to legitimacy. Since scholars mainly focused on the IASB and IFRS, research on national accounting standard-setting became rather limited[6] in the recent years. With the diffusion of the IFRS, national accounting standard-setters work to preserve the interests of its national stakeholders in a transnational realm with highly influential actors that sometimes pursue conflicting interests. This section depicts different legitimacy management strategies by national accounting standard-setters with a varying degree of influence on the standard-setting process in the transnational realm.

[6] An exception is literature on the FASB, which is extensive. Due to the influential role of the US and American institutions on developments in the transnational realm, the FASB and its positioning is not representative for national accounting standard-setters from other countries.

Historical perspective on accounting standard-setting

This section provides an overview of the most important developments in accounting in the US, the EU and with IAS/IFRS. As outlined in the introduction, I will analyze legitimacy management strategies of private national accounting standard-setters using the case of Swiss GAAP FER. To fully understand the case and its embeddedness in a more macro context later, it is crucial to make note of main developments, because they influenced actions, actors, structures and standards on a national level. In this section, I review existing literature on the history of accounting standard-setting.

The substantial growth in trade and capital flows in the second half of the 20th century gave impetus to the trend toward standardization[7] and harmonization of standards, not only in the field of accounting. In the last decades, we experienced an unprecedented proliferation of standards in the transnational realm. Transnationalization has increased the demand for global standards to transcend place, culture and time. Standards establish order in our world. Organizations apply standards to structure and facilitate internal and external activities. Thus, the rise of transnational accounting since the second half of the 20th century needs to be contextualized with the changing economic conditions and power struggles between important actors from Europe and the US. Historically, accounting standards have been developed, disseminated and enforced on a national level. In continental Europe, civil law regimes based on Roman law predominated, and accounting rules have been integrated into code law that was enacted, altered and suspended by legislative procedures. The core principle of prudence ensured creditor protection, as bank financing represented a central source of financing[8]. Annual accounting reports often served as basis for company taxation. In contrast, common law regimes prevailed in the Anglo-Saxon world. As statutory law was less systematically developed, Anglo-Saxon countries relied highly on court rulings. Private rule setting thereby earned greater importance and is encountered more frequently. In line with an investor orientation, the predominant accounting principles were relevance and reliability of information. Financial accounting as for example in the US was entirely separate from tax accounting (Botzem & Quack, 2006).

Additionally, as international organizations gradually gained importance, they also had a significant influence on the setting of international accounting standards. A brief historical background is necessary to comprehend the impact of the rise of IFRS on the standard-setting process, the involved actors and stakeholders. Thus, it

[7] For a general in-depth discussion on standardization, please refer to Brunsson and Jacobsson, 2002.

[8] For financing purposes, companies traditionally raised long-term bank loans from a couple of banks, which also had alternative information access on the performance of a company going beyond the financial reporting. Financial reporting primarily ensured bankers that companies had sufficient collateral to support their loans (Nölke & Perry, 2007).

serves as basis for understanding the context of recent literature on transnational standard-setting, which became quite specialized in the meantime. Furthermore, the developments also are of relevance for the empirical part of this work due to the interrelatedness of the transnational and national realms. I will concentrate on a short outline of the most relevant events in Europe and the US in historical review, since they have been largely determinant for the development of the organizational field of accounting standard-setting.

- **Accounting in the European Union (EU)[9]**

Already after World War II, the need for harmonization of accounting rules was discussed at a macro level in order to produce comparable statistical figures on economic development and public expenditures[10]. Moreover, the predecessor organization of the EU launched a discussion on the harmonization of accounting standards, because it regarded comparable financial statements as a cornerstone for creating a common market, eventually resulting in the adoption of the 4th and 7th EU directive in 1978 and in 1983, which had to be transformed by member states into their national law. In particular, the two EU directives improved the comparability of balance sheet formats and notes across member states and imposed an obligation to prepare consolidated statements following certain methods. While the EU view on accounting matters was initially dominated by continental European accounting traditions, the entry of the UK and Ireland into the Community in 1973 marked a change and introduced principles and ideas from a common law accounting environment. Particularly, the true and fair view principle caused intense discussions in the 1970s and '80s because it appeared ambiguous and elusive especially for continental European accounting representatives (Haller, 2002). The adoption of the two directives was the result of tough negotiations and intense as well as lengthy political power struggles between parties with conflicting views. Creating uniformity was not the objective of the directives (Haller, 2002), and member states were not really interested in consequently altering their national accounting standards in favor of reaching a reasonable level of similarities. They tried to keep changes on a national level to a minimum and protect their traditional frameworks. Not surprisingly, the transformation of the EU directives in national laws took several years and some member states only adopted them in the mid '90s[11] (Haller, 2002). Nevertheless, the harmonization efforts within the EU was a remarkable success story, because the

[9] In 1957, the European Economic Community (EEC) was established. In 1993, the EEC was renamed the European Union (European Union, 2018). For clarity, I mainly refer to EU in this work.

[10] In the early post-World War II period, with the announcement of the Marshall Plan in 1947 and the foundation of the OEEC (predecessor organization of the OECD) in 1948, a minimum of comparable statistical figures was required. Such data was also required to coordinate and distribute American aid (Botzem & Quack, 2006).

[11] Austria was the last country to adopt the 4th and 7th EC directive due to its late entry of the European Union in 1995.

obligatory codification of accounting rules in all member states induced more than 2 million companies across Europe to change and converge their methods of presenting, publishing and auditing financial information (Haller, 2002), despite major differences in accounting legislation and practices.

In spite of the positive effect of the two EU directives[12] on trade within the EU, the EU decided to give up its strategy of developing genuine European accounting rules for listed companies in 1995 and instead to participate in the further development of IAS (Botzem & Quack, 2006). As the importance of the IAS increased and the US reinstated its position not to mutually recognize EU and US accounting standards, the EU's choice was to participate in the development of the IAS or to have no say in the development of transnational accounting standards at all. By strengthening IAS, it wished to create a counterweight to US GAAP and involved US parties driving the US GAAP standard-setting process (Schildbach, 2004). The EU strived to strengthen its own capital markets and did not want European companies to be at a competitive disadvantage. The accounting standards developed by the EU up to that point were regarded as insufficient in terms of transparency and coherence by the SEC. This was problematic because large European companies were increasingly seeking to obtain access to US capital markets. Haller (2002) analyzed the listings of European companies at the New York Stock Exchange (NYSE). While only 26 companies from the EU were listed in 1990, the number had grown to 146 by 2001. It was a general trend in the 1990s that European companies abandoned national accounting rules and adapted IAS or US GAAP, not only because of the globalization of trade and capital flows and the increased demand for detailed financial information by investors, but also because they had a vested interest in being able to benchmark their own performance against other international competitors. Moreover, groups with numerous subsidiaries worldwide obtained a commonly understood set of accounting standards available in different languages.

To counter the "loss of national sovereignty", the distance to constituents and the lack of accountability that is associated with private transnational standard-setters, the EU adopted a two-tier endorsement mechanism, where the European Commission retained the ultimate decision-making authority. The Commission is advised by the European Financial Reporting Advisory Group (EFRAG) and the Accounting Regulatory Committee (ARC). After the adoption of an IFRS by the Commission, the standard is published in all official EU languages as a Commission regulation in the Official Journal of the European Union. Thereby, the standards became part of Community law and fell under the jurisdiction of the European Court of Justice

[12] With regard to completeness: The EU also passed the 8th Directive on qualifications of persons responsible for carrying out the statutory audits of accounting documents in 1984, which was superseded in 2006.

(Luthardt & Zimmermann, 2009). EFRAG[13] was formed in 2001 and is a private sector body that provides on the one hand technical advice to the IASB and on the other hand gives endorsement advice to the Commission. EFRAG follows its own due process with the "encouragement" to serve the public interest by developing and promoting European views in the field of financial reporting and ensuring that these views are properly considered in the standard-setting process of IFRS (EFRAG, 2018). EFRAG identifies issues to be debated with the IASB and coordinates discussions on financial reporting across the EU involving national accounting standard-setters and EFRAG's member organizations. The ARC was set up in accordance with article 6 of Regulation (EC) No 1606/2002 and is composed of representatives from the governments of the European member states[14]. The ARC is chaired by the European Commission. The European Commission can only enact an IFRS, if the ARC supports it by a qualified majority vote. So far, the ARC has accepted the IFRS without major resistances with the exceptions of IAS 32, IAS 39 and IFRS 8. In these cases, the EU demonstrated its preparedness and willingness to interfere with the IFRS standard-setting process if the interests of its constituents were endangered. In response to the EU's intervention, the SEC expressed concerns about jurisdictions adopting their own IFRS and related risks on the convergence project of the FASB and IASB (Luthardt & Zimmermann, 2009).

Besides its efforts to influence IFRS, the EU also continued its own accounting harmonization efforts for small and medium-sized entities. On 19 July 2013, the EU issued the new EU Accounting Directive, 2013/34/EU, that is required to be used by companies for the year 2016. At the same time, the EU repealed the 4th and 7th Accounting Directives. The new directive sets the requirements for preparation, presentation, publication and auditing for both individual and consolidated financial statements in a single directive. The new accounting directive also introduced a new category of entities called "micro–undertakings"[15] and significantly simplified reporting requirements for these following the "think small first" principle in policy-making. The EU rejected adopting IFRS for SMEs at an EU level because it would have not met the objective to simplify and reduce the administrative burden. Member states were allowed to permit or require IFRS as their accounting standard as long as the new EU directive was fully implemented (André, 2017).

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[13] EFRAG consists of organizations representing European prepares, users, stock exchanges and the accounting profession.

[14] All representatives from a member state are considered as one committee member.

[15] According to Article 3 of the EU Accounting Directive, 2013/34/EU, micro-undertakings on their balance sheet dates do not exceed the limits of at least two of the three following criteria: i) balance sheet total of EUR 350,000; ii) net turnover: EUR 700'000, and iii) average number of employees during the financial year: 10.

- **Accounting in the US**

While the EU was busy aligning different accounting traditions and finding solutions at the level of the lowest common denominator, accounting rules in the US developed at an enormous pace and depth in the last quarter of the 20th century. The US represented the largest economy and most vibrant capital market in the world. The regulatory pressure to deal with certain accounting issues was particularly high compared to other capital markets in the world. Thereby, the development of accounting rules mirrored the evolving needs around strengthening globally connected capital markets that facilitated the creation and use of (complex) financial instruments. The Financial Accounting Standards Board (FASB)[16] was established in 1973 and is an independent, private-sector, not-for-profit organization based in Norwalk, Connecticut, that develops financial accounting and reporting standards for public and private companies and not-for-profit organizations. The FASB is focused on the needs of investors, other capital markets participants, and the public interest when it comes to financial accounting and reporting (FASB, 2018). Its standards must be used in corporate submissions filed with the Securities and Exchange Commission (SEC).

The FASB is recognized by the SEC as the designated accounting standard-setter for public companies. The SEC issued a formal support statement in 1973 and reaffirmed its recognition of the FASB pronouncement as generally accepted as a consequence of the Sarbanes-Oxley Act of 2002 (Zeff, 2005). The SEC has enforced FASB's standards strictly throughout the years and imposed severe penalties in cases of non-compliance. It has been a strong advocate of fair value accounting in company financial statements. Nevertheless, the FASB continuously faced pressure from the industry to be more responsive to its objections. The SEC intervened several times to protect the FASB's independence.

The FASB pioneered the development of accounting standards in many ways and served as reference for various other accounting standard-setters around the world. Zeff (2005) characterizes the accounting culture in the US as one of highly specific and prescriptive standards that is not easy to change. The traditional emphasis on rule-based accounting standards is not a coincidence. On the one hand, the SEC's accounting staff has pushed the FASB to issue ever more detailed rules. And on the other hand, the highly litigious environment in the US has promoted the development

[16] The FASB comprises seven full-time board members who are appointed by the Financial Accounting Foundation (FAF) Board of Trustees. Members may serve up to two five-year terms. A professional staff of more than 60 supports the FASB. Additionally, there are several advisory groups whose purpose is to share their views and experience. The FAF is the independent, private-sector organization with responsibility for the oversight, administration, and finances of the FASB. The most noteworthy advisory group is the Financial Accounting Standards Advisory Council (FASAC), which comprises approximately 35 members who represent a broad cross-section of the FASB's constituency and was also established in 1973 (FASB, 2018).

of detailed rules on accounting. Also, the emphasis on the concept of due process[17] is deeply ingrained in the American legal system. From its inception, the FASB has followed a formal due process. The FAF trustees strengthened the FASB's due process in 1977 and opened meetings to the public. The FASB's due process has served as good example for other standard-setters including the IASC/IASB. One of the first large projects was the development of the conceptual framework[18] that lasted from 1974 to 1985 and provided the FASB with a full-fledged conceptual framework as the first accounting standard-setter in the world (Zeff, 2005).

After the turn of the millennium, the FASB and the SEC seriously pursued convergence efforts with the IASB. In 2002, the FASB signed the Norwalk Agreement with the IASB to foster convergence to IFRS. After an initial period with little convergence progress, the FASB and the IASB intensified their cooperation and signed a Memorandum of Understanding in 2006, which was updated in 2008. The involved standard-setters discussed ways of adjusting the IASB's set-up including structure, funding, governance and due process (Camfferman & Zeff, 2017). At that time, the SEC was a proponent of converging to a single set of global accounting standards. Following intense public debates, the SEC decided on 15 November 2007 to lift the reconciliation requirement for foreign private issuers using IFRSs as issued by the IASB, effective immediately. Thereby, the SEC insisted that foreign private issuers and auditors explicitly affirmed compliance with IFRSs as issued by the IASB and not to the IFRS endorsed by the EU with the two carve-outs concerning IAS 39 on the use of the full fair value option and on hedge accounting. This insistence should outline the importance of developing IFRS as a uniform global standard. The idea of also granting US issuers the choice to either adopt US GAAP or IFRS and later to solely require IFRS became increasingly more popular and was openly put up for discussion by the SEC. Representatives of the Big Four audit firms approved the idea but pointed to the necessity to have a careful plan for the transition or conversion toward an eventual requirement to adopt IFRS. In 2008, the SEC was already making preparations for a wide-spread use of IFRS in the United States.

[17] Richardson (2008, p. 680) refers to due process as "the means by which ethical limits on authority are enacted" and differentiates between procedural due process and substantive due process. Procedural due process concerns the rights of an individual and requires government officials to follow fair procedures before depriving a person of life, liberty, or property. Procedural due process is required by the Due Process Clauses of the Fifth and Fourteenth Amendments to the US Constitution (Institute, 2018). Substantive due process protects certain rights unrelated to procedure. It protects minorities from biased rules and allows procedures to be challenged based on their effects (Richardson, 2008).

[18] In 1973, the Trueblood Study Group established by the AICPA issued a booklet on objectives of financial statements outlining a decision usefulness approach for the development of accounting standards (Zeff, 2005).

However, the plans to adopt IFRS for listed companies in the US were derailed by the global financial crisis, and personnel changes[19] at the SEC inaugurated a paradigm shift. The roadmap toward adoption of IFRS of listed US companies in 2014 to 2016 began to fade. Although the SEC never felt comfortable with mutual recognition of accounting standards developed in other jurisdictions, because it would empower a regulator in another jurisdiction to decide what was acceptable to the SEC (Camfferman & Zeff, 2015), it appreciated the notion of having common global accounting standards under certain conditions and supported the idea quite seriously before the outbreak of the financial crisis. However, the opposition to IFRS adoption gained strength in the US and also within the SEC. The main concerns of the SEC related to three areas: i) the IASB's governance, ii) its funding, and iii) the progress of convergence of IFRS and US GAAP (Camfferman & Zeff, 2015). There were doubts about the independence of the IASB, its oversight and the rigor of the standard-setting process. Furthermore, IFRS would leave more room for interpretation than US GAAP, and their implementation and enforcement worldwide would still lack consistency. The SEC feared a race to the bottom in the convergence to a global standard. Also, the estimated cost to switch from U.S. GAAP to IFRS reporting was considered high. The SEC issued a staff paper[20] on a potential (mandatory) IFRS adoption in the US, but the opinions remained divided. In comment letters small listed companies operating mainly in the US complained that costs outweighed benefits. However, it is also important to note that in 2008 all major initiatives were put on hold to concentrate on re-establishing the soundness of the US financial markets after the collapse of Lehman Brothers on 15 September 2008. The SEC faced criticism for not detecting the weakness of major Wall Street Banks earlier and for not unmasking the Madoff fraud (Camfferman & Zeff, 2015). It also experienced a high turnover in its governance structure[21] that made the pursuance of stable policy difficult. In 2012, the SEC's staff completed the work plan including an analysis of whether to move toward incorporating IFRS into the financial reporting system. The work plan did not contain any recommendation and it remained unclear what the SEC's view was (Camfferman & Zeff, 2015). Not surprisingly, the idea of mandatory domestic use of IFRS in the US was almost dead by 2014 (Camfferman & Zeff, 2017).

[19] SEC Chairman Christopher Cox (2005–2009), who was strongly in favor of IFRS, stepped down in January 2009. His successor, Mary L. Shapiro was critical of requiring US companies to adopt IFRS.

[20]"Work Plan for the Consideration of Incorporating International Financial Reporting Standards Into the Financial Reporting System for U.S. issuers — Exploring a Possible Method of Incorporation", published on 26 May 2011.

[21] Between 2001 and 2013, the SEC had six different chairmen and five chief accountants (Camfferman & Zeff, 2015).

- **The rise of IAS/IFRS**

The development and the diffusion of the IFRS is an incredible success story. Although IFRS are voluntary standards and their use depends on their perceived legitimacy (Wingard, Bosman, & Amisi, 2016), 144 jurisdictions out of 166 assessed profiles (87 per cent) require IFRS standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets (IFRSF, 2018b). Despite setbacks, as outlined earlier concerning the faltering convergence with US GAAP, the IFRS are well on their way to meet its objective to develop a single set of high quality, understandably enforceable and globally accepted financial reporting standards and to promote and facilitate adoption of the standards (IFRSF, 2018c). This success is not a coincidence but the result of tremendous effort and persistence to build and maintain strong ties to national accounting standard-setters, the accountancy profession, regulatory oversight bodies, many international organizations and various other stakeholder groups. The IASB (as the IASC came to be known in 2001) has continuously identified the signs of the times and skillfully adjusted its organizational structure and its processes to protect its integrity and legitimacy as independent technical expertise-based standard-setter. Of course, this also involved the constant refinement of the accounting standards. Before discussing benefits and potential downsides of a single set of global accounting standards and assessing implications for national accounting standard-setters, I will highlight some important milestones in the development of the IFRS[22].

1973 was not only an important year for the predecessor organizations of the EU and the US but also for the entire accounting world, as it was the birth year of the International Accounting Standard Committee (IASC). On the initiative of Sir Henry Benson, the IASC was established in London comprising representatives of professional accounting bodies of nine countries[23]. The objective was to develop accounting standards with an international and not only European reach with a focus on companies. Most remarkable was the fact that all of a sudden private actors actively assumed the role of setting international standards (Botzem & Quack, 2006). Previously, government authorities dominated the field of accounting standard-setting. International Accounting Standards (Bengtsson, 2011) were supposed to serve as a model on which national accounting standard-setters could base their own standards (Pacter, 2005). In the early years, the IAS contained many options. At that time, the aim of the IASC was not to set-up a coherent set of rules but to allow for an exchange of information and to foster mutual understanding of practices in different countries. In the early years, various national accounting standard-setters remained skeptical of the IASC until it launched joint projects with national accounting

[22] For a detailed outline of the history of the IASB and its predecessor organization please refer to the following articles: Botzem & Quack, 2006; Camfferman & Zeff, 2017 and Zeff, 2012.

[23] The nine countries were Australia, Canada, France, West Germany, Great Britain (including Ireland), Japan, Mexico, the Netherlands and the United States of America (Botzem & Quack, 2006).

standard-setters and improved relations. National accounting standard-setters, who participated in the standard-setting work to improve the quality of accounting standards, committed themselves also to promote the usage and acceptance of the standards.

A major driver behind the development of IAS was the accountancy profession. The IASC and the International Federation of Accountants (IFAC)[24] built strong organizational ties. The Council of IFAC appointed 13 members of the IASC Board, which was in charge of approving international accounting standards, exposure drafts and final interpretations. Four additional members were co-opted by the IASB Board to represent other stakeholder groups. Besides the establishment of different committees, the IASC also formed a Consultative Group, where several private and intergovernmental organizations became affiliated, including the FASB, the EU, IOSCO, the OECD and the UN. Early on, the IASC recognized that governmental and regulatory acceptance was needed for developing (and later enforcing) accounting standards.

As the importance of capital markets grew, the IASC recognized the role of accounting standards for facilitating the flow of resources and creating efficient markets (Tamm Hallstrom, 2004). To strengthen the usage of IAS as a financial reporting standard by listed companies, the IASC approached national regulators of security markets and entered into collaboration with IOSCO. The objective of the jointly launched “Comparability and Improvements Project” starting in 1987 was the creation of internationally accepted accounting standards, which would be recommended by IOSCO to its national member organizations as a listing prerequisite (Haller, 2002). The shift to financial market actors was a response to the rising importance of capital markets (Botzem & Quack, 2006) alongside strong demand from investors for the provision of internationally accepted financial information useful for decision-making (Haller, 2002). Thereby, the US stock exchanges played a central role for global capital flows due to their volume and liquidity, making them increasingly attractive also for investors from other countries. The FASB and the SEC became key players as guardians of the world’s leading capital market, and US GAAP, a national accounting standard, was given the status of internationally accepted accounting standards, since it was a pre-requisite to obtain a listing on the US stock exchanges. Due to its dominant position with regard to capital markets, the SEC had a quite significant influence within IOSCO[25] and also protecting its interests there.

[24] IFAC is the global organization for the accountancy profession dedicated to serving the public. As of 2018, IFAC is comprised of more than 175 members and associates in more than 130 countries and jurisdictions. (IFAC, 2018)

[25] The International Organization of Securities Commissions (IOSCO) was established in 1974 as inter-American organization to supervise securities exchanges. In 1983 it was opened up to other national securities regulators and quickly became a powerful global player (Botzem & Quack, 2006).

The IASC knew that it had to restructure its organization in order to obtain an endorsement by IOSCO and win the confidence of the SEC that the IASC Board going forward would be a high quality standard-setter with a set of comprehensive standards that are rigorously interpreted and applied[26]. The standard-setting process until the late 1990s involved a relatively small group of staff with volunteer steering committees in charge of drafting the standards. Although the IASC Board only had 17 seats, around 70 people sat around the table to discuss accounting standards as each seat had a delegation of four persons attached to it, which made the standard-setting process not always easy to manage (Tamm Hallstrom, 2004). In September 1999, the SEC wrote a letter to the IASC insisting on certain principles of the restructured body: To possess authority and legitimacy, the new body shall be relatively small, independent and be comprised of full-time members that are assisted by a large research staff (Zeff, 2012). Members shall be selected based on technical expertise and not geographical origin. The body shall also follow a robust and open due process. In short, the SEC wished to have a body similar to the FASB. European countries, particularly the European Commission, preferred a larger body with at least some part-time members and geographical representation from the countries committed to applying IAS (Zeff, 2012).

After intense debates, the IASC Board approved the new IFRS Foundation Constitution in March 2000. The organizational setup of the IASB (successor of the IASC Board) changed in 2001 from a standard-setting body and meta-organization comprised of national professional bodies into a non-profit foundation without institutional membership (Botzem & Dobusch, 2012). Thereby, the IASB has acted as a standard-setting body and has consisted of an independent group of experienced experts in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education. Today, the IASB comprises 16 members[27]. Each member is expected to establish and maintain liaison with national accounting standard-setters and to act in the public interest. Trustees of the IFRS Foundation[28] are responsible for the governance and oversight of the IASB.

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[26] In 1996, the SEC issued a press release and communicated for the first time the attributes that the IASC standards must possess, if they were to be acceptable for preparing financial statements in cross-border offerings: i) They would have to include a core set of accounting pronouncements that constitutes a comprehensive, generally accepted basis of accounting; ii) they must be of high quality and result in comparability and transparency and provide for full disclosure, and iii) the standards must be rigorously interpreted and applied (Zeff, 2012).

[27] Three of them could be part-time. As outlined by IFRS Foundation effective from 1 December 2016, the main qualifications for membership of the IASB shall be professional competence and recent relevant professional experience (IFRSF, 2018e). The increase in the number of Board members from 14 to 16 and the specification of geographical quotas for membership became effective in 2009.

[28] The IFRS Foundation comprises 22 individuals from diverse geographic and functional backgrounds. Their responsibilities include among other things, (i) the raising of funds; (ii) the appointment of the IASB members, the IFRS Interpretations Committee and the IFRS Advisory

In 2000, IOSCO finally recommended to its members to require IAS in cross-border offerings and listings after extensive revisions of IAS (Botzem & Quack, 2006) and the above outlined restructurings. The European Union's surprise proposal in 2000 to commit EU listed companies to adopt International Accounting Standards by 2005 for their consolidated financial statements caught the world's attention, and other countries began considering the IASB as the world's accounting standard-setter. However, there are also additional international organizations that have promoted IAS/IFRS. Beside IOSCO, the World Bank is purported to have persuaded several jurisdictions to adopt IFRS. Within the scope of its program Accounting and Auditing Reports on the Observance of Standards and Codes, it issued more than 90 reports including recommendations to accelerate and fortify the adoption of IFRS where it had begun and alternatively to establish an action plan, if no conversion or adoption to IFRS was planned (Camfferman & Zeff, 2017). Also, the SEC's communication of a roadmap to converge with IFRS induced several countries to speed up their convergence/adoption efforts. In some parts of the world, the momentum toward IFRS adoption continued independently of implications of the financial crisis. In 2012, for example, Argentina, Mexico and Russia adopted IFRS.

However, the reality of events from 2009 to 2011 was incisive. Fair value based accounting was accused of further escalating the financial crisis, because it forced financial institutions to fire sales of investment positions in illiquid markets to meet capital requirements (Bengtsson, 2011). The financial crisis led to renewed criticism of both the content of the IFRS and the organizational setup of the IASB. For example, the European Parliament criticized the lack of transparency, legitimacy, accountability[29] and control by any democratically elected parliament or government. Accompanying procedures and practices of consultation and democratic decision-making were established without EU institutions (European Parliament, 2008). The IASB took seriously concerns regarding its lack of accountability for acting in the public interest and the organizational inadequacy for its growing responsibilities, because these concerns potentially questioned the legitimacy of its regulatory output (Botzem & Dobusch, 2012). In order to enhance the public accountability of the IFRS Foundation and in response to the above outlined criticism, the Monitoring Board[30]

Council and (iii) the establishment and monitoring of compliance of operating procedures, consultative arrangements and due process.

[29] Zarnegar Deloffre (2016, p. 726) refers to accountability as "a process by which individuals or institutions answer for their actions and the consequences that follow from them." She distinguishes between two broad categories of models of accountability: representative and principal-agent. Representative accountability is based on the notion of democracy that elected representatives are answerable to their constituents for carrying out their mandates and adhering to legal standards. Principal-agent accountability focuses on motivating agents to achieve the goals of their principals constraining the impact of agents self-interested behavior and information asymmetries.

[30] The aim of the Monitoring Board is to provide a formal link between the Trustees and public authorities. The Monitoring Board consists of capital markets authorities responsible for setting the form and content of financial reporting including representatives from IOSCO, the European

was created in January 2009. The Monitoring Board ensures that the Trustees continue to discharge their duties as defined by the IFRS Foundation Constitution and it approves the appointment of Trustees of the IFRS Foundation (IFRSF). Also, the composition of the IASB changed over time. In 2001, IASB members were mainly drawn from standard-setting or other technical backgrounds. Ten years later, the composition of the IASB showed a more balanced mix of users, regulators, preparers and audit firm partners.

The SEC's reluctance to move toward IFRS forced the IASB to a strategic reorientation. The IASB and its predecessor organization IASC devoted much of its resources to gaining the acceptance for IFRS in the US. In 2002, the IASB and FASB began their convergence efforts, which dominated the IASB's technical agenda and absorbed it (almost entirely at certain points in time). By the end of the decade, the goal was to complete a reduced set of four major convergence projects by 2011 (on revenue recognition, leases, insurance contracts and financial instruments). Despite the years of experience with convergence, bridging differences turned out to be difficult. There were a lot of lobbying activities, and US interests often differed from those of the rest of the world (Camfferman & Zeff, 2015). In 2014, the joint standard on revenue recognition was published. However, in the same year, the FASB decided to withdraw from the project on the insurance contracts and was also unwilling to endorse the IASB classification and measurement of financial instruments. In 2016, the joint project on leases was finalized with the result that both standards setters issued their own standards on leases that were not fully converged. Thus, the US remained the major capital market without an IFRS mandate and no plans to change. Although Japan and China intensified their convergence efforts after the EU's decision on a mandatory adaption of IFRS for the consolidated statements of listed companies, their incentives for taking the final step to full adoption weakened in light of the US actions. In Japan, IFRS reporting is permitted but not required, and China remains at its status to fully converge at some undefined future date.

The appointment of Hans Hoogervorst as Chairman of the IASB in 2011 marked a turning point in the IASB's strategy that was highly determined by the US convergence. While convergence efforts with the FASB were quietly wound down, the appearance and the understanding of the role of the IASB and the Trustees became more proactive. Their new mission became to ascertain where adoption of IFRS is incomplete or diverges from the full set of IFRS as issued by the IASB. They developed their own database on the extent of adoption by jurisdiction (IFRSF, 2018b). The new strategy of the IASB and the IFRSF involves assuming a proactive role in the pursuit of genuine worldwide comparability of financial reporting. In 2013, IFRSF announced the formation of the Accounting Standards Advisory Forum

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Commission, the SEC, JFSA (Japan), CVM (Brazil), FSC (Korea), China MOF. The Basel Committee on Banking Supervision participates as an observer.

(ASAF)[31], which aims at formalizing the relationships between IFRS and the standard-setting community. The goal is to integrate important regional perspectives into the IASB's technical work, to obtain feedback on major issues and strengthen relationships.

The legitimacy debate in transnational accounting standard-setting

> "However, it has long been recognized that the continuing acceptance of accounting standard-setting is a matter of managing the legitimacy of the process of standard-setting in addition to, or perhaps even independently of, the technical characteristics of those standards." Richardson and Eberlein (2011, p. 217)

The discussion of legitimacy in the context of transnational accounting standard-setting has a strong political dimension. The reason is that private (transnational) standard-setters lack democratic legitimacy. Democratic legitimacy is a fundamental concept within political science[32], and it has been put forward by many renowned researchers when assessing the legitimacy of the IASB (Botzem, 2014; Dingwerth, 2007) and other transnational organizations. Democratic legitimacy is an essential prerequisite for establishing social order within our Western society. State-based regulators draw on the legitimacy of the state to reinforce their individual legitimacy claims. However, democratic legitimacy can also be derived by chains of delegation. On a national level, governments have outsourced the setting of technical rules to independent public agencies that possess more technical expertise in the field. These public agencies often are said to operate in the "shadow of hierarchy"[33], since they must follow procedural norms and are subject to judicial review and they need to respond to public debate. In the case of entirely independent non-state regulators, this chain of delegation is unclear, and the standard-setters often need to establish legitimacy in a different way. On a transnational level, the link to democratic

[31] The ASAF comprises 12 non-voting members and the Chair (IASB). The geographical distribution requires one member from Africa, three from North and South America, three from the Asia-Oceania region, three members from Europe and two additional members to maintain geographical balance. The regional networks of standard-setters are also represented among the 12 members: European Financial Reporting Advisory Group (EFRAG), Group of Latin American Accounting Standard Setters (GLASS) and Asian-Oceanian Standard-Setters Group (AOSSG).

[32] Democratic legitimacy requires that the decision-making process satisfies certain conditions of fairness to ensure that the will of the people is carried out. There is an electoral connection between the governed and their officials. Dingwerth (2007, p. 15) refers to democratic legitimacy as a normative concept that primarily refers to the input and throughput dimensions of legitimacy. Affected constituents will perceive a rule-making process as rightful if they have good reasons to so. Thereby, important questions are: "Who is involved in making rules?" and "How is input of participants transferred into results?"

[33] The FASB is a good example for an organization operating in the "shadow of hierarchy". It is supervised by the SEC, which is accountable to Congress under the framework of the Administrative Procedures Act (Richardson & Eberlein, 2011).

legitimacy can be established when governments formally delegate authority to national representatives or directly to international organizations. In a transnational organization such as the IASB, this link is largely unavailable and democratic underpinning is weak. In principle, following a standard is voluntary[34] and a standard-setter is not able to enforce the adoption of its standards.

Also, it is not straight-forward to establish accountability in such an environment, which remains a constant challenge due to an ever-changing world[35]. The authorization of standards by national authorities brings the de-facto private authority on the transnational level back to domestic accountability. However, the IASB depends on the acceptance of its standards by users and by national or transnational public authorities, who themselves have the power to adopt and authorize IFRS for their jurisdictions (Richardson & Eberlein, 2011). However, national authorities have often limited possibilities to change standards, if they commit to adopt IFRS within their borders. They have to adopt IFRS as living documents. If the number of users increases worldwide, other jurisdictions may be pressured to also opt in to ensure competitiveness or access to capital markets or funding from international organizations (Richardson & Eberlein, 2011). So, the core legitimacy issue on the level of the IASB cannot be sufficiently addressed this way. The recurring discussions on the structure of IASB and other transnational organizations such as IFAC every few years show the importance and complexity of the topic.

To compensate for these inherent weaknesses, transnational private standard-setters need to show that they are “legitimate” and “trustworthy” by setting up just and democratic procedures in their work (Tamm Hallstrom 2004). Private standard-setters need to pay attention to designing organizational structure and procedures in such a way as to promote decision-making based on fairness, broad participation, rationality, deliberation, efficiency, and accountability. In literature on transnational accounting standard-setting, the concepts of input, throughput and output legitimacy have been frequently employed (see Chapter 3). As the focus on input and output legitimacy is considered insufficient due to the lack of democratic underpinning, it is hardly surprising that the IASB’s throughput or procedural legitimacy (or, in more formal terms its due process) has been a central focus of research.

Bradley (2011) explained that transnational accounting standard-setters have particularly emphasized their consultation processes with stakeholders by ensuring, for example, evidence-based policy-making in response to questions about their

[34] Following of a standard can be (de-facto) coercive in practice, when, for example, important third parties expect standard adoption (Brunsson & Jacobsson, 2002) or regulators require the adoption of standards.

[35] With standards it is important to recognize their volatile nature. While standards stabilize actions at a certain point in time, they can become quickly outdated, as circumstances change. The evoked transformations of standards are not enduring.

legitimacy. Transnational consultation processes have been criticized for their lack of visibility, the dominance of (mainly) English as the language of discussion, and their stakeholder focus resulting in unbalanced comment letters. Consultation questions and papers on standards were framed in such a way that non-expert opinions appeared irrelevant. Thus, consultation may not effectively reflect the views of all stakeholders and governments may decide that it is their function to represent the public interest. Bradley (2011) distinguished two purposes of public consultations. Public consultations by governments but also by private standard-setters are done for data gathering and for opinion-forming functions. Standard-setters are not only interested in the facts relevant to policy making but also in the opinions of the stakeholders to ensure focus on the perceived problems. Thereby, standard-setters can maintain confidence and improve their relation to the public or can manipulate public opinion on proposed legislation.

According to Esty (2006), procedural rigor is important in order to exercise transnational authority. The adoption of deliberative processes that meet the needs of the affected parties improves the quality of information and policy options and mitigates conflicts among different interest groups. A robust political dialogue that engages multiple perspectives on the issues generates public confidence and acceptance — even among those on the losing end of a particular debate[36]. A transparent decision-making process that provides opportunities for debate and dialogue, with a broad participation of interests and views, is key to legitimacy, substituting for the missing democratic legitimacy and accountability that elections would provide (Esty, 2006).

Richardson and Eberlein (2011) compared the IASB's due processes to those in the US and UK. The FASB's due process served as cultural model[37] for developing the IASB's due process. The IASB expanded it with some innovations to capture the complexity of transnational accounting standard-setting. For example, the IASB introduced supermajority voting requirements to limit the influence of narrow interest representations. It allowed extended consultation periods, facilitating a discussion and opinion formation on a national level and incorporated due process requirements in its constitution. Furthermore, strong comply or explain procedures and regular constitutional review processes of its entire government structure strengthen the rigor of the process.

> "In short, the IASB strives to legitimate its self-mandated character by credible "self-commitment". As a result, the IASB is considered by some to be one of the most accountable of transnational organizations."
>
> Richardson and Eberlein (2011, p. 239)

[36] The author builds on the ideas of Habermas regarding an ideal speech situation.

[37] The authors refer to Suchman (1995), who outlines the possibility to establish legitimacy by drawing on cultural models that furnish plausible explanations.

Botzem (2014) doubted that the IASB would have been able to maintain its core position in transnational accounting standard-setting without its due process. He argued that the rigorous application of the due process and the high degree of transparency provide the IASB with a tool to fend off criticism and defend its way of expertise-based self-regulation. Consultation became one of the IASB's core legitimation strategies. The due process, which Botzem (2014, p. 950) referred to as a "sophisticated tool of stakeholder engagement that plays a central part in the organization's rhetoric", allowed the IASB to manage information inflow and to filter and reinterpret stakeholder opinions. He considered the selective opening of the decision-making process of the IASB to capital market actors (comprising investors, preparers and some regulators) as worrying, but at least the IASB showed some awareness of weaknesses in participation. Due to the quasi-binding nature of IFRS in most jurisdictions, democratic accountability should further be strengthened and decision-making opened to societal stakeholders and representation of interests. Pelger and Spiess (2017) repeated this recommendation based on their analysis of the IASB's agenda consultation in 2011/2012, which was a project that was explicitly introduced to enhance the IASB's legitimacy and accountability. Due to its non-technical nature, the agenda consultation project was an interesting case by which to analyze the interaction of the IASB with its constituents. Comment letter writers appreciated the move toward an evidence-based agenda formation[38] and the conduct of post-implementation reviews and signaled support for further limiting the IASB's discretion to construct throughput legitimacy. Pelger and Spiess (2017) also showed how the IASB enhanced legitimacy by extending outreach and formalized due process policies and pointed to issues when putting these in practice. They pointed to the close link between rhetoric and legitimacy, as the IASB used the rhetoric of consensus and balanced decision-making to stress the technical dimension of standard-setting. Looking at the roundtable discussions, they found that only a narrow set of individuals and organizations participated, although there were no formal restrictions on participation. Participants mainly represented a small set of accounting firms and associations, multinational preparers (mainly from Europe and North America) and national accounting standard-setters. The authors referred to an inner circle that continuously followed board activities and interacted with the IASB. At the roundtables, the IASB staff presented and the constituents basically repeated their feedback that they included in their comment letters. So, the roundtables appeared to be also a means to appreciate the constituents' activities and reassure them of their importance and further enhanced their position. Meanwhile, other actors

[38] Evidence-based agenda setting advocates a more rational, rigorous and systematic approach. It is based on the premise that projects are evaluated more thoroughly with regard to their practical necessity and impact. The objective is to produce better results. Findings and identified regulatory gaps during post-implementation reviews could be possible sources for the agenda setting. Evidence-based policy making is meant to be politically neutral. However, the evaluation of evidence is complex, since different stakeholders try to exert influence.

remained in the periphery and had increasing difficulties to identify relevant projects, to follow all steps of decision-making as the due process becomes ever more detailed and to provide meaningful feedback. As a result, the IASB was left in a strong position to justify its decision-making and to write its own version of its narrative (Pelger & Spiess, 2017).

In literature, it is uncontested that a broad representation of stakeholders in the due process is considered as important for legitimacy assessments — more specifically with input legitimacy (Jorissen, Lybaert, Orens, & van der Tas, 2013; Larson, 2007; Pelger & Spiess, 2017). The representation of constituents in the due process is central focus of various research studies on lobbying activities in the context of the IASB that indirectly portray the IASB more as a passive actor. Based on a broad analysis of 7,442 comment letters to the IASC/IASB from 1995 to 2007, Jorissen et al. (2013) observed an increase in participation over time — especially after the reform. Preparers, auditing firms and national standard-setters increased overall participation and were responsible for around 90 percent of the comment letters submitted to the standard-setter after the reform. As accountancy organizations and national accounting standard-setters lost power due to the abolition of the representative model and the hand-over of the standard-setting authority for listed companies to the IASB, they increased their participation. At the same time, the engagement of users worsened over time. They were found to hardly engage in formal participation. A further finding of the comment letter review was that the reform in 2001 appealed to Anglo-Saxon preferences and led to increased participation of constituents familiar with the Anglo-Saxon tradition. In a similar vein, Orens, Jorissen, Lybaert, and Van der Tas (2011) found evidence that the home country regulatory background of the preparers may have influenced the type and the method of participation used in a private accounting standard-setting process. Belgian respondents often relied on passing their concerns to their auditors, which often are international auditing firms and usually write one comment letter to the standard-setter, making it questionable if the desired attention is ensured. Meanwhile, their UK counterparts engaged in many more direct and indirect lobbying methods.

The debate on whose preferences are favored in the due process of setting and updating IFRS is still going on and will not be settled in the near term due to the complexity and number of stakeholders involved. Ensuring broad participation to construct input legitimacy is a delicate balancing act and reveals the temporal nature of legitimacy assessments. It requires attention and sensible judgment on a continuous basis. Only recently, Wingard et al. (2016) pointed to the relatively low participation of representatives from Africa and South America in the IFRS standard-setting process, although African countries were forced to adopt IFRS by circumstances[39]. According to them, the current participation tended to favor G20 countries and thus especially Europe. Furthermore, they argued that all major funders were represented on IFRS governance structures and that the practice of secondments of individuals from international accounting firms, corporations and national accounting standard-setters not only provided technical expertise to the IASB but also resulted in potential influence on the standard-setting process by well-resourced constituents.

Last but not least, one should not forget to mention that the successful development and diffusion of IFRS has been substantially influenced by the outstanding ability of the IASB to network and engage important actors in the pursuit of its own objectives over a long period of time. Tamm Hallstrom (2004) analyzed the activities of the IASC (predecessor organization of the IASB) along four organizational principles[40] for standard-setters and noticed strong networking activities between the standard-setting organization and other organizations in the environment. Networking sustained the standard-setting activity. To a great deal it represented part of IASC's organizational work and enhanced its authority. Botzem (2014) acknowledged that transnational accounting standard-setting has taken place in a tightly knit field:

> "Undoubtedly, it centers on the IASB, which has carefully networked for more than four decades to eventually become the center of gravity." Botzem (2014, p. 950)

As a result, the IASB became a powerful player itself with strong connections to influential international organizations. Drawing on the notion of professionalism, the IASB has come into the position to reject critics on accountability. Besides the debate on legitimacy of transnational accounting standard-setters, there is also an ongoing discussion on the benefits and concerns of uniform accounting standards, which I will briefly summarize in the next section.

[39] Wingard et al. (2016) noted that powerful stakeholders, who endorsed IFRS (such as the EC and IOSCO) were simultaneously co-opted into the decision-making structures. Thus, they criticized that other countries that required or permitted the use of IFRS had to accept that the larger economies de-facto determined the content of IFRS.

[40] In earlier research on standard-setting, Tamm Hallstrom (2002) outlined the following four organizational principles for standard-setters: i) expertise (involvement of experts confers legitimacy), ii) representation (openness to all parties), iii) user orientation (as driver for standardization work), and iv) participation (sensitivity toward undue support and influence).

Benefits and concerns of uniform accounting standards

The world today is full of different standards, and there are numerous reasons for this. One reason is that standards can fill a gap when organizations or states are too weak to coerce behavior (Brunsson & Jacobsson, 2002). They (often) promise an optimal solution to a problem and can promote democracy because standardized processes are often more transparent, which represents an important element for accountability (Timmermans & Epstein, 2010). The development of a common accounting language and the elimination of options as well as regulatory gaps improve the shared understanding of accounting issues, strengthen accounting practices and reduce the costs of capital and financial reporting costs. Various value relevance studies provide evidence for these assertions (Leuz & Verrecchia, 2000), but results are not consistent across countries (Filip & Raffournier, 2013).

The benefits of IFRS are widely agreed upon, and they have been perceived as high-quality standards (Ball, 2006, 2016). Not for nothing, more than hundred jurisdictions have adopted IFRS (for listed companies). The IFRS Foundation outlines three main benefits of using IFRS (IFRSF, 2018d) on its website. First, IFRS foster transparency by enhancing the international comparability and quality of financial information. Thereby, IFRS enables investors and other market participants to make informed economic decisions. Second, IFRS strengthen accountability by reducing the information gap between the providers of capital and management. Third, IFRS contribute to economic efficiency by facilitating the identification of opportunities and risks across the world. Although Ball (2016) considered it as still too early to evaluate the extent and character of the actual benefits, it is fair to conclude that they are uncontested despite the difficulty in measuring them.

Nevertheless, private standard-setting in technical fields including accounting is not only advantageous from an investor perspective but also can be beneficial from a regulatory point of view. This is particularly true for countries whose responsible institutions are underdeveloped. It offers the possibility to outsource the responsibility for complex issues to an external group of experts because certain topics may appear as overly technical. Technical topics often represent marginal issues from a public and political perspective making them not attractive to focus on. For political actors, it can be quite inefficient to develop and maintain the required technical expertise to issue and disseminate standards and rules. Furthermore, recruiting experts can be challenging and expensive. IFRS offer a comprehensive internationally accepted solution.

However, Nobes (2013) called for more caution when analyzing the adoption of IFRS, since literature contained many references to widespread or almost universal adoption of IFRS, which potentially left a misleading impression of the global spread of IFRS. In several major capital markets, the adoption of IFRS has been voluntary and IFRS have not been required for any purpose (e.g., in Japan or Switzerland). In the US, IFRS have even not been allowed for domestic reporters (e.g., for registrants of the SEC in the US). In several jurisdictions, the requirement to adopt IFRS has been limited to listed companies, though they represent a very important type of companies. Some countries or regions require an endorsement of IFRS (e.g., in the EU or in Australia). Therefore, companies and auditors do not always directly refer to compliance of IFRS as issued by the IASB.

IFRS have been frequently criticized for their fair value orientation and related problems with judgment and estimation (Ball, 2006, 2016). Nölke and Perry (2007) claim that the fair value orientation of the IAS/IFRS has contributed to the profit-financialization[41] of the economy. They showed how fair value accounting relates to shareholder value orientation. According to them, placing shareholder interests at the center came at the expense of labor and other stakeholder groups within society. Non-financial companies not only competed in product markets but also in financial markets, resulting often in overly ambitious rate-of return targets and unsustainable corporate strategies to meet these. In their study, Nölke and Perry (2007) discussed the difficulties of dispersed small and medium-sized German companies to mobilize the necessary resources to meaningfully participate in the IASB due process and protect their vital interests.

Concerns have also been raised about the uneven implementation of IFRS across different countries (Nobes, 2013). One cause could be found in the scope of variation within IFRS due to available options and vague criteria. A further contributing cause were systematic country-based differences in practices (Ball, 2006). Complex market, political and institutional forces influenced the financial reporting of corporate managers to the public. Furthermore, regulatory enforcement mechanisms substantially varied across countries. Ball (2016) outlined the example of China, which has not formally adopted IFRS yet but signed a memorandum[42] with the IASB in 2004 to endorse convergence of its domestic standard. However, Ball (2016) urged caution to conclude that China is an IFRS adopting country, since it retained domestic rules for accounting for related-party transactions, government subsidies and the reversal of depreciable assets, which have been topics of great significance to China. Furthermore, China lacks the institutional and governance structures required to ensure high-quality accounting standards. Fair value accounting in such a local context appeared problematic, since the Chinese government controlled the price of many unlisted securities. Thus, Ball (2016) concluded that China's convergence had been more in form than in substance. The case of China does not

[41] Nölke and Perry (2007, p. 4) differentiated between two sub-types of profit-financialization: i) the growth in profitability of the financial sector relative to the non-financial sector and ii) financialization of non-financial corporations‘ profit (growing share of profits from financial transactions with non-financial companies).

[42] This memorandum was updated in 2015 and included an announcement to build a joint working group to advance the use of IFRS in China.

allow inferences to other countries but demonstrates the importance of paying attention to local circumstances. It is questionable, if all of the IFRS adopting countries have created an institutional environment to ensure high-quality financial reporting. As Ball (2016, p. 556) noted "the adoption per se is low cost, it merely requires a legislative or administrative act."

Although political processes have become more transnational due to the increasing globalization of the economy and the strengthening of transnational standard-setters, the world has remained in many ways still more local than global (Ball, 2016). Domestic institutions and practices still considerably influence financial reporting practices in many countries. Different legal systems, political environments, educational systems, associations and block shareholders remain locally determined and mark the limits[43] of globalization. This is also noticeable in EU despite convergence efforts over decades.

In addition to the outlined concerns, there still are voices that question the desirability of uniform global accounting standards (Jamal & Sunder, 2014) from an economic perspective. Critics consider standardization an "unwelcome, unnecessary and harmful intrusion into a world of free, distinct individuals and organizations, who are wise enough to decide for themselves, or into the world of civil society or free markets" (Brunsson & Jacobsson, 2002, p. 171). Jamal and Sunder (2014) argued in favor of competing private accounting standard-setters rather than fostering monopolies whose actions may lack responsiveness and timeliness. Standards may inhibit innovation because they can go too far in their efforts to stabilize the world. Competing private standard-setters have incentives to be innovative and to carve out a clientele rather than trying to please all constituencies. Jamal and Sunder (2014) pointed to data suggesting that the FASB was too reticent, rather than too prolific, in setting standards also because of extensive due process requirements. On the contrary, standards can be considered as too a weak type of regulation for reasons of inferiority compared to directives and the lack of democratic underpinning and unclear status of private organizations setting standards. Timmermans and Epstein (2010) noted that depending on the standard-setting process, standards may represent the lowest common denominator, a negotiated order among some or all stakeholders or a confirmation of existing practices. Thus, standards are the result of negotiations, compromises and power plays and may not always represent the optimal solution.

[43] However, these limitations shall not impair the IASB's success in reducing differences in financial reporting.

The changing role of national accounting standard-setters (NASS)

With reference to the history and the growing importance of IFRS, researchers have analyzed the altered role, influence and activities of NASS in relation to the development of IFRS. Basically, it can be said that the role and activities of NASS have been altered in the last decades and their impact and influence (both on a national and a transnational level) have decreased. After the transformation of the IASC into the IASB in 2001 and all related structural modifications, NASS and accountancy organizations lost power in the standard-setting process of IFRS due to the abolition of the representative model and the handover of the standard-setting authority for listed companies to the IASB (Jorissen et al., 2013). However, NASS have remained important not only for the preservation of the interests of national constituents but also for the IASB itself. NASS have supported the IASB to promote its efforts to establish uniform global accounting standards (IFRSF 2018b). Particularly, the IASB has appreciated NASS as bridge builders between itself and key stakeholders, because NASS possessed expertise on local circumstances and have maintained important relationships with major local actors. NASS have played a crucial role in the political processes to accept IFRS, to endorse and diffuse new standards in local settings. Thus, their buy-in has been essential for the IASB. In exchange, the IASB has invited NASS to participate in discussions with it and among themselves to share experience and influence the development of IFRS. Thereby, a network supportive of IFRS is weaved. The development of such a network has induced a socialization process and facilitated the creation of a like-minded community with shared values and objectives (Howieson, 2017). However, Howieson (2017) also pointed to tensions between NASS and the IASB, because NASS have worked to maintain their sphere of authority and legitimacy. Simultaneously, they were pressured to cooperate with the IASB, whereby their influence has varied significantly from one NASS to another. To entice countries to adopt IFRS, Howieson (2017) described the “bait strategy” often applied by the IASB. Thereby, the IASB sought to put topics of special interest to a country onto the technical agenda, although the topic was not actively being considered by the IASB. Relevant NASS only experienced a brief period of influence. Once a country was an IFRS adopter, the leverage was lost. NASS from small countries taking a standpoint opposite to major actors experienced little influence.

Different existing classifications of NASS have allowed for inferences of some characteristics on the institutional context. For example, Nobes (2011) looked at the accounting systems from a practices’ perspective and re-examined his classification of accounting systems from 1983 into i) micro-judgmental/commercially-driven and ii) macro-uniform/government-driven/tax-dominated. He found that, even 30 years later, Anglo and Continental European groupings could be discerned in the same way in the IFRS practices of very large companies. Conversely, Howieson (2017) classified NASS into three groups according to the relationship and potential influence on the IASB. The first category comprised the FASB and EFRAG based on the perceived dominance and the economic and political power they represent. The second group[44] of NASS included Canada, UK, Australia and New Zealand, which had a long history and reputation in the development and diffusion of accounting standards. The third (and largest) group was made up by NASS from developing countries or by those that lacked resources and technical expertise to participate in accounting standard-setting process on a transnational level.

In civil law countries, legitimacy concerns were rarely discussed and, when they were, they were looked at mainly from a legal point of view. In Germany, the Accounting Standards Committee of Germany (ASCG) was founded and acknowledged by the Ministry of Justice as a private standardization organization. Budde and Steuber (1999) highlighted problematic constitutional considerations in this context and classified it as incompatible with German constitutional law that the existing normative system of accountability reporting might be changed by an institution that is not legitimated by constitutional law. However, as private standard-setting became more common, such concerns disappeared from the discussion, Legitimacy affects the survival and performance of an institution (Scott, 2014) and thus is a fundamental concept. It requires a more detailed examination.

In terms of legitimacy considerations, literature mainly concentrated on Anglo-Saxon NASS with a long history and reputation in the development and diffusion of accounting standards. The case of Australian NASS and its influence on the standard-setting process of IFRS is very interesting due to the changing role and influence over time (from importance to irrelevance and back). Howieson (2017) examined the role of the Australian Accounting Standards Board (AASB) in recent decades and showed how the AASB as an independent accounting standard-setter with control over its domestic agenda turned into a rule-taker for profit private sector entities, after a directive was imposed that required mandatory IFRS adoption in 2005. Once the IASB no longer had to court Australia to adopt IFRS, the AASB also quickly lost international influence and, with it, legitimacy in this respect. In 2009, the AASB became pro-actively engaged and assumed a leadership role in the Asian-Oceanian Standard-Setters Group (AOSSG). There, the AASB supported the promotion of IFRS adoption across the Asian-Oceanian region. It could expand its international influence by leveraging the economic significance of some other AOSSG members and by playing off its technical expertise and its long-term experience in accounting standard-setting in joint research projects. The Australian case showed that the perceived international and domestic legitimacy of the IASB and of the AASB was closely intertwined and could mutually be reinforced. Interactions between the IASB and the AASB assisted in growing and maintaining

[44] Please note in this context that these countries were historically part of the G4+1 Group that very closely cooperated with the IASC. The G4+1 Group consisted of the accounting standard-setting bodies of the United Kingdom, United States, Australia, and Canada, plus New Zealand.

the legitimacy of both standard-setters. The AASB supported the IASB to establish input and throughput legitimacy in the region, while it regained recognition and status with the IASB through its leadership role in the AOSSG that ensured that its voice was heard. The leadership role in AOSSG helped to strengthen the AASB's legitimacy with its own constituents and supporters (Howieson, 2017).

Focusing on legitimacy management strategies toward users, Durocher and Fortin (2010) critically analyzed the case of the Canadian Accounting Standard's Board (AcSB). They observed decoupling between the objective of putting the user perspective at the center of the accounting standard-setting process and the pragmatic concerns that it should entail. The AcSB devoted much effort to symbolic features and cultural accounts to ensure that financial statement users perceived it as legitimate. They were less attentive to the needs of users in practice but rather focused on government agency support, alignment with the conceptual framework, and isomorphic procedures and structures to ensure legitimacy. The AcSB was found to mimic the legitimization strategies of the US and other transnational actors.

However, the IASB and its processes did not only serve as role model from a governance perspective, but the content of the IFRS also became more and more a reference point for further developing and harmonizing accounting standards in a national environment (Marton, 2017). The majority of countries retained national accounting standards for non-listed companies and the IFRS directly or indirectly influenced the content of standards by serving as a benchmark for unregulated issues or for convergence of terms and concepts. In a special issue of the journal "Accounting in Europe", André (2017) summarized the findings of researchers from 25 European countries (22 EU countries and 3 non-EU countries) on the role and current status of IFRS in completion of national accounting rules for large non-listed industrials[45]. In terms of convergence between IFRS and national GAAP, he proposed a classification along the degree of alignment to IFRS. Thereby, he classified 14 national accounting standards either "in generally aligned with IFRS and referenced/ acknowledged" or in "generally aligned with IFRS for SMEs". Cyprus was place in a separate category because of its full adoption of IFRS. All commercially driven accounting standard-setters, domiciled in countries with strong equity markets, were classified into the previously mentioned categories. He considered three further

[45] Thereby, the researchers examined the extent of the required/permitted use of IFRS for non-listed companies in consolidated accounts and in separate accounts. They also analyzed the level of convergence of local GAAP with IFRS. They found that the use of IFRS was permitted for consolidated accounts either for all companies or at least for some in all countries. Cyprus required all companies to adopt IFRS. Malta and Spain required IFRS for some companies and permitted it for all others. Croatia and Greece required IFRS for some and permitted it for some. Also, in Finland, Italy and Poland, IFRS was permitted for some, whereas in all other countries it was permitted. In separate accounts, the picture was different. The use of IFRS for non-listed companies was not permitted in Austria, Belgium, France, Germany, Romania, Spain and Sweden.

national accounting standards as generally aligned with IFRS but yet not referenced/not acknowledged and seven others with some alignment but where single accounts had another focus (tax, investor protection etc.). Surprisingly, the number of voluntary adopters of IFRS among large industrial non-listed companies was small[46], and André (2017) assumed that most companies did not see a positive cost-benefit trade-off of adopting. In an earlier study, Dunne et al. (2008) found that interviewees from UK and Ireland questioned the decision-usefulness of financial statements prepared in accordance to IFRS due to their length and complexity. At the same time, interviewees from Italy took an opposite standpoint.

In general, setting high-quality accounting standards for different stakeholders across the globe is a very complex and challenging task. Leuz (2010) pointed out that, even if strictly enforced in all countries, a single set of accounting standards would not ensure comparability of reporting and disclosure practices. However, these reporting practices highly impacted the comparability and quality of financial reporting information. He viewed[47] it as unlikely that reporting practices would converge globally in the foreseeable future despite widespread IFRS adoption and continued harmonization efforts. Differences in reporting and disclosure practices across firms and countries would continue to persist as a result of varying reporting incentives and discretion offered by accounting standards (Leuz, 2006). Such differences result from variations in capital markets, national differences in legal, taxation and banking systems and other institutions[48] as well as firm-level factors such as ownership, governance and compensation structures, business model and operating cycle (Leuz, 2010). These practices appeared to be resistant even to sustained harmonization attempts (Nobes, 2011).

Although Leuz (2010) recognized a strong demand for convergence in reporting practices for globally operating firms for whom he proposed a different and independent way forward, he even questioned the desirability and the optimal suitability of IFRS for every country. He viewed it as important to consider elements of the institutional infrastructure when determining the institutional fit of accounting standards. However, to ensure institutional fit, countries needed to adjust several elements because of the existence of complementarities[49]. It would be likely that

[46] The average percentage of voluntary IFRS adopters among large industrial non-listed companies is ~12% in all analyzed countries. In German-speaking countries, it is only between 0 to 2% (André, 2017).

[47] He based this conclusion on an analysis of 49 countries on why differences in reporting regulation exist.

[48] Other institutions include associations, regulatory and oversight bodies, standard-setters and more.

[49] Leuz (2010) outlined that reporting regulation was only one element of a country's institutional infrastructure and that these elements are interdependent. In a well-functioning economy, these elements are aligned in such a way to fit and reinforce each other. Thus, the existence of a one-size-fits-all solution is unlikely and successful reporting regulation in one country cannot be transferred to other countries.

there were path dependencies, which means that historical starting points mattered (Leuz, 2010). Furthermore, the existence of institutional and market pressures that shaped old standards remained a source for change and thus instability of institutional fit of accounting standards.

Against this background, it is important not to lose sight of NASS and national accounting standard-setting processes. They are in the central position to update and foster quality in national accounting standards and to transfer developments in the transnational realm into the local context. As technical experts, they are often in a powerful position to lobby for changes in other elements of the institutional context. Driven by the trend towards accounting standardization, the preoccupation with the IASB and IFRS in literature and media downplays the importance of standard-setting on a national level. As indicated earlier, in-depth analyses of standard-setting processes remain rare (Botzem, 2014). The present dissertation seeks to address this gap by looking into a case, where a private NASS issued a voluntary set of accountings standards in a national environment in competition with IFRS/IFRS for SMEs. Thereby, an examination of a national standard-setting process may not neglect the institutional context, the major actors and the history of influencing events, including those on a transnational level.

An in-depth analysis of a national accounting standard-setting process from an institutional work theory perspective is a very promising approach, since it allows for shedding light on the forms of actions undertaken by different involved actors in the accounting-standard-setting process and on the influences of the national and transnational environment to gain, maintain and disrupt the legitimacy of national accounting standards. Thereby, I rely on the forms of institutional work already identified in literature (Lawrence, Suddaby, & Leca, 2009; Lawrence & Suddaby, 2006). More precisely, institutional work theory offers a suitable framework for examining legitimacy management strategies of NASS over time and across different levels depicting recursive influences between developments in the organizational field, the organization itself and its constituents. It focuses on the practices and processes of actors as the primary object of analysis (Lawrence et al., 2009). Hampel et al. (2017, p. 564) support the argument on the suitability of applying institutional work as analytical lens in the context of standards by outlining: “Standards provide a particularly useful context for studying institutional work because of the public and often heated contests and debates that occur around them, which expose the varied institutional strategies used by interested actors.”

The following chapter summarizes the major theoretical thoughts on institutional work and legitimacy that have been taken as the basis for this dissertation.

Summary

Growth in trade and capital flows has given rise to the need for comparable high-quality financial reporting beyond national borders. The IASB took advantage of the resulting opportunities and developed and diffused the IFRS in the majority of the world. Its success was significantly fueled by the EU decision to require IFRS adoption for the consolidated accounts of listed companies from 2005 onward and the prospect of the SEC allowing IFRS reporting in the US, representing the major global capital market. To accommodate for the multiple requirements of particularly influential stakeholders, the initially loosely defined accounting standards including many options were transformed in a comprehensive and complex set of accounting standards. Because the IASB lacked democratic legitimacy as a private technical expertise-based standard-setter in the transnational realm, it placed particular emphasis on the input and throughput legitimacy of its standard-setting process by implementing and strengthening a rigorous due process and ensuring geographically balanced participation. Many NASS became rule takers rather than rule makers for important regulatory segments and faced difficulties in preserving the interests of their constituents beyond their role as bridge builders between the transnational and national realm. However, research shows that a single set of accounting standard did not automatically translate into comparability of reporting and disclosure practices. Further elements of the institutional infrastructure were important to determine the institutional fit of accounting standards. Thus, NASS continue to be important as they are in a better position to assess the institutional fit of accounting standards than their transnational counterparts.

3. Managing legitimacy in accounting standard-setting as institutional work

Chapter 3 elucidates the theoretical concepts and underlying assumptions that serve as analytical focus for investigating legitimacy management strategies by national accounting standard-setters. For this purpose, a review of recent literature on institutional work theory and legitimacy will be provided. The review consists of several successive steps.

The *first section* introduces basic theoretical concepts and principles of institutional work and shows commonalities and demarcations to prior institutional studies. Special emphasis is placed on research done by Lawrence et al. (2006, 2009 and 2011), who have been significantly contributing to the “institutionalization” of institutional work theory as a distinct social ontology. It outlines the recursive relationship between institutions and actions aimed at creating, maintaining and disrupting institutions and depicts the role of actors. As the institutional work perspective manages to overcome criticism of earlier institutional research for neglecting agency as an important source of institutional change, it has been widely used to analyze the interplay of actions and institutions on the level of actors, organizations and the organizational field.

The *second section* delineates the forms of institutional work along the life cycle of institutions as outlined by Lawrence and Suddaby (2006) based on their review of empirical research. It provides an overview of selected recent articles applying the proposed typology on forms of institutional work. Thereby, it discusses insights and experience with the typology in practice including both potential strengths and shortcomings in different contexts. The section also summarizes recent important articles expanding the understanding of institutional work theory. The forms of institutional work represent a central pillar for meaningfully comprehending action and its recursive implications on institutions. They are at the heart of establishing an understanding of how national standards setters manage the standard-setting process and ensure legitimacy.

The *third section* complements the theoretical foundation of this work by elucidating the concept of legitimacy. First, it reflects the definitions and ideas stipulated in the most central papers on legitimacy in the field of organizational research. In parallel, it provides a classification of existing literature streams. Second, it outlines characteristics of legitimacy in more detail and depicts the link between legitimacy research and institutional work theory. Third, the section discusses delimitations of legitimacy versus status and reputation. Finally, a view from a standard-setting/political science perspective rounds out the section in order to clarify the arguments and terminology in the context of legitimacy discussions put forward by existing literature on accounting standard-setting. The question of legitimacy is an existential concern for standard-setters, since it affects the right to exist and highly impacts their actions. This is particularly true for private standard-setter organizations that cannot rely on a democratic underpinning, as governmental agencies may do.

The institutional work theory perspective

Institutional work is a theory that investigates the relationship between institutions and actors and aims to understand how, why and when actors work to shape institutions (Hampel et al., 2017). This perspective considers factors of an actor's ability to influence institutions and its experience in that process. As the body of literature on institutional work has grown in the last decade, the concept has been closely connected to a number of topics, including legitimacy (Slager et al., 2012; Suddaby & Greenwood, 2005), identity (Gill, 2014), emotions (Voronov & Vince, 2012), discourse (Nite, 2017) and community (Everitt & Levinson, 2016). Institutional work has also entered research on professionalization (Empson, Cleaver, & Allen, 2013; Suddaby & Viale, 2011), corporate governance (Nordberg, 2017), public administration (Pemer & Skjølsvik, 2018) and accounting (Canning & O'Dwyer, 2016). Thus, institutional work is an appropriate, widely used and proven lens for analyzing the interplay between institutions and actors. Since it allows for an in-depth longitudinal process analysis in an ever-changing institutional environment, it goes well together with my research question. Moreover, it allows for examining national accounting standard-setting and related legitimacy management strategies from an entirely fresh perspective. It broadens the perspective on activities of how legitimation takes place.

Lawrence, Leca, and Zilber (2013) call for more institutional work studies with practical relevance and consider its focus on actors and their day-to-day efforts as fitting and potentially fruitful in this regard. As stated earlier, Hampel et al. (2017) identified in their review of the existing literature on institutional work only few studies on standards and standard-setting processes (Slager et al., 2012), although they considered it as a useful context to study institutional work. The reasons are that actors from different institutional backgrounds come together and apply a wide variety of different institutional work strategies to pursue their interests.

- **Definition, scope and boundaries of institutional work theory**

Although institutional work theory represents a rather recent organizational research stream among institutional approaches, it has become very popular in a short time. While the theoretical foundations for institutional work had been partly defined before the publication of an article on the topic by Lawrence and Suddaby (2006), the two authors can be credited with coining the concept and formally institutionalizing the research approach on institutional work theory. In their article, they refer to institutional work as "the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions" (Lawrence & Suddaby, 2006, p. 215).

The debate on agency versus structure is an ongoing and long debate in the field of organizational studies (Battilana & D'Aunno, 2009). Battilana and D'Aunno (2009) depict two extreme perspectives. On the one hand, researchers have argued that the institutional environment determines an actor's responses to situations. Thereby, individuals and their experiences are seen as products of external environment with limited agency. This type of research was occupied with structural properties and constraints that shape individual or organizational behavior and provide organizational life with stability and control. The described perspective contrasts with the voluntarist perspective, which puts actors at the center of analysis and source of change in social life and attributes actors a free will and autonomy and self-directedness to act.

Prior institutional approaches have enhanced our understanding of processes through which institutions govern action. Their focus was typically on the relationships among organizations and the organizational fields they operate in. Numerous empirical studies analyzed the links between institutions, organizations and organizational fields and showed how formal structures enabled and constrained organizational behavior. Researchers not only described how structural elements were created, diffused, adopted and adapted over time and in different places but also how they lost importance and eventually disappeared. A widely cited early model for referring to institutionalization as a process was provided by Tolbert and Zucker (1996)[50].

Earlier institutional researchers particularly emphasized the role of cognition in conceptualizing institutional action. For example, Strang and Meyer (1993) outlined the importance of cultural-cognitive elements with diffusion processes. Actors must see themselves as similar in some important aspect to enhance the flow of social elements such as rules and practices. However, as institutional theory (and its different approaches) was further refined, researchers became more and more concerned with the effects of individual and organizational action on institutions,

[50] Tolbert and Zucker (1996) outlined the institutionalization process in stages: In the first stage, actors in organizations fostered innovation due to changing market or regulative conditions and technical advancements. In a second stage, the viable innovations came to the attention of others and become habituated — i.e., they become increasingly accepted in interactions within and between organizations. Eventually in the third stage, they became subject to objectification. Thereby, actors in organizations develop some degree of social consensus concerning the value of the structure, which was followed by increasing adoption. The innovation was theorized, meaning that it formulated why and how it is effective and suitable. In the final stage of institutionalization, called sedimentation, the innovation was disseminated across generations and spread to all potential adopters.

which had been reflected in a growing number of studies on institutional entrepreneurship, deinstitutionalization and institutional work.

Nevertheless, all these institutional research approaches have one central element in common: They rest on the concept of institutions. According to Scott (2014, p. 56), "institutions comprise regulative, normative and cultural-cognitive elements that together with associated activities and resources, provide stability and meaning to social life". He further clarified his conception of institutions by pointing to the multifariousness and durability of institutions as social structures that were made up of symbolic elements, social activities and material resources. Institutions implied stability and persistence and were resistant to change. They impacted thoughts, feelings and behavior of individual and collective actors. The knowledge of the past provided the context for current efforts and contributions. Hampel et al. (2017, p. 559) specify the meaning of institutions from an institutional work perspective: "Institutions shape every facet of human existence, providing meaning and motivations to our actions, and holding together the material and symbolic structures that trigger and shape those actions." The authors continue to explain that institutions are maintained by people's behavior, thoughts and feelings — often in an unreflexive and unintended way.

There is a general turn to work in research on management and organization. Phillips and Lawrence (2012) analyzed this turn to work involving individuals and organizations purposefully and strategically making efforts to affect their social-symbolic context. Thereby, they identified 15 distinct forms of work including, for example, identity work, institutional work, practice work, boundary work, etc. They showed that a focus on institutional work could contribute to the value production of firms. By changing the institutional context, a firm could create new business opportunities. Furthermore, institutional work could also be a business. Phillips and Lawrence (2012) gave the example of professional lobbyists who create value for their clients. Adopting an institutional work theory lens explained the way how they did it.

Building on prior institutional research, institutional work theory connects, bridges and extends work on institutional entrepreneurship[51], institutional change, innovation and deinstitutionalization (Lawrence et al., 2009). An important underlying idea of institutional work theory is that the creation of institutions requires institutional work by a wide range of actors, including entrepreneurs, supporters and facilitators. Reproduction and continuation cannot be taken for granted. Even highly institutionalized practices, technologies, etc., require action of individuals and

[51] The research stream on institutional entrepreneurship has a narrower focus than institutional work: "Institutional entrepreneurship represents the activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones" (Maguire, Hardy, & Lawrence, 2004, p. 657).

organizations to maintain them over time (Lawrence, Winn, & Jennings, 2001). Institutional work has also been inspired by practice theory[52], focusing on the "internal life of processes" and pointing toward "understanding the knowledgeable, creative, practical work of individuals and collective actors aimed at creating, maintaining and transforming institutions" (Lawrence & Suddaby, 2006, p. 219). Practice theory is also reflected in the notion of institutional work in that actions as practices are institutionally embedded and rely on the resources and skills that are specific to the field in which they occur, even if they are aimed at changing the institutional order of an organizational field.

In 2009, Lawrence, Suddaby and Leca further refined the theory of institutional work. They explicitly highlighted their focus on activities rather than accomplishments[53], referring to their definition of institutional work established in 2006. The focus on activities allows for asking broader questions of why, how, when and where actors work — e.g., at creating institutions (Lawrence et al., 2009). Furthermore, the focus on activities brings unintended consequences to attention. Institutional work may result in the institutional effects as intended by actors, but it also can fail to do so or it might affect unanticipated institutions in unintended ways, reflecting non-linear and sometimes discontinuous institutional processes.

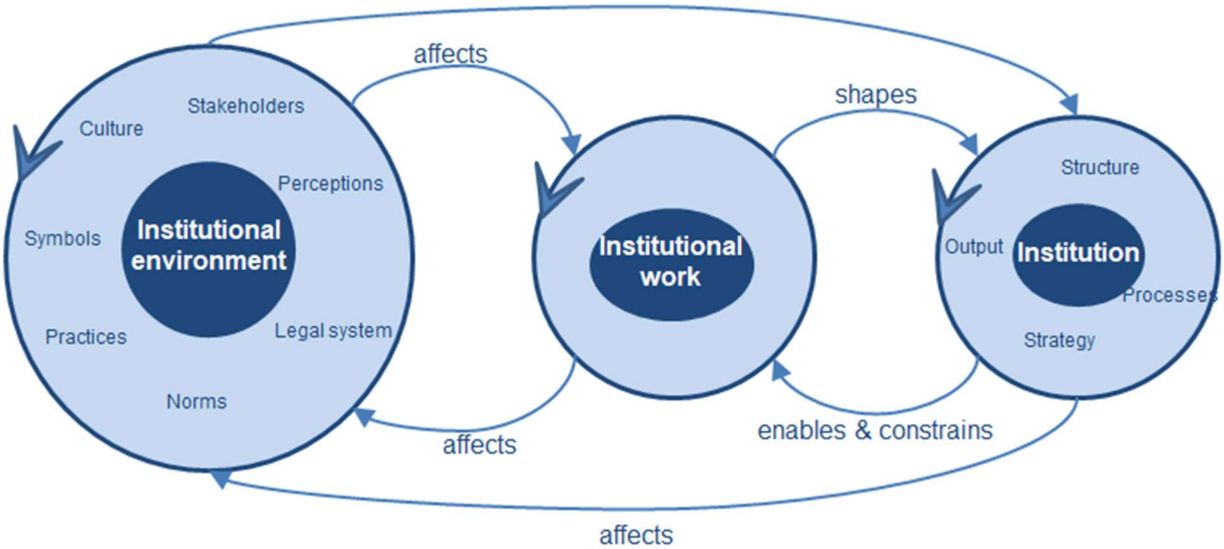

Figure 2: Underlying idea of literature on institutional work
(own illustration)

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52 Hampel et al. (2017, p. 560) explained that "the institutional work perspective builds on the sociology of practice by focusing on particular sets of practices aimed at affecting the institutional arrangements within which they are situated".

53 In the definition of institutional work, the authors deliberately took a process perspective and wrote "creating, maintaining, and disrupting institutions" (Lawrence & Suddaby, 2006, p. 215). They explicitly refrained from using the terms "creation, maintenance, and disruption of institutions".

A further distinct theoretical characteristic of institutional work theory relates to the recursive relationship between institutions and actions. Neoclassical institutional research examined how institutions provided templates for actions, the mechanisms for enforcing those templates and repercussions of actions and templates. Conversely, institutional work puts a stronger focus on the influence of action on institutions (Lawrence et al., 2009), whereas earlier institutional research examined the role of institutions in shaping organizational life. Moreover, the distinct perspective on actors is also important to notice. Actors in institutional work have been depicted as neither cultural dopes trapped by institutions arrangements nor as hypermuscular entrepreneurs (Lawrence et al., 2009). Instead, actors have been considered as reflexive, goal-oriented and capable (Lawrence et al., 2013). The underlying assumption is that actors are culturally competent, with strong practical skills and sensibility, who creatively adapt to dynamic conditions and are able to work with institutionally defined logics of effect and appropriateness[54] (Lawrence & Suddaby, 2006). All actors including entrepreneurs are seen as embedded in an institutionally defined context. Institutional work focuses on an actor's actions as the center of institutional dynamics while trying to capture structure, agency and interrelations (Battilana, Leca, & Boxenbaum, 2009; Lawrence et al., 2013). However, the type of work that actors engage in is influenced by their social position, their control of resources and their social skills (Canning & O'Dwyer, 2016; Lawrence & Suddaby, 2006).

Battilana and D'Aunno (2009) contributed to addressing the paradox of embedded agency[55] related to the tension between institutions and agency inherent in institutional theory. They proposed to view agency as a multidimensional concept and to differentiate between iterative agency ("selective reactivation by actors of past patterns of thought and action"), practical-evaluative ("as a capacity to contextualize past habits and future projects within the contingencies of the moment") and projective agency ("as a capacity to imagine alternative possibilities") (Battilana & D'Aunno, 2009, p. 47). In sum, they concluded that, even if actors were subject to institutional influences, they still could develop a practical consciousness.

Examining an organization's environment and administrative behavior in a case study, Rojas (2010) showed how an actor in a time of conflict initiated organizational changes in order to gain more power by leveraging normative resources such as the shared moral understandings of the organization and turning them into coercive

[54] Please note that the understanding of actors does not mirror the rational actor model.

[55] According to neo-institutional theory, there is little room for agency, since the actors' environment determines their responses to situations they encounter in the external world. This view contrasts with the notion that actors are the source of change in social life (Battilana & D'Aunno, 2009). Scott (2014, p. 94) offered the following definition of agency: "Agency refers to an actor's ability to have some effect on the social world — altering the rules, relational ties, or distribution of resources." Agency allows for considering power in institutional processes (Scott, 2014).

resources. Rojas (2010) described how an actor shifted constraints imposed by the organizational structure by employing different institutional work forms.

While some authors emphasized the existence of a central logic[56] or rationality (DiMaggio & Powell, 1983; Scott, 2014), institutional theorists acknowledge the plurality of institutions. The presence of different powerful interest groups leads to pluralism and thus to significant organizational challenges. Legitimate, potentially competing strategies can coexist within a single organization and might not be in line with basic management principles of consensus, unity of command and alignment to single vision (Jarzabkowski, Matthiesen, & van de Ven, 2009). Actors within pluralistic institutions are interdependent, must interact and consider each other's interests. Particularly with institutional maintenance[57] and the coexistence of contradictory logics, institutions must continuously be maintained to avoid the domination of one competing logic over any others. Institutional maintenance has been a neglected topic for a long time (Scott, 2014), since institutional maintenance has been taken for granted in institutional theory. Jarzabkowski et al. (2009, p. 310) showed that, in pluralistic contexts, institutional maintenance was "an ongoing, politicized activity of response and counter-response." As actors maintained their own logics, others that worked with different institutional logics responded, potentially involving both creative and disruptive work. Jarzabkowski et al. (2009) showed that institutional work did not only take place when new institutions were created but also allowed for space for actors with contradictory logics. Through mutual adjustments, organizations and their actors could cope with institutional pluralism. The authors stipulated that institutional pluralism could be managed through organizational governance mechanisms involving, for example, active hierarchical intervention and arbitration by authority figures and clear escalation mechanisms for coping with conflict.

Institutional work theory has also been applied for studying the interplay between boundary and practice work. Zietsma and Lawrence (2010) examined how boundary and practice work[58] maintained patterns of institutional stability and change and how these work forms operated in recursive configurations in cycles of institutional innovation, conflict, stability and re-stabilization. The authors suggested that actors

[56] This central logic comprised practices and principles that provided the logics of actions for organizations and individuals, who reproduced institutions through their actions (Suddaby & Greenwood, 2005).

[57] Institutional maintenance examined how institutions are actively produced and reproduced through everyday practice (Lawrence & Suddaby, 2006).

[58] Practice work related to the work of actors to create, maintain and disrupt practices that are considered legitimate within a field, whereas boundary work related to actors' efforts to establish, expand, reinforce or undermine boundaries (Zietsma & Lawrence, 2010). Boundary work often dealt with professional boundaries.

could not innovate by stepping outside of institutional influences but by altering boundaries that protected them from sanctions and by creating new practices.

Forms of institutional work & recent research

Based on their empirical review of published research up to that point in time, Lawrence and Suddaby (2006) inductively developed a system of classifying forms of institutional work into three different categories[59]: institutional work for (i) creating, (ii) maintaining and (iii) disrupting institutions. For creating institutions, they identified the following institutional work forms: advocacy, defining, vesting, constructing identities, changing normative associations, constructing normative networks, mimicry, theorizing and educating. Enabling work, policing, deterring, valorizing and demonizing, mythologizing, embedding and routinizing were identified as forms for maintaining institutions. Only relative few studies had dealt with disrupting institutions, and thus Lawrence and Suddaby (2006) found fewer forms on the disrupting of institutions: disconnecting sanctions/rewards, disassociating moral foundations and undermining assumptions and beliefs.

The institutional work forms as outlined by Lawrence and Suddaby (2006) served as basis for further analysis across different contexts (Canning & O'Dwyer, 2016; Empson et al., 2013). While many authors found broad agreement on the outlined forms of institutional work, they also identified some critical points that should be kept in mind. In their study on the “corporatization” of large international law firm partnerships, where management professionals with a business administration background were integrated into the management team, Empson et al. (2013) outlined that the theoretical concept of institutional work to the inherently messy empirical reality may lead to oversimplifications. Thus, they concluded that the three stages of institutional work were not necessarily empirically distinct, although they appear to be so analytically. In empirical reality, it was not always possible to identify a clear point at which an established institutional logic was destroyed and a new institutional logic was constructed. Moreover, Empson et al. (2013) came to know that these abstracted forms of institutional work may simultaneously include the actions and interactions of multiple actors and institutions rather than individuals and coherent groups of actors acting consistently upon clearly identifiable institutions.

Canning and O'Dwyer (2016) analyzed the activities of individuals in an independent oversight body whose task was to oversee the Irish accounting profession. The establishment of the oversight body in 2001 represented a major change in the

[59] Thereby, the authors paralleled the life cycle of institutions as outlined by Scott (2014) and Tolbert and Zucker (1996). Scott (2014) explained that objectified beliefs became embedded in routines, documents and artefacts, etc. He differentiated between four carriers of institutional rules and beliefs: 1) symbolic systems (i.e., rules, values, norms, classifications, etc., to guide behavior), 2) relational systems (e.g., role systems), 3) activities (e.g., behavior and social action) and 4) artefacts (including technology).

institutional environment of the Irish accounting profession, where self-regulation dominated for more than a century. The authors outlined the dynamic and recursive nature of the institutional work forms supporting, e.g., Empson's arguments. Concerning advocacy work, they looked at it in a more fine-grained way by differentiating between soft and hard advocacy work depending on the phase of regulatory alignment. Canning and O'Dwyer (2016) also found evidence that different types of work forms crossed categories of creating, maintaining and disrupting institutions. Certain institutional work forms were explicitly rejected by individuals at one point in time but later were re-engaged as part of regulatory change efforts. For example, audit policing work occurred in the creation phase rather than in the maintenance phase. Thus, they concluded that the analytical distinctiveness as proposed by Lawrence and Suddaby (2006) did not always correspond to empirical reality. From a practical relevance standpoint, they showed how the effectiveness of an oversight body depended on the characteristics of the institutional environment in which it operated.

In the context of standardization, Slager et al. (2012) examined micro-level activities to understand how the FTSE4Good index emerged as a standard for socially responsible corporate behavior and how it managed to deploy its regulatory power. By approaching standardization as a product of institutional work, they showed that standardization was a non-linear dynamic process of interactions between different institutional work forms by different actors. Thus, they conceptualized standardization as a process of continuous change that was never completely finished. Different forms of institutional work were found to be recursive. Each form built on the effects of other forms in a recurrent way. Slager et al. (2012) depicted three types of standardization work: calculative framing, engaging and valorizing. They showed how these institutional work forms supported the design, legitimation and monitoring processes in order to acquire the regulatory power of a standard. Calculative framing ("creation and calculation of the rules that frame the practices of adopters"), engaging ("creation of knowledge and expertise needed to legitimate and monitor standard adoption") and valorizing ("infusion of values beyond technical requirements of the standard") represented second-order concepts (Slager et al., 2012, pp. 772-773), while the first-order concepts (commensurating, defining, mimicking, analogical work, convening, educating, symbolic work and shifting normative associations) largely resembled the forms of institutional work outlined by Lawrence and Suddaby (2006). Slager et al. (2012) also showed how unintended consequences of institutional work forms could be recaptured to strengthen the regulatory power of the standard. The more intensely standards were valorized by standard adopters, the more legitimation was fueled. Furthermore, they provided evidence that the design and legitimation of the standard by experts outside the standard-setting organization could serve as a resource for valorizing work.

Helfen and Sydow (2013) integrated insights from theory on strategic negotiation and as a result were able to expand existing theory on institutional work forms by depicting "negotiation work" as new institutional work form that had not previously been considered in institutional work literature. They linked negotiation work to three types of institutional outcomes: institutional creation, modification and stagnation. Helfen and Sydow (2013) showed how competing actors in institutional change processes could enter a joint collaborative process, initiating and conducting negotiations. Thereby, institutional contexts and logics enabled and constrained practices and strategies in negotiation work by shaping actors' goals, interests and focus. In negotiations, different institutional logics met or collided and actors needed to find ways to trigger institutional change. The authors acknowledged the importance of negotiation practices and highlighted the following three: defining the negotiation mode, shaping of attitudes and managing internal differences. Examples of the negotiation mode were distributive bargaining, integrative bargaining or a mixture of both[60]. Practices of shaping attitudes included the definition of the relationship among the parties (e.g., adversarial, arm's-length relationship versus a collaborative relationship). Managing internal differences investigated practices of how negotiators handled internal interest conflicts among participants of their own party. All three negotiation practices should not be viewed in isolation, as they occurred simultaneously in negotiations. However, they determined the outcome of negotiation work: change or stagnation.

The latest research on institutional work theory has expanded the existing literature to include implications of, e.g., place (Lawrence & Dover, 2015) and temporality (Granqvist & Gustafsson, 2016). The studies showed that both place and temporality were sources of institutional complexity and important carriers for institutional logics. Place could have a significant impact on actors, actions and outcomes. Lawrence and Dover (2015) identified three roles that place could take: places could contain, mediate and complicate institutional work, each associated with a different ontology of place — as social enclosures, as signifiers and as practical objects. Context-specific temporal structures determined the pace, sequences and rhythm of change. These temporal structures were constantly challenged by unfolding events from bottom up. Actors synchronized their activities to perceived external timing norms and also purposively constructed and modified them (Granqvist & Gustafsson, 2016). Temporary organization, such as the existence of a project, was found to be the best way to convey a sense of urgency, signaling that a change was necessary at a given point in time.

[60] With distributive bargaining practices, interest conflicts can be resolved within predetermined rules of the negotiation game. An example for such a practice is the overstatement of one's initial claims to optimize own outcome. Conversely, integrative bargaining allows more room for joint problem-solving, because it aims at finding unforeseen solutions to new problems and allows for negotiations on the "rules of the game". Thus, the potential for institutional change is higher (Helfen & Sydow, 2013).

The concept of legitimacy and its significance

Max Weber[61] recognized early the importance of legitimacy in social life and is credited as introducing legitimacy into sociological theory (Deephouse et al., 2017). In institutional theory, DiMaggio and Powell (1983) were among the first well-known researchers to recognize the significance of institutional legitimacy beside the competition for resources, customers and political power in their paper on institutional isomorphism[62]. Given the fundamental importance of legitimacy to social life, it is not surprising that the body of literature on legitimacy is broad. Legitimacy is not only a central concept in institutional theory but also in political science (Hurrelmann, 2007) and sociology (Johnson, Dowd, & Ridgeway, 2006). Additionally, numerous definitions of legitimacy exist[63]. A well-recognized and frequently cited omnibus definition of legitimacy goes back to Marc C. Suchman (1995).

> "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable[64], proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions." Suchman (1995, p. 574)

Thereby, Suchman linked strategic and institutional research and emphasized the normative and cognitive forces that constrained, constructed and empowered organizational actors. Another important definition[65] of legitimacy stemmed from Scott (2014):

> "(…) legitimacy is not a commodity to be possessed or exchanged but a condition reflecting perceived consonance with relevant rules and laws or normative values, or alignment with cultural-cognitive frameworks." Scott (2014, p. 72)

Hence, he partitioned legitimacy into cognitive, regulative and normative in line with the three pillars of institutions that he identified. A normative conception of legitimacy rested on a deeper moral base for assessing legitimacy than legitimacy with a regulatory emphasis on conformity to roles, since the incentives for complying with normative controls were likely to include both intrinsic and extrinsic awards. The cultural-cognitive view on legitimacy stressed the conformity to a common definition of a situation, a frame of reference, a type of organization or a recognizable role. For

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[61] According to Weber, "action, especially social action, which involves a social relationship, may be guided by the belief of a legitimate order". He considered a social order legitimate "if the conduct is, approximately or on the average, oriented toward determinable 'maxims'" (Weber, Roth, & Wittich, 2013, p. 31).

[62] They offered an explanation for the homogenization of organizations regardless of any efficiency considerations by outlining three isomorphic processes: coercive, mimetic and normative.

[63] An in-depth theoretical discussion of the concept of legitimacy and related research can be found in Suddaby et al. (2017),
Deephouse et al. (2017), Bitektine (2011) and Deephouse and Suchman (2008).

[64] Some authors place quotes around the term "desirable" in order to avoid confusion with the concepts of status and reputation (Deephouse et al., 2017).

[65] Scott included a definition of legitimacy in his 1995 book "Institutions and Organizations" and has refined the definition in subsequent editions.

Scott (2014, p. 74), cultural-cognitive based legitimacy was the deepest, because it rested on “preconscious, taken-for-granted understandings”.

Legitimacy is a powerful and indispensable concept in organizational research, since it influences different vital dimensions of an organization such as its behavior, its performance and, more fundamental, its survival. In institutional research, legitimacy is one of the most (if not the) central concepts, because it is a necessary component of institutionalization (Tolbert & Zucker, 1996; Tost, 2011). And, institutionalization occurs when a social entity becomes taken for granted. Therefore, institutional theorists view the threat of illegitimacy as a driver of institutional and organizational change (Tost, 2011). The importance of legitimacy becomes immediately and painfully evident when it is lost (Scott (2014)[66]. Scott (2014) highlighted that legitimacy affected organizational viability. Organizations were more likely to survive if they demonstrate culturally approved forms and activities, receive support from normative authorities and have approval from legal bodies. Deephouse et al. (2017) pointed to the effect of legitimacy on social and economic exchange. Thereby, most stakeholders would prefer engaging with legitimate organizations and avoid illegitimate or debated[67] ones, which of course has far-reaching consequences for marketing and competition.

In a (successful) attempt to enhance concept clarity, Suddaby et al. (2017) categorized legitimacy research into three streams, highlighting the underlying distinctions between them:

	Legitimacy-as-property research	Legitimacy-as-process research	Legitimacy-as-perception research
What is legitimacy?	Legitimacy is theorized as a property, a resource or a capacity that can be gained, maintained and lost.	Legitimacy is the product of an ongoing process of social negotiation involving multiple participants.	At the individual level, legitimacy is a property judgment[68] of a legitimacy object. On the collective level, legitimacy is present in the form of validity (an opinion supposedly shared by the majority of actors).

[66] Zimmerman and Zeitz (2002) point to the retrospective evaluation of legitimacy. Survival of an organization indicated the presence of legitimacy.

[67] Deephouse et al. (2017) differentiated between four basic states of legitimacy: accepted, proper, debated and illegitimate.

[68] Or alternatively: an evaluator’s assessment of the appropriateness or acceptability.

Where does legitimacy occur?	Between the legitimacy object for example the organization and its external environment	Between multiple social actors, particularly those seeking or opposing change	Between individual and collective evaluators (groups, organizations, society)
How does legitimacy occur?	Through "fit" between attributes of an organization and external audiences' expectations	Through purposive efforts of change agents and other social actors	Through perceptions, judgments and actions of individuals

Table 1: Classification of legitimacy research
(source: Suddaby et al. (2017))

As Suddaby et al. (2017) outlined, the unit of analysis for legitimacy-as-process research is the process itself. Legitimacy is the product of an ongoing process of social negotiation involving multiple participants that demonstrate a high degree of agency. Therefore, legitimacy is not a stable condition but dynamic. It is constantly open to negotiation since its constituent elements are subject to continuous change. Such a theoretical perspective contrasts with the idea that legitimacy is an outcome of institutional pressures such as isomorphism. The scope of analysis is broader and involves, for example, organization and organizational field. While legitimacy-as-property studies have examined stable elements of legitimacy, the process perspective analyzes phenomena "in terms of movement, activity, events, change and temporal evolution" (Langley, 2007, p. 271).

In the legitimacy-as-perception research, the individual evaluator is at the center of the legitimacy formation process. According to Suddaby et al. (2017), the legitimacy-as-perception perspective built on legitimacy-as-process insights. Researchers examined the diversity of legitimacy judgments and influencing factors on the micro-level. For example, Bitektine (2011) elaborated on cognitive legitimacy judgments[69] and sociopolitical legitimacy judgments[70]. Simultaneously, legitimacy existed at the macro-level in the form of validity. Bitektine and Haack (2015) published an interesting cross-level analysis and showed that under conditions of stability the legitimacy process was dominated in a top-down manner. The development and expression of individual judgments deviant from the valid macro judgment were inhibited[71]. The more institutionalized a legitimacy judgment was on a macro-level,

[69] An example for a question regarding a cognitive legitimacy judgment would be: "Does the organization belong to any familiar class or category?"
[70] Examples for questions regarding a cognitive legitimacy judgment would be: "Does the organization have the right to exist?" or "Is the organization beneficial or hazardous to me, my social group or the society in which I live?"
[71] Bitektine and Haack (2015) coined the term "institutional stability loop" by referring to the top-down influence of legitimacy judgments from the macro- to the micro-level under conditions of stability.

the greater the pressure on a micro-level to conformity and isomorphism. Under conditions of institutional change, the presence of competing micro-level judgments weakened the validity on the macro-level. Thereby, social order was changed from the bottom up. Moreover, the authors offered an overview of rhetoric strategies to strengthen both validity (macro-level) and propriety (micro-level).

Other authors have also focused on the rhetorical perspective (Harmon, Goodnight, & Green, 2015; Vaara & Monin, 2010). Harmon et al. (2015) proposed a model of rhetorical legitimation to understand legitimation processes by describing the central role of rhetorical structure for shaping legitimacy assumptions and maintaining and changing institutions. They hypothesized that intra-field rhetoric related more to institutional maintenance because dynamics at the intra-field level tended to restrain challenges to legitimacy. Inter-field rhetoric related more to institutional change because dynamics at the inter-field level tended to increase the potential impact of challenges to legitimacy. In this dissertation, I deliberately take a broader view, since rhetorical legitimation only partially addresses legitimacy management questions.

How individuals come up with legitimacy judgments that eventually coalesce to a legitimacy judgment on a macro-level has been examined by Tost (2011). By shedding light on the content of individuals' judgments, she tried to explain why an entity was considered as legitimate or as illegitimate by individuals. She differentiated between instrumental, relational and moral dimensions[72] of individuals' legitimacy judgments and divided the legitimacy judgment process into three parts: judgment formation stage, use stage and judgment reassessment stage. In the use stage, an existing judgment was deployed, whereas in the formation stage individuals engaged in either an evaluative or passive mode to come up with a legitimacy judgment. The use stage persisted until jolts, contradictions in the institutional field or reflexivity triggered the mental alarm of an individual and motivated a reassessment of the legitimacy judgment in a more effortful and deliberate way[73].

To increase concept clarity further, I will outline some underlying assumptions on the characteristics of legitimacy. Already Suchman (1995) suggested that legitimacy can be stockpiled. He described the stockpiling of goodwill and support as a possible legitimacy maintenance strategy. It allowed an organization to occasionally deviate from social norms without threatening its standing. Suchman (1995) also discussed the possibility to stockpile cognitive legitimacy by constructing communication links

[72] The instrumental dimension of an entity's legitimacy judgment is fulfilled when the individual's or group's attempts to reach defined objectives is given. The relational dimension is concerned with the perceived social identity and self-worth of individuals or social groups to ensure that they are treated with respect and dignity and obtain their share of the outcome to which they are entitled. Consistency with the evaluator's moral and ethical values relates to the moral dimension of the legitimacy judgment (Tost, 2011).

[73] Tost (2011) integrated insights from social psychological research into her work.

between an organization and its institutional environment. Such communication links create dense webs of meaning. They protect and support the organization in repairing disruptions. Tost (2011) also made a similar argument from a legitimacy-as-perception perspective; in addition to the macro perspective, she looked at it also from a standpoint of individuals. Legitimacy could provide organizations with a “reservoir of support”, increasing their likelihood of survival. At the same time, legitimacy increased the individual’s loyalty to the organization and maintained an organization’s influence. Also, legitimacy impacted individuals’ readiness to accept organizational actions, decisions and policies. In a similar vein, Fisher, Kotha, and Lahiri (2016) discussed legitimacy buffering in the context of new ventures. They classified legitimacy as a resource on its own. According to them, legitimacy was fungible and, as a result, transferable to other settings with different audiences making legitimacy judgments. It provided a venture with time and resources to adapt its identity to transitions in the life cycle of a venture. These arguments are also transferable to more mature organizations, which obtain (limited) time to adapt to changes in its institutional environment thanks to their stockpile of legitimacy.

Fisher et al. (2016) also discussed potential sources of legitimacy. The positive reputation of the people within a venture, prior organizational achievements or positive reputation of the venture may represent sources of legitimacy. The legitimacy stockpile provided an organization with certain freedom to revisit sensemaking, taken-for-granted practices, etc., and to deviate (or innovate) from the way things were done in the past. The classification of legitimacy as resource goes also back to the work of Zimmerman and Zeitz (2002), who also considered legitimacy as an important resource for new ventures, because it enabled an organization to access other resources needed to survive and grow. They proposed the existence of a legitimacy threshold marking a critical milestone for the survival and sustenance of a new venture. Beyond the legitimacy threshold, the chances of a venture’s survival increased significantly. Fisher et al. (2016) pointed to the necessity of meeting evolving expectations of different resource providers. They referred to ventures being subject to institutional pluralism, where they were faced with different audiences having other values, beliefs and norms. As a result, entrepreneurial ventures are confronted with multiple legitimacy thresholds as they evolve and grow. However, the authors outlined the challenging nature of adapting to institutional pluralism and expectations from the next venture lifecycle due to venture-identity embeddedness. Relational and cognitive lock-in[74] prevented timely adaption and led to organizational inertia.

Legitimacy requires careful management so that it is not lost. Organizations need to work both on the gaining and management of organizational legitimacy (Fisher et al.,

[74] Relational lock-in describes actors’ obligations due to strong social ties and norm of reciprocity. Cognitive lock-in constrains actors to adopt new cognitive schemes due to a strong shared identity with a particular field.

2016). To be perceived as legitimate, the structures, practices and behaviors need to be aligned to the prevailing institutions in the institutional environment (Fisher et al., 2016). Already decades ago, literature acknowledged that organizations also in mature stages need to carefully manage legitimacy to avoid losing it. Elsbach (1994) conducted a qualitative study of the California cattle industry, combining concepts from institutional and impression management theory. She examined accounts effectiveness in protecting organizational legitimacy following controversies. She found evidence that forms of accounts that acknowledged the occurrence of controversial events (i.e., acknowledging a problem and addressing the issue directly) appeared to be more effective in protecting organizational legitimacy than forms that denied the events (i.e., communicating that a problem did not exist). She explained the effectiveness of acknowledgement with the lack of public trust in large industry players and mass media and with the perceived lack of control if management had denied the evident issues. Acknowledgment of controversies allowed spokespersons of involved organizational actors to use more positive impression management and move beyond questions of involvement and thus to repair disruptions in legitimacy. Furthermore, she stressed the higher effectiveness of accounts referring to widely institutionalized structures in times of controversies that violated social norms. Reference to institutionalized structures protected organizational legitimacy compared to accounts that solely referred to technical structures or procedures. It provided proof that an organization was credible and rational. Taking the case of a large Swedish insurance company after the turn of the millennium, Jonsson, Greve, and Fujiwara-Greve (2009) showed that breaches of social norms by one organization could negatively impact other organizations with similar characteristics, even if they had nothing to do with the breach. A possible explanation was that individuals group social actors to make sense of the world.

Important in the context of this dissertation is to note that there are links between the forms of institutional work depicted in institutional work theory and legitimation strategies described in prior literature. Suchman (1995) offered an overview of strategies to gain, maintain and repair legitimacy on pragmatic, moral and cognitive grounds. To gain legitimacy, he described strategies such as conforming to, selecting and manipulating the environment. Largely, these activities were congruent with some of the forms of institutional work outlined by Lawrence and Suddaby (2006). In the case of advocacy as an institutional work form, Lawrence and Suddaby (2006) directly referred to Suchman (1995). For maintaining legitimacy, Suchman (1995) proposed perceiving changes and protecting accomplishments[75], whereas Lawrence and Suddaby (2006) discussed policing as separate institutional work form that partially resembled the monitoring aspects. Policing included ensuring compliance through enforcement, auditing and monitoring and therefore was not congruent with

[75] What he meant by perceiving changes was to monitor tastes, ethics and outlooks and consult opinion leaders, professions and doubters in order to do so.

Suchman. For repairing legitimacy, Suchman (1995) suggested normalizing, restructuring and recommended “not to panic”. Here, Lawrence and Suddaby (2006) took an entirely different approach by looking at institutional work forms that disrupted institutions. Meanwhile, literature on institutional work forms and legitimation strategies continued to grow and so did the repertoire of possible activities that have been depicted in literature.

Drori and Honig (2013) examined how internal[76] and external[77] legitimacy developed and how they impacted organizational emergence and evolution. The distinction between internal and external legitimacy depended on the source (of stakeholders). Based on a dot-com firm, the authors showed the challenges of legitimation management at different stages of the life cycle by suggesting a process model. The necessity to attract external resources required the firm to appear like other dot-com firms (e.g., by providing a rational business model, a recognized bureaucratic form of leadership and an appropriate media presence). However, the founder struggled to maintain a strong coupling between practice and meaning, which resulted internally in contestations on practices, social positions and strategy. Decision-making processes that were previously characterized by consensus-finding became more and more autocratic. Also, other processes were tangled by the misalignment of internal and external legitimacy. For example, the founder was no longer able to hire through previously normative groups and the organization became unproductive and unsuccessful over time. Eventually, legitimacy eroded completely and brought the organization back to the (initial) emergence stage, where consensus needed to be built on shared ideology and values. In the analyzed case, the consolidation stage was never reached, where legitimacy was widely validated as consensus.

In their article, Drori and Honig (2013) also applied institutional work theory as their analytical lens. They referred to traditional institutional theorists (DiMaggio & Powell, 1983; Suchman, 1995) who viewed legitimacy as a phenomenon external to the organization. In response to this older conception of legitimacy, they reformulated the understanding of legitimation and depicted legitimation processes as dynamic processes. Thereby, they put organizational practices at the center of their examination to understand the interrelations between both types of legitimacy and bundle internal and external legitimacy. This was also the underlying understanding

[76] Drori and Honig (2013, p. 347) defined internal legitimacy as “the acceptance or normative validation of an organizational strategy through the consensus of its participants, which acts as a tool that reinforces organizational practices and mobilizes organizational members around a common ethical, strategic or ideological vision”. Thus, governance and authority were important for internal legitimacy.

[77] External legitimacy rested on the acceptance and validation of external stakeholders, who often got in touch with an organization as clients, investors, etc., and could be seen as bona fide members of an organization’s community (Drori & Honig, 2013; Zimmerman & Zeitz, 2002).

of this work, because in essence it reflected institutional work theory that shifted the focus to actors and actions compared to traditional institutional theory.

- **Conceptual delimitation of legitimacy**

The concept of legitimacy appears most frequently in theoretical analysis (Deephouse & Suchman, 2008). To avoid confusion, it is important to understand delimitations of legitimacy, as it overlaps with numerous other ways of evaluating organizations. In this section, I provide a short overview on differences from and commonalities with related concepts such as status, reputation and prestige:

Status is referred to as a “socially constructed, intersubjectively agreed-upon and accepted ordering or ranking of individuals, groups, organizations, or activities in a social system” Washington and Zajac (2005, p. 284). According to Washington and Zajac (2005), status generates social esteem and privileges for high-status actors in a social system. Status relates more to the unearned ascription of social rank. Both privileges and the opposite, discrimination, could not be explained by perceived quality. Perceived quality was closer to the notion of reputation.

Deephouse and Suchman (2008, p. 12) refer to reputation “as a generalized expectation about a firm's future behavior based on collective perceptions (either direct or, more often, vicarious) of past behavior or performance.” Reputation implies an explicit extrapolation from past to future behavior (Deephouse & Suchman, 2008). Past actions of an organization such as the quality of its products, its honesty and the vigor of its competitive response play an important role for the formation of a reputation judgment[78] (Bitektine, 2011).

The three concepts of legitimacy, status and reputation are interrelated. Legitimacy is dichotomous[79] and is generally concerned with satisficing at an acceptable level. Thereby, the absence of negative issues is generally more important than the presence of positive achievements (Deephouse & Suchman, 2008). Further, Deephouse and Suchman (2008) characterized legitimacy as fundamentally non-rival, homogenizing and political[80]. In contrast to legitimacy, they classified status as fundamentally ordinal, categorical and honorific. Status is segregating[81] (Bitektine, 2011) and varies mainly across groups and less within groups. For example, lower-

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[78] The social judgment by an evaluator to be made is: “How will the organization perform/behave in the future relative to other organizations in the set?”

[79] Deephouse and Suchman (2008) explained that legitimacy could also appear continuous (or at least ordinal) when being assessed by multiple audiences and with respect to multiple activities.

[80] According to Deephouse and Suchman (2008), legitimacy produced a taken-for-granted right to act and command. Thereby, they referred to the embedded etymological roots of legitimacy in the Latin words “lex” or “legis”, meaning law.

[81] Bitektine (2011) outlined the social judgment to be made by an evaluator as follows: “Where does the organization fit in the ranked order of similar organizations?”

status groups tend to imitate higher-status groups, while higher-status groups will eliminate status characteristics when they become overly imitated. Reputation is fundamentally continuous and rival because it places actors on continua between, e.g., best and worst. The standing is relative, and a position can usually only increase at the expense of the position of someone else. Thus, reputation is differentiating and inspires actors to distinguish themselves from their peers. However, legitimacy, status and reputation influence each other (Deephouse & Suchman, 2008). Legitimacy may influence status because a commitment to avoid illegitimate activities can represent a criterion of a status group. Status may influence legitimacy because belonging to a high-status group may protect actors from impacts of minor rule violations and increase penalties for breaches jeopardizing the honor of the group as a whole. Legitimacy may promote reputation because legitimate actors are often both more visible and more credible. Reputation affects legitimacy because reputation is considered when legitimacy sources make endorsement and affiliation decisions. Status can improve reputation by increasing the returns on past achievements while reputation influences status by determining an actor's standing within a status group and impacting the affiliation to and mobility across status groups.

Legitimacy, status and reputation highly determine prestige. Deephouse and Suchman (2008, p. 19) denoted prestige as “an organization's capacity to achieve objectives by virtue of enjoying a favorable social evaluation.” Legitimacy is a prerequisite for prestige[82] regardless of status or reputation, while legitimacy alone cannot achieve much more than mundane tasks (that are of a fundamental nature, however).

- **Input, throughput and output legitimacy — a political science perspective**

With reference to the legitimacy debate in transnational accounting standard-setting (see page 25), I will briefly outline the theoretical foundations of legitimacy in this specific context.
Several legitimacy articles on accounting standard-setters base their conception of legitimacy on insights from political science, where legitimacy in standard-setting is classified along a three-stage process: i) input, ii) throughput and iii) output. Despite the existence of numerous useful typologies of legitimacy (Bitektine, 2011), the referenced one is frequently encountered in studies on standard-setting relating to legitimacy (especially in the transnational realm). It is also frequently applied by renowned researchers in the field (Botzem, 2014; Richardson & Eberlein, 2011), since it reflects the standard-setting process and is comprehensive as well as easy understand at the same time.

[82] Deephouse and Suchman (2008) illustrated the interrelatedness of prestige as follows:
Prestige = Legitimacy + Legitimacy ∗ (Status + Reputation + [Status ∗ Reputation])

Input legitimacy	"Input legitimacy refers to the participation of affected parties in rule-making or standard-setting so as to establish congruence between affectedness and voice in decision-making." Richardson and Eberlein (2011, p. 223)
Throughput legitimacy (or procedural legitimacy)[83]	"Throughput legitimacy refers to the procedural fairness of the process by which input is transformed into output." Dingwerth (2007, p. 15), based on the work of Michael Zürn
Output legitimacy	Output legitimacy is "based on substantively rational decision results". Mayntz (2010, p. 10)

Table 2: Applied typology of legitimacy

Input legitimacy is achieved when the will of the people is considered in the standard-setting process, which means that the affected parties are represented in the decision-making bodies and participate in the consultation of the due process (Pelger & Spiess, 2017). Due to the lack of democratic underpinning, independent private standard-setters derive input legitimacy by expertise-based decision-making (Esty, 2006; Quack, 2010). Output legitimacy highlights the contribution to the common welfare of the relevant constituency (Pelger & Spiess, 2017). As outlined earlier, transnational standard-setters such as the IASB have realized that concentrating on input and output legitimacy is insufficient due to their lack of democratic underpinning as private organizations, the difficulty to be held accountable, etc. Therefore, the IASB accentuated the importance of throughput legitimacy by placing a focus on the due process, which is considered as good practice among transnational organizations (Richardson & Eberlein, 2011). To be able to judge legitimacy, particularly throughput legitimacy, in standard-setting practice, a more comprehensive understanding is required. In this context, Wingard et al. (2016) for example referred to Esty's (2006) global administrative law toolbox[84], which includes four areas: i) controls on self-dealing, corruption and special interest influence, ii) systematic and sound rule-making, iii) transparency and public participation and iv) power-sharing. Esty (2006) emphasized the importance of procedural rigor for refining transnational governance[85] and legitimizing the exercise of transnational authority.

[83] Throughput legitimacy is also referred as procedural or deliberative legitimacy.

[84] The toolbox aimed at enhancing legitimacy and promoted effective and efficient policymaking.

[85] According to Bevir (2012), governance refers to all processes of governing. Governance focuses on social practices and activities. As boundaries between state and society increasingly blur, governance also refers to hybrid and multi-jurisdictional processes that involve numerous stakeholders working together in networks.

An alternative for evaluating normative throughput legitimacy was outlined by Beisheim and Dingwerth (2008). The elements for evaluation comprised:

i) inclusiveness, fairness and representativeness,
ii) deliberation and
iii) transparency and accountability.

While Beisheim and Dingwerth (2008) mainly referred to throughput legitimacy, their first element on inclusiveness, fairness and representativeness actually also referred to input legitimacy ensuring congruence between decision-makers and decision-takers.

For addressing input legitimacy more comprehensively, the work of Tamm Hallstrom (2002) on technical standard-setting is particularly useful. Besides the above-stated elements, she highlighted the significance of expertise and user orientation for standard-setters. Because of technical expertise and the legitimacy awarded to science, clusters of scientists and engineers are often found among standard-setters (Timmermans & Epstein, 2010). As standards incorporated the expertise of a certain field, non-state actors became involved in standard-setting (Botzem & Dobusch, 2012).

Furthermore, Beisheim and Dingwerth (2008) depicted three social mechanisms that were expected to link procedural legitimacy to success of private governance. These mechanisms have both positive and negative implications. The first mechanism involved the establishment of ownership through inclusive, fair and representative participation. As stakeholders became owners of the process, the duration and quality of the participation increased. Stakeholders got engaged, tended to share more relevant information and were likely to accept costs of implementing norms and rules. According to the authors, prerequisites were that all stakeholder interests were represented effectively to establish consonance between decision-makers and decision-takers (inclusiveness), that all stakeholders could rely on an equal basis or on morally justified graduated participation rights (fairness) and that the participants were sincere and legitimate representatives of their constituencies (representativeness). Regarding the scope and the quality of participation, Richardson and Eberlein (2011) pointed to two problems. It was unclear how balanced the participation of constituents must be to establish legitimacy. Furthermore, inclusive broad-based participation could conflict with expertise-based logics of decision-making in technical standard-setting. Broad participation could also lead to inefficiencies and result in compromising the professional logic because of different forms of (political) influences.

The second mechanism outlined by Beisheim and Dingwerth (2008) related to social learning and persuasion based on deliberation. The underlying assumption was that a deliberative process allows participants to present their arguments and take note of critical counter-arguments. Thus, the participant would perceive the outcome as reasonable. Moreover, deliberative elements induce social learning by recognizing arguments from other stakeholders with potentially conflicting goals, preferences and values. However, deliberation could also result in deadlock situations, in consensus results of low quality (lowest common denominator) and in exclusion of stakeholders not willing to reach a consensus.

The third mechanism related to the notion that audiences did not necessarily need to be involved in decision-making but accepted results from a transparent and accountable process. To enable social control, transparency of the decision-making process was an essential prerequisite. Transparency and accountability enhanced legitimacy. If rules were considered rightful, it allowed actors to blame and shame others deviating from the rules. At the same time, transparency and accountability bear the risk that an open exchange of arguments was often only possible behind closed doors. Also, high pressure from constituencies on their representatives resulted in low capacity to compromise and respond to the arguments of others. Finally, transparency could make an organization vulnerable to delegitimization pressure, when external critics use information to challenge the organization.

- **Excursus: The role of public interest in standard-setting**

In light of ever-growing attention to legitimacy and governance issues, I consider it as important to briefly add a couple of thoughts on public interest to the legitimacy discussion summarized above and the persistent efforts to ensure a broad participation of different stakeholders in the standard-setting process. Serving and working in the public interest has been an explicit mission of governmental rule-setting processes. In the course of the financial crisis, private standard-setting organizations such as the IASB and IFAC were criticized for their lack of accountability to act and engage in the public interest, and their legitimacy was questioned (Botzem, 2014; Botzem & Dobusch, 2012). While several organizational traits can be linked to the principle of participation, which is interlinked with the notion of having to serve the public interest (Tamm Hallstrom, 2002), more and more transnational private organizations explicitly refer in their mission to serving the public interest[86].

Society and its members confer legitimacy to organizations only when the organization’s value system is similar to that of the society in which it operates. Deegan (2002) referred to this relation as the “social contract”. The concept of legitimacy can be directly related to the concept of “social contract”. The author explicated further that the violation of the social contract could threaten an

[86] The IASB has a separate section on its webpage on public interest (IFRSF, 2018a), where it states: “The IFRS Foundation is a privately organized, not-for-profit organization established to serve the public interest.” A document “Working in the Public Interest: The IFRS Foundation and the IASB” outlines how the IASB and the IFRSF ensure that their actions and governance structure are in line with public interest (IFRSF, 2018f).

organization's survival, if a society perceived an organization in breach of it, which was more relevant than the actual conduct. Tudor (2013) analyzed the dilemma of balancing the public and private interest in the accounting profession. She highlighted the fact that members of the accounting profession provide services not only in their own (profit-oriented) interest but also in the public interest. Services by the accounting profession represent public goods. Clients[87] of the accounting profession rely on the objectivity and integrity of professional accountants to ensure the proper functioning of the economy. In a similar vein, the significance of public interest may not be neglected in the context of standard-setting and particularly not with private accounting standard-setters, who lack democratic underpinning.

The financial crisis enormously challenged the above-mentioned social contract. Private interests were supererogatorily pursued at the expense of public interest. The accounting profession as well as transnational standard-setters suffered a considerable loss of reputation and trust. In the effort to restore trust and confidence in the accounting profession and provide practical guidance to actors, the IFAC published a comprehensive and useful framework to identify and assess the extent to which actions, decision or policies are made in the public interest. The IFAC defined public interest as "the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy" IFAC (2012). IFAC propagated the following two assessments:

- The Assessment of Costs/Benefits: The extent to which, for society as a whole, the benefits of the action, decision or policy outweighed the costs; and
- The Assessment of Process: The extent to which the manner of considering the action, decision or policy was conducted with the qualities of transparency, public accountability, independence, adherence to due process and participation that included a wide range of groups within society.

Despite these efforts, the Monitoring Group[88] that is, *inter alia*, responsible for monitoring the implementation and effectiveness of the IFAC reforms launched a consultation in November 2017 due to potential adverse effects on stakeholder confidence in the standards as a result of a perception of undue influence by the profession and the related possible risk that standards are not developed fully in the public interest (The Monitoring Group, 2017).

The above-outlined anecdote shows the relevance of the topic in this day and age. It also becomes apparent that the discussion of public interest and implications for private standard-setting are not settled and that vulnerability to criticism remains,

[87] Tudor (2013) applies a broad definition of clients of the accounting profession, including customers, creditors, governments, employers, employees, investors, business communities, donors and others.
[88] The Monitoring Group was established in February 2005 by IOSCO, BCBS, EC, FSB, IAIS and the WBG. The International Forum of Independent Audit Regulators (IFIAR) joined later.

particularly in times of crisis. Private standard-setting organizations both in the transnational and national realm are advised to keep these developments regarding the consideration and impact of public interest on their activities and their governance structures continuously in sight.

Summary

Institutional work theory examines the recursive relationship between institutions and actions and places a strong focus on actors and agency. The question on how institutional work occurs has been addressed by several empirical studies that identify different forms of institutional work to create, maintain and disrupt institutions. The creation of institutions requires institutional work of a wide range of actors, including entrepreneurs, supporters and facilitators. Also, the reproduction and continuation of institutions cannot be taken for granted but instead requires constant and careful institutional work. In institutional work theory, actors are depicted as culturally competent with strong practical skills and sensibility, whose actions are influenced and constrained by the institutional environment. Institutional work allows for the empirical analysis of the micro-dynamics of actions and as a result is well suited to analyze and to contribute to the understanding of managing an organization’s legitimacy. Legitimacy is a central concept in organizational research due to its influence on behavior, performance and the survival of an organization. Legitimacy is dynamic and requires ongoing efforts not to be lost once established. Besides output legitimacy, private standard-setters lacking democratic underpinning primarily focus on strengthening input and throughput legitimacy (especially in the transnational realm) to ensure broad participation of affected parties and fairness of the process.

4. Methodology

This chapter outlines the methods of addressing the question of how private national accounting standard-setters manage legitimacy over time. First, I will provide some background information on the research design and the most important methods used. Second, I will depict the research context and summarize the reasons why the selected case of Swiss GAAP FER is appropriate to answer the research question. Thereby, I will also draw a short comparison between Swiss GAAP FER as a private national standard-setting organization and transnational standard-setters. Third, I will provide details on data collection and subsequently delineate the methods used for data analysis.

Research design

This research project is deliberately conceived as a longitudinal single qualitative case study[89]. First, qualitative research is well suited to explore human elements and to address many of the why and how questions of human experience beside asking what, where, when or who questions (Given, 2008). It enables researchers to explore phenomena, actions and context in depth, to pay attention to detail and thus to develop a deep understanding of a research object. Given the limited number of studies on the legitimacy of private national accounting standard-setters and the nature of the research question involving a how question, a qualitative research design appears to be most suitable.

Second, the case of Swiss GAAP FER is unique in several ways because of its entirely private setup, its embeddedness in the Swiss legislative and economic context and the developments over time that influenced legitimacy judgments in different ways (see also the next section on the research context). Particularly, to comply with the complexity of the case and cope with the magnitude of data, given the long research period of 34 years, a single-case-study design does best justice to the case of Swiss GAAP FER. Yin (2018, p. 53) considered single-case studies as a common design for doing case study research. He outlined five different rationales for single-case-study designs. The description of the longitudinal case best depicts the underlying parameters of this research project[90]:

> "The theory of interest would likely specify how certain conditions and their underlying processes change over time. The desired time intervals presumably

[89] Thereby, I rely on the case study definition provided by Yin (2018, p. 15): "A case study is an empirical method that

- investigates a contemporary phenomenon (the "case") in depth and within its real-world context, especially when
- the boundaries between the phenomenon and context may not be clearly evident."

[90] According to Yin (2018), alternatively to longitudinal purposes, single-case studies are also justifiable if the case represents a critical test of existing theory, an extreme or unusual circumstance, a common case or a revelatory purpose.

> reflect the anticipated stages at which the changes would most likely reveal themselves. They may be prespecified time intervals, such as prior to and then after some critical event, following a before-and-after logic. Alternatively, they might not deal with specific time intervals but cover trends over an elongated period of time, following a developmental course of interest." Yin (2018, p. 51)

The long research period involving 34 years reflects the above-outlined preconditions on the appropriateness of applying a single-case study very well.

Third, renowned researchers on legitimacy point to the benefits of paying attention to historical processes and complexity to further expand the understanding of legitimacy (Suddaby et al., 2017). They recommend future research to apply underused methods such as historical or genealogical analyses.

> "A key advantage of using historical and genealogical methods is that, because highly legitimated practices often become so taken for granted that they disappear from contemporary awareness, it is only through the distance of time that we can objectively assess legitimating phenomenon." Suddaby et al. (2017, p. 470)

To conceptualize the "history of the present" (Foucault, 1977), it is important to understand which discourses, practices and judgments became legitimate or illegitimate over time (Suddaby et al., 2017). This research project on the case of Swiss GAAP FER goes back to the foundation of the organization in 1984 and depicts the context and actions and their implications on legitimacy, the organization and the standards in different time periods and therefore fits well with the stipulated research needs. It also complies with different research calls, such as the examination of legitimation (Deephouse & Suchman, 2008) or institutional work (Battilana & D'Aunno, 2009) on multiple levels and a call for more research focusing on individual jurisdictions and their relations with the IASB (Camfferman & Zeff, 2017).

Research context and the case of Swiss GAAP FER

While research on the legitimacy of accounting standard-setting has mainly concentrated on transnational and dominant players such as the IASB and the FASB, relatively little is known about private national accounting standard-setters (except for Australia, UK, New Zealand and Canada). Moreover, legitimacy questions have not been a prime concern, because topics such as the influence of IFRS or the transfer of IFRS into national law dominate the literature. A reason for this is presumably the organizational setup involving strong ties to legislative bodies and government authorities. However, considering concerns on the ever-growing complexity of IFRS, it is a legitimate approach to investigate alternative national setups without scrutinizing the legitimacy and benefits of the IASB and IFRS, which are particularly important for multinationals that are active in global capital markets and their stakeholders.

To answer the question of how private national accounting standard-setters manage legitimacy in a globalized world, I selected the case of Swiss GAAP FER. It is to be noted that Swiss GAAP FER depicts both the standard-setting organization and the set of standards. For most of the time, even members of the Commission did not properly separate terms for the two things. For this dissertation, I have included both in my analysis and specified in the text which of them is meant. In terms of legitimacy, accounting standards are of relevance for assessing output legitimacy, whereas organizational setup and processes are a central focus when analyzing input and throughput legitimacy.

Swiss GAAP FER is an interesting case in many ways. In the following, I will outline the three most important ones. First, it is interesting to see, in a globalized world with ever-increasing adherence to IFRS, a national accounting standard-setter such as Swiss GAAP FER continue to grow and increase its influence in Switzerland. This success is even more surprising given that Swiss GAAP FER suffered considerable legitimacy loss at the turn of the millennium, when the EU decided to require listed companies to prepare their consolidated accounts in accordance with IFRS and the Swiss Stock Exchange restricted the application of Swiss GAAP FER. While traditionally "technical underdeveloped" standards are superseded by superior standards, Swiss GAAP FER experienced a revival thanks to a reconceptualization into a modular setup of the accounting standards issued. In recent years, an increasing number of listed companies in the domestic segment of the Swiss Stock Exchange have returned from IFRS to Swiss GAAP FER financial reporting.

Second, Swiss GAAP FER is a truly private accounting standard-setter without having been mandated by government authorities to issue standards. It had to gain and maintain legitimacy on its own strengths. Since its foundation in 1984, government authorities and oversight bodies have acted as observers and have not obtained voting rights. The founder, Prof. Dr. André Zünd, and his team had to fight fierce resistance from large and influential preparers to eventually establish legitimacy over time. The fuzzy term of "accounting and reporting recommendations" rather than accounting standards reflected this difficult circumstance. Thus, Swiss GAAP FER is a very rich case for investigating the development of legitimacy work strategies over time and includes favorable stable as well as hostile institutional environments. Only in 2012 did the Swiss Federal Council recognized Swiss GAAP FER as an accepted accounting standard alongside IFRS, IFRS for SMEs, US GAAP and IPSAS[91]. Nevertheless, the adoption of Swiss GAAP FER remains voluntary, because companies may also apply one of the other accepted accounting standards if they are required to prepare financial statements in accordance with an accepted

[91] See reference: The Swiss Federal Council (2018a).

accounting standard (see also article 962 in the Code of Obligations)[92]. Thus, from a legal perspective (except for pension funds), Swiss GAAP FER and IFRS do not differ in Switzerland. They are both private accounting standard-setters, and therefore their legitimacy is not established on grounds of democratic underpinning.

Third, Swiss GAAP FER is also an interesting case from an organizational and strategy perspective, Unlike the AASB or other influential national accounting standard-setters, Swiss GAAP FER has always remained a local player focusing its activities within Switzerland. It did not have any aspirations to participate in the accounting standard-setting process in the transnational realm in a proactive way but has concentrated its focus on national activities. A reason for this is also Swiss GAAP FER's organizational structure. Since its foundation in 1984, its organizational setup has remained militia-based without the employment of fixed staff. For the entire period, members of the Commission (including the Executive Committee), the Technical Secretary and the Board of Foundation have worked on an honorary basis. The same is true for most projects involving external technical experts. Nevertheless, Swiss GAAP FER has succeeded in engaging and retaining scarcely available renown among accounting practitioners in Switzerland for its purposes. The proximity to universities has allowed Swiss GAAP FER to engage research associates for certain administrative and technical tasks on an ad-hoc basis. However, the estimated annual budget of between CHF 100,000 to 200,000 in the fourth and latest research period remained several times smaller than those of other national or transnational accounting standard-setters.

[92] An exception are pension funds, which are obliged to adopt Swiss GAAP FER 26 in accordance with BVV2 from 2004 onward (The Swiss Federal Council, 2018b).

Data collection

In terms of data sources, I sought to triangulate data by obtaining multiple sources of evidence to corroborate findings. As Yin (2018, p. 128) outlined, data triangulation helps to strengthen the construct validity by developing convergent evidence. Multiple data sources provide richer insights into a topic, while they verify and validate potential findings. Also, potential shortcomings of one data source, such as inconsistencies and data gaps, may be compensated for by others. Table 3 provides an overview of the data sources used in this research project:

Data source type	**Comments**	**Amount/Number**
1. Minutes	▪ Commission: ▪ Board of Foundation ▪ Executive Committee	69 38 125 Σ 232
2. Interviews	▪ Semi-structured interviews	20
3. Articles	▪ Articles by members of the Commission on behalf of Swiss GAAP FER and on a private basis	85
4. Other sources	▪ Observations from attendance of Commission & Executive Committee meetings ▪ 1 written statement on positioning of Swiss GAAP FER by a Board of Foundation member	from September 2014 to March 2017

Table 3: Overview on data sources

In the following, I will briefly summarize the significance of each data source for the research project:

- *Minutes*: The minutes of the Commission, the Board of Foundation and the Executive Committee represent a major data source for understanding actors, activities and influences from the institutional environment as well as for analyzing legitimacy management strategies. The history of the minutes is, in the case of the Board of Foundation and the Commission, complete. For the Executive Committee, 10 minutes from the 1990s are missing. However, the Commission minutes provide enough information on the activities during the affected period. From 2002 onward, all documents are available electronically. The rest were retrieved from the archive of Swiss GAAP FER and subsequently scanned to make them electronically evaluable. I received unrestricted access to the physical and electronic archives of Swiss GAAP

FER. Thus, I obtained insight into all relevant historical and current documents, including meeting minutes, financial data and official documents such as, for example, the Deed of Foundations and the Organizational Regulations covering the entire research period from 1984 until March 2017. For this project, I relied on the minutes as a primary archival data source, since they incorporate the main points included in other Swiss GAAP FER internal documents and discuss them in sufficient detail. Although the minutes in the 1980s and early 1990s were shorter than in the subsequent years, they nonetheless summarize project statuses and the major votes by members on important accounting issues, documented decisions, provided timelines and outlooks on planned actions.

- *Interviews*[93]*:* The interviews are an important information source to validate findings from minutes, to obtain background information beyond minutes and to receive personal assessments of developments. Overall, I conducted 20 semi-structured interviews. Interviewees were chosen based on insights from the first cycle of coding of the minutes and based on recommendations by other interviewees. The interviewees were selected based on their role within and their relationship to Swiss GAAP FER bodies and projects. Another important interviewee selection criterion was the coverage of different time periods. Five interviewees were external to the Swiss GAAP FER organization. All five external interviewees represented senior executives who were familiar with Swiss GAAP FER for a long period of time and thus could also provide insights on developments over time. Mostly, they also experienced certain conflicts of interest with Swiss GAAP FER and could provide an external view on key events, developments and areas of conflict. Sixteen interviews were conducted personally and four by telephone between August and December 2017. The interviews lasted around 60 minutes on average and were mainly held in Swiss German. All interviews were recorded and transcribed. Two queried persons rejected to provide an interview with reference to confidentiality reasons of their organizations.

- *Articles:* The articles have not only been used to validate findings, but they have proven to be an important source for the temporal classification of events. Furthermore, the articles enabled an analysis of the external communication of Swiss GAAP FER and to obtain further background information. The articles used for the case study were mainly drawn from Expert Focus (formerly known as “Der Schweizer Treuhänder”). Expert Focus is a magazine issued by the Swiss Expert Association for Audit, Tax and Fiduciary (known as EXPERTsuisse and formerly known as Swiss Institute of Certified Accountants and Tax Consultants) and is published 10 times per year. From its inception, Swiss GAAP FER as a standard-setting organization has

[93] Yin (2018, p. 118) classified interviews as one of the most important sources of case study evidence.

used this magazine as one of its primary sources for external communication and for the publication of drafts for consultation. Thus, it provided a rich stock of information covering the entire research period. In case of uncertainties of interviewees on the exact timing of certain events, I have relied on related published articles. In this context, it is to be noted that there are not always clear dividing lines between articles by the members of the Commission published on behalf of Swiss GAAP FER and those published on a personal basis. Several times, members of the Commission informed their colleagues about publication plans without necessarily discussing the content.

- *Other sources*: As part of my activities as a Research Assistant at the University of St.Gallen, I was able to participate in the meetings of the Commission and the Executive Committee from August 2014 until March 2017 as well as at project meetings. These opportunities provided me with rich insights on how the standard-setter is organized and how projects are initiated and carried out. I also had the opportunity to discuss current accounting issues on an informal basis with members and stakeholders. These insights helped me with the preparation of the interviews and fostered the understanding of the context. Langley, Smallman, Tsoukas, and Van de Ven (2013) outlined the benefits of “interactional expertise” for data access, engaging in discussion also with technical contents and the appreciation of specialists’ views. Furthermore, I obtained a written statement on major developments by a member who was part of the organization since its foundation, which I used to validate my findings.

Data analysis

With data analysis, I followed an abductive research approach (Gibbs, 2018):
In a first preparatory step, I reviewed the minutes from the Executive Committee, the Commission and the Board of Foundation from 1984 to March 2017 to gain an understanding of the standard-setting organization, the development of standards over time, main actors, context, topics, issues and other developments. The initial review of minutes allowed me to identify key actors in different time periods. In a second step, I prepared and conducted 20 semi-structured interviews with the previously identified persons. After having transcribed all interviews, I started coding[94] the minutes and transcripts of the interviews. Coding has been a widely used and established way to analyze qualitative data for more than half of a century (Saldaña, 2016). Coding is an important aspect of analysis and links data collection and theory development. Coding enables theoretical modelling by identifying themes from defined codes, reducing and creating hierarchies within the themes and connecting them.

There are multiple different coding methods offering researchers different analytical lenses, filters and angles to analyze a phenomenon. In this dissertation I applied process coding as a first cycle coding method (Saldaña, 2016). Process coding fits well with the process orientation implied by my research questions and with the eclectic nature of the data involving different languages, varying styles of expression, depth, etc. Process coding identifies actions within the data and describes them by using gerunds. Processes of human action can have different characteristics. They can be random, strategic, etc., and "processes also imply actions intertwined with the dynamics of time" Saldaña (2016, p. 111). Saldaña (2016) considered process coding appropriate for almost all type of qualitative research — especially for grounded theory approaches. Charmaz (2014) referred to process coding as "coding by gerunds" and outlined related benefits since this coding process enables thinking in actions and processes rather than structures, topics and themes. Implicit connections can be revealed while control over data and emerging analysis is maintained.

[94] "A code in qualitative inquiry is most often a word or a short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data." Saldaña (2016, p. 4)

In the present research project, the following questions served as guidance for process coding:

Initial central question	Which internal or external activities took place (potentially) influencing legitimacy judgments?
Additional follow-up questions	Who performed the observed activities and who else is involved?
	Whom did these activities target?
	When did the observed activity take place?
	What were influencing factors on the activities?
Analytical follow-up question	Which implications did these activities have on the input, throughput and output legitimacy of Swiss GAAP FER?

Table 4: Overview on guiding questions for process coding

For coding and case analysis purposes, I used atlas.ti as a supporting software tool. After I finished the first cycle coding of the minutes and the transcribed interviews, I reviewed the initial codes several times and cleared redundancies to end up with a list of 44 first-order codes. In this process, I constantly moved between data collection, data analysis and coding until theoretical saturation was reached (Glaser & Strauss, 2010).

After the first cycle coding, I applied pattern coding to group the first level codes into a smaller number of categories (for details please refer to table 5 of the next chapter). The purpose was to organize the codes into a more meaningful and parsimonious units of analysis and to come up with second order constructs. Subsequently, I included a phase of deductive reasoning, where I analyzed the work forms that have been depicted in other research contexts by different researchers in the broader institutional work theory literature and in prior legitimacy research. Wherever appropriate, I labeled the second order constructs using already pre-existing common definitions and terms. However, it is to be noted that the outcome does not reproduce existing knowledge but brings together insights gained inductively with theoretical concepts deductively to build a robust basis for further examination and explanation of the development of legitimacy work in the context of private national accounting standard-setters over time. Table 5 Data structure of the legitimacy process model illustrates the described approach.

In parallel to the deductive reasoning and after pattern coding, I applied longitudinal coding as an additional second cycle coding method. Saldaña (2016, p. 236) defines longitudinal coding as “the attribution of selected change processes to qualitative data collected and compared across time” and regards longitudinal coding as “appropriate for longitudinal qualitative studies that explore change and development in individuals, groups and organizations through extended periods of time" (Saldaña, 2016, p. 263). Given the length of the research period of 34 years, the factor time played a crucial role in my data analysis and thus may not be neglected. The identified work forms of active and passive legitimacy work were present in all time periods but to varying degrees and emphasis. Thus, I analyzed the data for significant changes, events and jolts in the institutional environment of Swiss GAAP FER with both positive and negative effects and placed them on the timeline of the research period. The minutes provided me with rich evidence of discussions on the developments in the institutional environment of Swiss GAAP FER such as e.g. expected changes in the Swiss Code of Obligations or the developments with IAS/IFRS. To further deepen my understanding of the different time periods in the context of accounting standard setting and to verify findings, I reviewed accounting literature in Switzerland and literature on other accounting standard setting bodies. With the help of a longitudinal qualitative data summary matrix (Saldaña, 2016, p. 261; Saldaña, 2003), I was able to identify temporal brackets and to analyze similarities and differences from one time period to another. Thereby, the guiding questions were as follows (Saldaña, 2016, pp. 262-263):

1. Increase and emerge	What increases or emerges through time?
2. Cumulative	What is cumulative through time?;
3. Surges, epiphanies and turning points	What kinds of surges, epiphanies, or turning points occur through time?
4. Decrease and cease	What decreases or ceases through time?
5. Constant and consistent	What remains constant or consistent through time?
6. Idiosyncratic	What is idiosyncratic through time?
7. Missing	What is missing through time?

Table 5: Overview on guiding questions for longitudinal coding

Chapter 6 findings is structured along the identified temporal brackets and follows the logics of the theorization outlined in chapter 5, which depicts a process model on legitimacy management. Chapter 6 summarizes for each of the four temporal phases the major developments in the institutional environment, changes in the organizational structure and the standards in the introduction. Subsequently, chapter 6 provides rich examples for the identified different legitimacy work forms and their implications on input, throughput and output legitimacy.

Summary

This dissertation aims to answer the question of how private national accounting standards manage legitimacy in a globalized world. For this purpose, it applies a qualitative longitudinal research approach by taking Swiss GAAP FER as a case. This chapter has outlined the reasons for selecting the case. Data sources were mainly different types of archival data and semi-structured interviews as well as published articles. Data analysis followed an abductive research approach, which involved process coding in a first step and matching and enriching findings with insights from institutional work theory as well as legitimacy research. In a second step, pattern coding as well as longitudinal coding were applied in order to develop a process model on legitimacy management, which is outlined in the next chapter.

5. A process model on legitimacy management

By examining legitimacy management strategies of Swiss GAAP FER through the lens of institutional work theory, I have observed how activities aiming at gaining, maintaining and repairing legitimacy have unfolded over time. Thus, this chapter proposes first a theoretical process model on the legitimacy management of private national accounting standard-setters. In this context, I also discuss the underlying assumptions of the model. Second, the chapter provides an overview on the underlying qualitative data model. Finally, I will provide a short summary and an outlook on the empirical part of this dissertation.

Underlying assumptions

The model outlined in Figure 3 rests on the following assumptions:

First, actors and their association with practices and processes to create, maintain and disrupt institutions are the central research focus within institutional work and thus an important source for institutional change and maintenance. Institutional work is considered intentional in its nature (Battilana & D'Aunno, 2009; Lawrence et al., 2009), which means that it may involve wide ranges and levels of self-consciousness, reflexivity, and temporal orientations. An implied underlying assumption is that social reality is constructed, mutable and dependent on the individual and collective actors (Hampel et al., 2017).[95] Organizational actors in Figure 3 refer to the members of the Commission, which also include the members of the Executive Committee, the Board of Foundation, the Technical Secretary and the representatives on behalf of the observer organizations.

Second, institutional processes are complex. Institutional work not only explores how, when and why actors work shape institutions, but it also considers the influencing factors impacting the ability to do so (Hampel et al., 2017). Individual actors are embedded in organizations, which are themselves embedded in organizational fields. Thus, action by individual actors is both facilitated and constrained by organizations including their structures and processes. Despite the important role of individual actors, institutional actors are not the sole source of institutional change. As traditional institutional theory outlines, the role of the institutional environment is an important source for institutional change. In my analysis, I follow the call of Battilana and D'Aunno (2009) to take a more multi-level approach and thus account for developments in the institutional environment. Also, Botzem and Dobusch (2012) recognizes the importance of the organizational context for setting accounting standards.

[95] Hampel et al. (2017) refer to the embeddedness and dependence of behavior, thoughts and feelings in people and collective actors.

Third, building on prior legitimacy research, the model assumes that institutional agency is an integral component of legitimacy formation (Drori & Honig, 2013) and maintenance. Actors need to carefully manage legitimacy in all life-cycle stages of an institution to ensure that it is maintained. Legitimacy is crucial for an institution's survival and its social acceptance. Legitimacy is dynamic in nature and represents a property judgment of a legitimacy object on an individual level and is present on the collective level in the form of validity (Bitektine & Haack, 2015; Tost, 2011).

Fourth, standard-setting is assumed to be dynamic in nature and takes place in recursive cycles[96]. Botzem and Dobusch (2012) argue that effective standard-setting depends on the reciprocal linkage of the formation and diffusion of standards. Thus, the differentiation into input, throughput and output legitimacy appears from a functional perspective particularly useful, since it highlights the coordinative aspects of standards as well as the political nature of setting standards. For long-term success in setting accounting standards, all three aspects of legitimacy must be equally carefully managed: input legitimacy (resulting from broad and representative participation), throughput legitimacy (resulting from transparent and fair standard-setting processes) and output legitimacy (resulting from a reasonable decision result). Botzem and Dobusch (2012) depict output legitimacy as important because it stabilizes social order through standards and because high adoption rates of standards are important for the long-term survival of the standards (and the standard-setting organization).

Fifth, the term stakeholder is broadly defined and follows Swiss GAAP FER's own definition of stakeholders involving between preparers, auditors, users, consultants, politics, administration, standard-setters, oversight bodies and other interested parties. Such a broad definition of stakeholders is consistent with the findings. As outlined in the next chapter, much of the advocacy work of Swiss GAAP FER is targeted not at preparers and users but at legislators and the Swiss Stock Exchange.

[96] Institutional work theory also highlights the recursive relationship between institutions and actions (Lawrence et al., 2009).

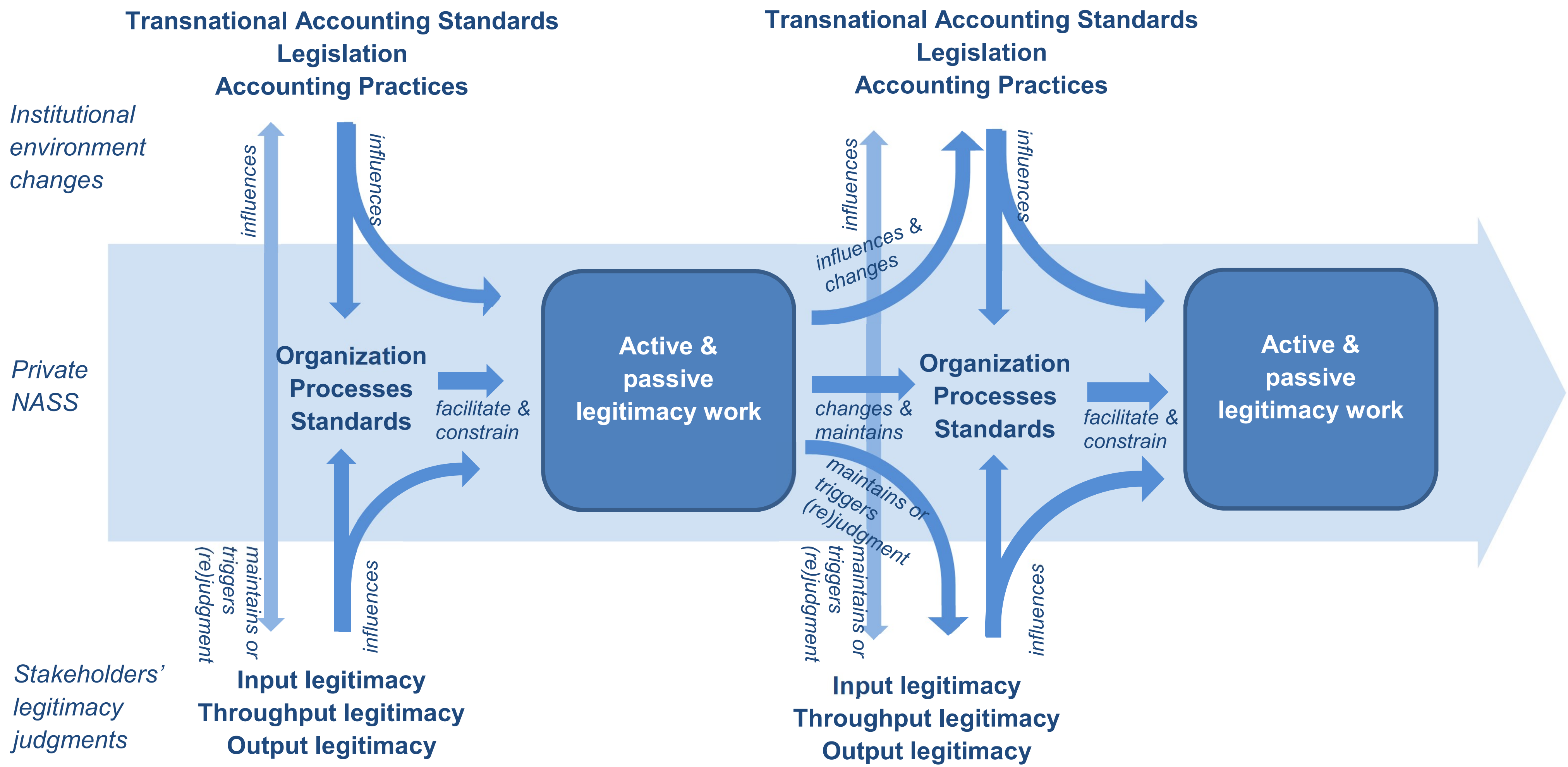

Figure 3: Legitimacy management process model

Description of the process model

Regarding legitimacy work by organizational actors, the model shows the recursive relationship between actions and institutions (Lawrence et al., 2009; Lawrence & Suddaby, 2006). Organizational structures, processes and existing standards simultaneously facilitate and constrain legitimacy work. For example, responsibilities, decision-making processes and rules, the code of conduct, meeting frequencies, etc., highly influence the nature and pace of legitimacy work assumed by actors. Naturally, existing standards and their content also impact legitimacy work, since, e.g., new projects do not start on a green field but need to consider and often build on previously defined principles. In parallel, e.g., prior established relationships to important stakeholder groups facilitate the launch of new activities and projects, communication flows and buy-in.

Changes in the institutional environment both impact the legitimacy judgment by stakeholders as well as the nature of legitimacy work. This argument builds on a core assumption of institutional theory (Scott, 2014) that institutions and actions are embedded in and influenced by their environment. As the case of Swiss GAAP FER shows, these changes can be diverse and complex and affect the organization and its output in different ways. The recognition of Swiss GAAP FER by the Swiss Stock Exchange marked an important milestone positively affecting its legitimacy. A few years later, the decision of the EU to require IFRS for consolidated accounts of listed companies from 2005 onward and the response of the Swiss Stock Exchange to limit the application of Swiss GAAP FER represented a jolt for the organization and the standards. Nevertheless, there are also trends and developments that gradually evolve over time and that influence legitimacy work on a more ongoing basis. For example, the meaning of transparency in financial reporting or corporate governance has become much more diversified and different over time. Transparency and governance in the 1980s had a different importance and priority for many companies than even only one decade later. Also, it is to be noted that the institutional environment is broadly defined and involves both the national and transnational realms. In the context of private national accounting standard-setters, developments with transnational accounting standard-setters are of relevance because they can jeopardize the legitimacy of private national players in a local context by, e.g., offering a technically superior set of standards and because transnational standards also influence local practices and often trigger debates on, e.g., current accounting issues and acceptable ways of addressing these. The national institutional environment involving, e.g., the legal requirements, ownership structures and funding possibilities are also of vital importance. They often determine the scope of action for private national accounting standard-setters such as Swiss GAAP FER. Simultaneously, legitimacy work and changes in the organizational structure, processes and standards impact the institutional environment by, e.g., offering alternative more pragmatic solutions to a technical accounting problem and by actively lobbying for it[97].

The perceived legitimacy in terms of input, throughput and output in the context of standard-setting has multiple effects on the standard-setting organization as well as the set of standards itself such as resource availability, acceptance, endorsement and diffusion of standards. Prior research has suggested a relationship between resource acquisition and legitimacy. In the context of new organizations, it has pointed to the existence of a legitimacy threshold below which an organization is perceived as illegitimate and thus is unlikely to attract resources (Fisher et al., 2016; Zimmerman & Zeitz, 2002). In the case of Swiss GAAP FER, one of the most important resources, if not the most important one, is technical expertise provided by members of the Commission and by representatives of observers. To strengthen input legitimacy, Swiss GAAP FER strives for a broad participation of members representing different stakeholder groups. A precondition is the support or tolerance of the members' activities for Swiss GAAP FER by those organizations for which the members of the Commission work. Thus, the higher the perceived legitimacy, the more likely it will be that an organization will support or tolerate activities by members on behalf of Swiss GAAP FER. In a similar vein, legitimacy and diffusion of standards are self-reinforcing. Standardization literature outlines the link between legitimacy and diffusion (Botzem & Dobusch, 2012) or, put differently, the institutionalization of standards (Slager et al., 2012; Timmermans & Epstein, 2010)[98]. The higher the perceived legitimacy, the more likely it will be that standards will get adopted and vice versa. Of course, the opposite is also true. If the legitimacy of standards is impaired due to, e.g., external jolts, etc., the diffusion of standards is likely to be adversely impacted. The perceived legitimacy also has temporal effects. In line with the findings of Bitektine and Haack (2015) that positive judgments ensure persistence of legitimacy judgments and stability of institutional order, I found that positive legitimacy judgments by the majority of stakeholder groups in a prior period allowed the standard-setter a broader scope of actions and more time to respond to changes in the institutional environment that affected the legitimacy judgments on private accounting standard-setters and their outputs. Perceived legitimacy as a result of a judgment have an enduring effect until a reassessment is triggered by jolts, changes in the institutional environment, etc., and highly institutionalized entities are more likely to be perceived as fair and just by individuals (Tost, 2011). More traditional

[97] A good example would be goodwill accounting, where Swiss GAAP FER deliberately decided not to follow an impairment only approach with all potential adverse long-tern implications on the balance sheet.

[98] Independent of standardization literature, research on legitimacy depicts legitimacy as a necessary component of institutionalization. According to Tost (2011, p. 686), institutionalization takes place when a social entity "gains a taken-for-granted quality that leads it to be perceived as an objective and natural reality".

legitimacy research attributing legitimacy property characteristics talks about “legitimacy buffer “ (Fisher et al., 2016) or “to stockpile legitimacy” (Suchman, 1995).

Legitimacy judgments by stakeholders are influenced by the developments in the institutional environment, legitimacy work and perceptions on the structure, processes and standards as well as legitimacy judgments in prior phases. Once a standard is institutionalized, fundamental changes become more difficult (Timmermans & Epstein, 2010). Bitektine and Haack (2015) showed that, under conditions of stability, the legitimacy judgment process was dominated top-down, which resulted in the suppression of the deviant legitimacy judgments by individuals, both in terms of the development and their public expression. In contrast, under conditions of change, competing judgments on an individual role played a vital role and altered the social order. However, the primary focus of this dissertation is not the analysis of legitimacy judgment processes of stakeholders on its different levels but on the actions taken by organizational actors to influence these external judgments.

Description of the data structure

Table 6 includes a list of the legitimacy work activities extracted from archival data, interviews and articles on (behalf of) Swiss GAAP FER. These first order activities were matched to institutional work forms depicted in the broader institutional work theory literature and in prior legitimacy research. As Suchman (1995) outlined, gaining and repairing legitimacy are a more proactive enterprise than maintaining it. However, the data in the case of Swiss GAAP FER shows that the eight identified different legitimacy work forms occur in all four time periods, including both times of stable and fragile legitimacy, though in different varying degrees. Thus, based on the empirical data, I have considered a categorization of legitimacy work forms into active and passive legitimacy work as more appropriate. With active legitimacy work such as constructing identities, advocacy, convening, negotiating, and educating, actors proactively mobilize or seek support with existing and new stakeholders. These work forms usually seek action from or reaction by external stakeholders. For example, these actions may involve changes in external stakeholders’ perceptions of the standard-setting organization and the standards. In contrast, passive legitimacy work emphasizes more maintenance and protection aspects of the existing level of legitimacy by mimicking, protecting and monitoring. Nevertheless, it is to be noted that protecting, mimicking and monitoring involve actions and go beyond simple perceptual techniques. For example, monitoring is worthless if it does not trigger action in response to an important identified issue that potentially jeopardizes legitimacy.

First order constructs	Second order constructs	Second order construct descriptions	Aggregate dimensions
▪ Defining the strategic positioning of FER ▪ Differentiating from competitors ▪ Emphasizing pragmatism, cost-benefit arguments and professional experience as guiding principle ("from practice – to practice") ▪ Highlighting Swissness, the true and fair view principle and the independence of FER ▪ Emphasizing international orientation	**Constructing identities**	Defining the relationship between an actor and the field in which that actor operates (Lawrence & Suddaby, 2006)	**ACTIVE LEGITIMACY WORK**
▪ Communicating pro-actively to the public ▪ Contributing to prestigious external projects by providing technical expertise ▪ Ensuring sponsoring ▪ Increasing recognition through public relations and external communication ▪ Lobbying for support from legislators and regulatory authorities ▪ Lobbying for support from stakeholder groups ▪ Obtaining leverage from "bandwagon effect" of listed companies	**Advocacy**	The mobilization of political and regulatory support through direct and deliberate techniques of social suasion (Lawrence & Suddaby, 2006)	

▪ Mobilizing support and acceptance through broad and balanced participation ▪ Engaging leading technical experts for FER bodies and/or projects ▪ Integrating representatives from different Swiss language regions ▪ Coopting influential stakeholders into FER bodies	**Convening**	Creating collaborative arrangements to jumpstart a process of change/to solve a particular problem (Dorado, 2005; Slager et al., 2012)	
▪ Cultivating a community of practice ▪ Hosting annual conference on latest developments ▪ Liaising with the academic world and with education and training providers ▪ Publishing of brochure and textbook	**Educating**	The educating of actors in skills and knowledge necessary to support the institution (Lawrence & Suddaby, 2006)	
▪ Seeking balanced compromises between different stakeholder interests ▪ Asserting fundamental interests of FER as standard-setter and fighting reluctance to change ▪ Discussing and agreeing on the agenda ▪ Discussing and voting on changes and new standards ▪ Discussing controversial opinions, positions and feedback ▪ Ensuring transparent decision-making processes and clear voting rights	**Negotiating**	Practices of negotiating include i.e. defining the negotiation mode, shaping of attitudes, and managing internal differences (Helfen & Sydow, 2013)	

▪ Mimicking other accounting standard-setters ▪ Minimizing differences to other accounting standards	**Mimicking**	Imitating existing practices or templates in order to legitimize new practices or organizational forms (Lawrence & Suddaby, 2006; Slager et al., 2012)	**PASSIVE LEGITIMACY WORK**
▪ Integrating external views through consultation, hearings, events, empirical studies, etc. ▪ Liaising with stakeholders to discuss changes and trends in the institutional environment ▪ Maintaining relationships with other accounting standard-setters ▪ Monitoring action and trends with important stakeholder groups ▪ Monitoring of regulatory activities ▪ Observing and analyzing developments in the transnational realm	**Monitoring**	Perceiving future changes: enhancing the ability to foresee emerging challenges and reactions (Suchman, 1995)	
▪ Addressing governance issues and implementing structural and operational independence of major stakeholders ▪ Avoiding regulatory overload for SMEs ▪ Emphasizing procedural rigor and transparency in setting accounting standards	**Protecting**	Buttressing the legitimacy already acquired (Suchman, 1995)	

▪ Implementing regular post-implementation reviews ▪ Policing communication by members ▪ Preserving structural efficiency and lean organization ▪ Promoting regulatory stability over time ▪ Protecting organizational identity and interests ▪ Reconciling Swiss GAAP FER to national legislation ▪ Ensuring consistency among Swiss GAAP FER standards			

Table 6: Data structure of the legitimacy process model

Summary and outlook

This chapter has proposed a new process model of managing legitimacy for private national accounting standard-setters over different time periods. Thereby, it has built on prior research regarding institutional work forms from institutional work theory and insights from legitimacy research. The model outlines the recursive relationship between action and institutions and delineates the influence by and on the institutional environment as well as on the perceived input, throughput and output legitimacy. It conceives legitimacy management and standard-setting as dynamic processes that require actions by organizational actors on an ongoing basis. The data structure shows how the rich list of observed activities in the context of legitimacy work was aggregated in theoretical terms, differentiating between active and passive legitimacy work strategies.

Chapter 6 will summarize the findings along core components of the model. For each of the identified separate time periods, it depicts the institutional environment of Swiss GAAP FER, changes in its organizational structure, processes and standards and provides rich examples for the different identified legitimacy work forms. In this context, details on an action level are provided to answer in detail the question of how private national accounting standard-setters manage legitimacy over time. Finally, it examines the effects of legitimacy work and resulting changes on the perceived input, throughput and output legitimacy in the current period, which of course then influence legitimacy work and perceived legitimacy in the subsequent period. Subsequently, Chapter 7 discusses the findings in terms of theoretical and practical implications and contributions.

6. Findings

This chapter describes the case of Swiss GAAP FER along the components and dynamics of the proposed theoretical process model of legitimacy management outlined in Chapter 5. For this purpose, each different period includes a section on the institutional environment, the organizational structure and accounting standards, actions and actors and a summary of impacts on legitimacy. Thereby, the subsection on the institutional environment summarizes the most important developments in the transnational and national environment for Swiss GAAP FER. The subsection organizational structure and accounting standards proves an overview of the most important changes at Swiss GAAP FER for the given period. Changes in processes are considered within the rich descriptions of actions aimed at gaining, maintaining and repairing legitimacy. It is to be noted that projects may involve different forms of legitimacy work. Thus, I have mapped the projects to the most predominant legitimacy work form. The summary of impacts on legitimacy includes implications of actions and changes for input, throughput and output legitimacy for the current as well as for the next period of time.

6.1 Phase I: Founding period (1984-1992) — First steps toward transparency

> "Accounting and reporting in Switzerland are often perceived by foreigners as a mixture between disclosing virtually nothing, hiding profits and the creation or dissolution of highly mysterious hidden reserves." Behr (1984, p. 79)

Every beginning is hard. Despite the broad involvement of leading experts in the field of accounting from inception, it took a lot of persistence and hard work in the first years to establish Swiss GAAP FER as a legitimate set of accounting standards with all major stakeholder groups — particularly with preparers. Traditionally, setting accounting standards was a legislator's task dominated by legal practitioners. Nevertheless, the emergence of Swiss GAAP FER as accounting standards were not at least enabled by the legal vacuum in the Swiss Code of Obligations and a need for more detailed rules on consolidation, valuation and other accounting related topics particularly relevant to large Swiss companies.

Institutional environment

In the Swiss accounting area of the 1980s, two issues appear striking. On the one hand, the weak legal requirements provided even large companies with a broad scope of action when it came to financial reporting, allowing non-transparent and sometimes quite arbitrary accounting practices. On the other hand, the start of globalization of trade and related capital requirements demanded from Swiss companies an increased degree of transparency. Thereby, the development of accounting standards and practices by several different renowned actors in the transnational realm offered Swiss companies a broad choice of alternative accounting standards.

- **Loose accounting regulation in the 1980s and implications**

The process for reforming the Swiss Code of Obligations[99] was for sure not a representative showcase for efficient and effective legislation in Switzerland. While, in other European countries, accounting regulation became stricter, the long reform process granted Swiss companies substantial leeway until reform was eventually enacted 1992. For illustration purposes, the following accounting rules at that time shall be noted: The upper limit of evaluation of fixed and current assets (except for quoted shares and bonds) was historic cost, while undervaluation was permitted without any limitations. Companies could form and dissolve hidden reserves. There were no presentation requirements for the annual accounts and thus companies could begin their reporting of the profit and loss account with gross profit. Shareholder loans, liabilities to pension funds, etc., did not have to be disclosed separately. Long-term creditors could be lumped together with provisions, etc. The preparation of consolidated accounts was not required. Notes were only compulsory in a limited sense. Apart from banks, insurance companies, railways and listed companies, companies did not have to file or publish annual accounts (von Greyerz, 1984).

> "Prudence and secrecy are not only our national maxims but also the basis of our accounting law." von Greyerz (1984, p. 85)

Already in 1966, the Federal Council had recognized the lack of transparency in financial reporting and insufficiency in auditing rules and initiated reform proceedings. According to von Greyerz (1984)[100], it took the appointment of one expert and two company law reform committees as well as two consultation procedures before the Federal Council eventually could submit a draft law to Parliament in 1983. Nevertheless, it was already clear at that time that the reform process would last for at least five more years. The draft law foresaw various improvements such as the presentation of annual accounts, stricter rules on consolidation and the spelling out of the most important generally accepted accounting principles and particularly emphasized the principles of clarity, materiality, consistency and the prohibition of netting (von Greyerz, 1984). One of the most controversial points was related to hidden reserves. Before the reform was passed, which eventually was the case on 4 October 1991, and its enactment on 1 July 1992, companies were explicitly allowed by law (OR art. 663 (2)) to form and dissolve hidden reserves for the course of business and even for the distribution of dividends. While auditors had to be informed of the change of hidden reserves, shareholders did not possess this right. Put differently, companies were given the discretion to manipulate profits and losses so

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[99] The Swiss Code of Obligations dates back to 1882 and was revised in 1936 (Helbling, 2006).

[100] Prof. Dr. Christoph von Greyerz was the Chairman of the Committee in charge of revising the company law at that time. He also was a member of the Commission (Zünd, 1985).

that reported financial data were of limited informational value. However, the new draft law on hidden reserves still allowed for its formation, if it was in the interest of all shareholders and justified by consideration of "particular" prudence.

> "It seems to be clear to everybody that the present permissive rule on hidden reserves must be abolished but cannot — under the political circumstances — be replaced by a straightforward prohibition. We must therefore look for a compromise. At first the experts proposed to indicating the amount of hidden reserves formed or dissolved in any one year as a lump sum in the director's report. Consultation with political parties, economic associations showed that even this was regarded as too bold a step. The second expert commission found a new compromise between that compromise and the present state of the law. A further step back is not possible." von Greyerz (1984, p. 87)

The above statement presumably is a good reflection of the zeitgeist in the 1980s, when Swiss GAAP FER was founded. In view of the outlined political situation, developing meaningful accounting rules and practices in a legislative way would have been a losing battle. Of course, there were good reasons why circumstances were that way. The capital market did not play such an important role for Swiss companies because equity financing was not as common as in the US. In 1983, only about 180 securities of Swiss firms were listed, out of which about 140 were actively traded (Behr, 1984). If companies raised capital, then they often issued debentures through a syndicate of banks. More general, bank loans have represented the most common source of financing, as Switzerland traditionally had low interest rates. Banks obtained their required information directly from the companies and did not have to rely on published financial statements. It was not uncommon that banks were represented on the Board of Directors of companies. They were tightly connected with the Swiss economy. Noteworthy in the context of the 1980s are also the ownership structures of audit firms, because audit firms often belonged to banks. However, independence requirements (as, e.g., stipulated in the 8th EC directive in 1984) and growing globalization made it necessary for Swiss audit firms to seek a stronger integration into their international partnership structures. ATAG (Allgemeine Treuhand AG, the predecessor organization of Ernst & Young Switzerland) launched a first management buyout in 1958 from the Schweizerische Bankverein[101] and completed it in 1981. Fides Management (predecessor of KPMG AG) bought the audit business from the Schweizerische Kreditanstalt[102] in 1981 and acquired the other fiduciary companies in 1992. Revisuisse became independent of the Schweizerischen Bankgesellschaft and Winterthur Insurance in 1989. STG (Schweizerische Treuhandgesellschaft) belonged to the Schweizerischen Bankverein and completed a management buyout in 1991 (Helbling, 2006). Both companies ended up with PricewaterhouseCoopers AG after the merger of Revisuisse Price

[101] In June 1998, the Schweizerische Bankgesellschaft (SBG) and the Schweizerische Bankverein (SBV) merged to become UBS (Union Bank of Switzerland).

[102] The Schweizerische Kreditanstalt came to be known as Credit Suisse from 2006 onward.

Waterhouse und STG Coopers & Lybrand was approved by the Swiss Competition Commission in 1998. These interconnections need to be kept in mind when considering the decision of the founder of Swiss GAAP FER to establish an independent foundation and base the composition on a broad representation of interests.

Unsurprisingly, the broad scope of action in terms of financial reporting resulted in wide heterogeneity on the degree of transparency. Some Swiss multinational companies exceeded the standards set by Swiss law. A few could be considered as showcases of transparent financial reporting of that time and their financial reporting was more comparable to international standards (Behr, 1984). Several large groups with billion franc turnover only published consolidated sales figures or orders in books but did not disclose consolidated accounts. Behr (1984) listed Brown Boveri and Elektrowatt[103] as examples:

> "If one comes down to private groups, overall judgment of accounting and reporting becomes rather embarrassing. Take Bühler Uzwil or the Hesta Group, both ranking in the top 20 in Swiss industry: Neither company publishes consolidated statements. Even the statements of the parent company are not very detailed and do not contain acceptable disclosure." Behr (1984, p. 79)

- **The multitude of alternative transnational accounting standards**

Those Swiss companies that exceeded minimum accounting standards could choose from a wide variety of alternative sets of standards that they could apply or on which they could base their financial statements. Zünd (1987) listed the following sources that affected accounting practices in Switzerland: the accounting regulation within the Code of Obligation (as outlined earlier — including the proposed revisions), Swiss GAAP FER, the EC directives, International Accounting Standards by the IASC and the efforts on accounting and financial reporting by the OECD[104] and the UN. US GAAP was presumably an additional important source but was considered as quite onerous. Later, Müller and Zünd (1990) analyzed the financial statements of 216 companies with quoted shares on the stock exchange in Zurich for the financial year 1988. Only in the case of 22 companies[105] did they find evidence that the financial

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[103] Elektrowatt AG was one of the largest holding companies in Switzerland and was active in the area of electric utilities, building management, information systems and security systems. In the 1990s, its major shareholder, Credit Suisse, decided to split up the group.

[104] In 1981, the OECD issued Guidelines on Accounting and in 1983 it published the Clarifications of the Accounting Terms in OECD Guidelines (Behr, 1992).

[105] Swiss GAAP FER preparers: Prodega AG, Sprecher + Schuh Holding, Walter Rentsch Holding AG;
EC directives: Bobst AG, Elco Looser Holding AG, Georg Fischer Aktiengesellschaft, Mövenpick-Holding, Pelikan Holding AG, Phoenix Mecano AG;
IAS: Ares-Serono AG, Inspectorate International AG, Nokia-Maillefer, Société Financière de Genève, Spiro International SA, Société Internationale Pirelli SA; Tecan Holding SA;
US GAAP: Carlo Gavazzi Holding AG;

statements were fully or partially prepared in accordance with accounting standards spelled out by national or international standard-setting bodies such as FER, the EC, the FASB, the OECD or the IASC. In retrospect, this share of 10 percent was not only small but, in view of the different available alternatives, comparability of financial statements was almost impossible.

With the transposition of the EC directives into national law, times also changed for Swiss companies. The 4th EC directive rested on the true and fair view principle and stipulated requirements for the presentation of balance sheet, income statements and notes.

> "One of the results of the EC accounting directives is that everywhere in the European Community accounting has outgrown the stage in the meantime, where rules could be predominantly derived from practices, releases by audit professions or common law. Instead, the topic has been addressed by law in a comprehensive way. This is inseparably linked with the fact that the EC seeks approximation of accounting rules by legislative alignment." Niessen (1992, p. 768)

The 7th EC directive, which had to be implemented by 1990 onward, required subgroups in different EU countries to publish sub-consolidated accounts, which were subject to an audit by a qualified auditor in accordance with the 8th EC Directive. However, it needs to be noted that the EC directives represented minimum standards and that member countries had the right to impose additional requirements and were provided with options as to how certain issues could be resolved, provided that they were disclosed.

Various Swiss companies had such structures in place in Germany that required the publication of sub-consolidated accounts. To circumvent the requirement to publish sub-consolidated accounts in different countries, the parent company could issue a consolidated group statements in accordance with EC directives or equivalent accounting standards. Unsurprisingly, Swiss GAAP FER strived for recognition as an equivalent accounting standard in the interest of its constituents. These developments also push the Swiss Stock Exchange toward the end of the 1980s to improve transparency and overall quality of financial reporting.

Organizational structure and accounting standards

The Foundation FER was registered at the Commercial Office on 20 March 1984. Much of the organizational setup as it is still in place today dates back to the founding period in the early 1980s. The founder, André Zünd (1985), published in 1985 the structure of FER consisting of a Board of Foundation, the Commission, an Executive Committee, Observers as well as a Technical Secretary, which was appointed by a large audit firm. The initial Board of Foundation comprised Prof. Dr. Otto Kaufmann

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OECD guidelines: Asea Brown Boveri, Ciba Geigy AG; Gebrüder Sulzer, F. Hoffmann-La Roche & Co Aktiengesellschaft, Holzstoff Holding AG (former president of the Swiss Federal Supreme Court), Prof. Dr. Alain Hirsch (University of Geneva) and Prof. Dr. Arthur Meier-Hayoz (University of Zurich). As of 1 January 1990, the former Federal Councilor Alphons Egli superseded as president of the Board of Foundation Prof. Dr. Kaufmann, who retired. At the same date, Prof. Dr. Hirsch resigned, as he took over new tasks at the Swiss Stock Exchange, due to independence considerations. His successor in the Board of the Foundation was Prof. Pierre Tercier (president of the Cartel Commission). As of 29 December 1990, Prof. Dr. G. Behr as appointed as vice-president of the Commission. Eventually, he superseded Prof. Dr. André Zünd (founder) as president of the Commission as of 1992, when Zünd resigned after eight years of intense work.

The Commission comprises a maximum number of 25 members as set out in the Organizational Regulations. Members of the Commission are appointed ad personam. In 1985, 22 seats of the Commission were taken. Of note is the composition of the Commission at that time: The largest group with six members were university professors teaching in St. Gallen, Basel, Zurich, Bern, Fribourg and Lausanne. The five representatives from preparers exclusively involved large groups (Hoffmann-La Roche & Co, Nestlé SA, Oerlikon-Bührle Holding AG, Zürich Versicherungs-Gesellschaft and Hesta Group). Four came from professional associations representing interests of employers, employees, industry and commerce as well private corporations. Large banks were represented by two members. Surprisingly, only two members were from audit firms and one member represented analysts. One member came from the Swiss Stock Exchange and another one from media. Already in the founding period, geographical representation was important. Four of the 22 members were from the French-speaking part of Switzerland. The first Technical Secretary, Peter Bertschinger, came from KMG Fides Revison and was superseded by Ancillo Canepa from ATAG/Ernst & Young by 1 July 1987. In 1985, Swiss GAAP FER started with three observer organizations: the Federal Tax Administration, the Federal Office of Justice and the Federal Banking Commission. Later, the Federal Office of Foreign Trade also joined. In 1992, the Board of Foundation approved the addition of the Cantonal Department for Employee Benefits and Foundation supervision to the list of observers because it considered it as valuable for future projects. Background was a request by a former representative of the Federal Office of Justice, who changed positions and wished to continue to assume the role of an observer (source: 11th Meeting of the Board of Foundation dated 2 December 1992). The administration was assumed by the Swiss Institute of Certified Accountants, and the director participated at the meetings of the Commission as well.

Concerning accounting standards, FER enacted the first 9 standards. Beside basic accounting principles, it mainly concentrated on rules for consolidated accounts. It must be noted that, in its early days, FER referred to its standards as accounting and reporting recommendations, taking into account the non-binding nature of rules defined by private organizations. The term accounting and reporting recommendations was used in the English version of the brochure until 2000. However, I will refer to accounting standards as FER in this section to avoid potential confusion with other abbreviations. The first standards were published and sold in a small folder and were from inception available in German, French, Italian and English.

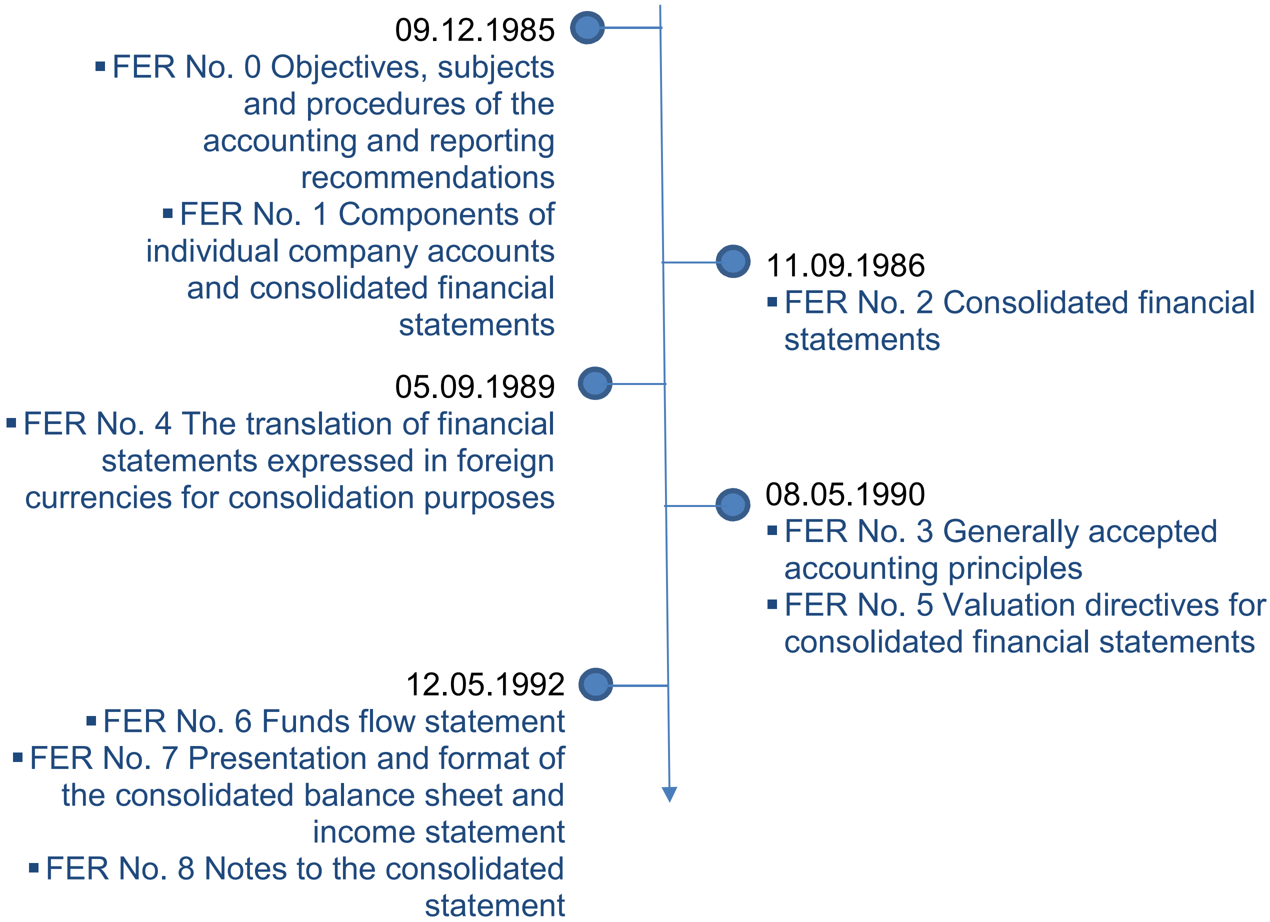

Figure 4: Enactment of new accounting standards from 1984 until 2002

Actors and actions

To gain legitimacy for a newly established accounting standard-setter was a difficult task and required significant proactive efforts by different actors. The founder was not only renowned for his technical expertise but also strongly networked at home and abroad. The same was true for the rest of the founding team and other members of the different FER bodies. This section narrates the historic developments along the different identified legitimacy work forms.

- **Constructing identities: Commitment to best practice**

To improve accounting in Switzerland, the founder knew that he had to blaze new trails.

> "As from the dispatch on the corporate law of 23 February 1983 it became clear that the proposals by the Federal Council concerning accounting will limit themselves to minimum requirements, the Swiss Institute of Certified Accountants took the initiative to establish an independent institution as it is primarily encountered in Anglo-Saxon countries." Zünd (1991, p. 88)

Due to his personal network and research activities, he had established good personal relations with representatives at other standard-setting bodies such as in the US. In 1991, Prof. Dr. André Zünd was the first foreigner to be appointed vice-president of the American Accounting Association (source: 17th Meeting of the Commission dated 14 May 1991). Self-regulation was in the Swiss economy quite common (Behr, 1984) and finding consensus decisions deeply rooted in cultural and historic practices.

> "Nothing would have been possible through legislation. There would have been only lawyers involved. Therefore, I thought that the American way was the right one, where people from practice assumed responsibility and the state had practically no say. I participated in numerous meetings and thought this is a good thing. I considered it as very close to our own mentality to listen to all voices and discuss the matter. If discrepancies arose, consensus should be reached to which all participants can give their assent. In principle, that is typically Swiss." Zünd

The establishment of a foundation was important to signal independence and to obtain the buy-in of different stakeholder groups. Nevertheless, the proximity to the Swiss Institute of Certified Accountants and Tax Consultants was undeniable, because it contributed the initial starting capital, provided the required infrastructure and assumed administrative back-office tasks until 2015.

> "It was the idea of André Zünd. I said that we do not have to establish such a large organization. We just issue standards and that's it. André convinced me that things did not go as quickly and simply. He told me that things had to slowly evolve. Then, we determined the next steps. We established a foundation. The fact that we had to establish a foundation reflected the political situation."
>
> Former Member of the Commission

The initial founding team considered the proximity to the Swiss Institute of Certified Accountants and Tax Consultants (which came to be known as EXPERTsuisse in 2015) as a governance issue and obstacle to gaining further acceptance by important stakeholder groups. Thus, the broad representation of the Commission and its independence from the Swiss Institute of Certified Accounts and Tax Consultants was continuously emphasized to reaffirm its own identity as independent private standard-setter.

> "André as well his successors were presidents of EXPERTsuisse and recognized that there was an independence issue. Why? EXPERTsuisse represented a professional association." Former Member of the Commission

Nevertheless, when looking at the different time periods, the organization and its actors interpreted it in various ways and thus emphasized different aspects:

> "The mandate of the Commission is to develop accounting recommendations that take into consideration Swiss circumstances and set out for companies viable ways to harmonize accounting, improve the comparability and generally to lift the quality of accounting in Switzerland up to an international level." Zünd (1991, p. 88)

In the early days, FER's objective was to fill the legislative vacuum, especially for larger Swiss companies that wished to increase the quality and transparency of financial reporting on a voluntary basis. The FER as accounting standards were deliberately labeled as recommendations[106] with the hope that gradually over time they would obtain judicial and legislative recognition and be required by banks and stock exchanges (Zünd, 1985).

> "The Commission is a private organization without regulatory power. Therefore, it is not in the position to set legally binding norms but it rather issues recommendations. Non-compliance to accounting and reporting recommendations does not give rise to any legal consequences. Deducing thereof that recommendations are entirely non-binding and are only platonic confessions of a club of utopians is wrong to think. The recommendations have in the case of their acceptance the socially binding character of 'soft law', similar to codes of conduct and a gentlemen's agreement." Zünd (1985, p. 254)

As it happens, the founder will be proved right that FER would considerably impact accounting practices in Switzerland and highly determine what is acceptable and thus what is not.

What is also striking, when analyzing the early days of FER, is its external appearance. It successfully reached out to both the international and national trade press through press releases and articles. Members of the Executive Committee split up and wrote different articles and press releases to be dispatched to different media representatives. The Commission took note of the favorable reports on its work in the national financial press such as the NZZ, Handelszeitung and Finanz und Wirtschaft but also in The Wall Street Journal, the World Accounting Report and the International Accounting Bulletin (source: 5th Meeting of the Commission dated 9 December 1985). This broad media response can probably also be ascribed to the renowned reputation and personal network of some involved actors on behalf of FER. In later phases, FER stopped reaching out to international media.

[106] The early English translation of Swiss GAAP FER was Swiss Accounting and Reporting Recommendations.

Particularly in national published articles, the composition of the FER bodies was published numerous times (Canepa, 1989, 1990; Zünd, 1985), and the list of members, with organizational affiliation, reads like a “Who’s Who” of the Swiss accounting world at that time. It is obvious that FER as a newly created organization derived its legitimacy, its credibility and its regulatory power mainly from its members. It was the appeal and charisma of the actors that provided the newly created organization with legitimacy, authority and credibility. All of them had already enjoyed an impressive professional career and held eminent positions in different important institutions. They were highly respected experts and personalities in their respective fields of activity.

> “You did not have to lobby with journalists. They said that if this expert is involved, then that is perfect.” Former Member of the Commission

However, FER reached its objective to positively influence national accounting practices and was taken as a reference point for discussion. However, it was only in the subsequent period that the real breakthrough came.

> “One may regret that only relatively few companies have yet based their accounts on FER. Indeed, the recognition of the Commission has been low yet. However, more and more companies express in their financial statements the conformity to FER.” Zünd (1991, p. 90)

- **Advocacy: Establishing the basis for a recognition at the Swiss Stock Exchange**

The publishing activities as outlined in the previous section also represent advocacy work and, for duplication reasons, I will not expand on them further. Furthermore, the members of the Commission and observers lobbied for the adoption of the FER within their organizations, during the seminars they hosted and within their personal networks. The proximity to the Swiss Institute of Certified Accountants and Tax Consultants certainly also contributed to the acceptance of the standards among audit professionals. Having said that, I will concentrate on more macro-level efforts, since they proved to be of utmost importance for the legitimacy and diffusion of FER in subsequent periods.

The Commission noted that the 7th EC directive required certain Swiss multinationals to prepare partial consolidated accounts and that this requirement could be relieved if equivalent group consolidated financial statements were prepared. The Commission supported the idea to seek recognition by the EC for equivalence of financial statements prepared in accordance with FER. Thus, it signaled willingness to support potential negotiations to the federal authorities who were in charge of the discussions with the European Community. The Commission sought advice from a representative of the EC Commission, who recommended to quickly engage in the process as the recognition criteria had not been finally determined (source: 3rd Meeting of the

Commission, dated 8 January 1985). Various discussions took place on different issues without tangible results. Close interactions with the EC and representatives are also evidenced in articles on the alignment of EC directives written by Hermann Niessen, representative of the EC Commission, and by Dr. Karel Van Hulle, Principal Administrator of the EC Commission (Niessen, 1992; Van Hulle, 1992).

> "I hope that Switzerland soon can actively participate at our EC activities on accounting. How that shall happen and when, is eventually to be determined by Switzerland itself." Van Hulle (1992, p. 155)

On a national level, FER knew that recognition by the Swiss Stock Exchange would provide it with new momentum and could contribute to its final breakthrough:

> "We had to pay attention that Swiss GAAP FER became recognized by the Swiss Stock Exchange. The Swiss Stock Exchange as well as politicians — there were plenty of those — said that, if the standard-setting was directly done by EXPERTsuisse, then it represented a lobbying group and setting standards was done only for for-profit considerations." Former Member of the Commission

> "The FER recommendations target at all companies. However, their application is voluntary. In future, they should be declared to be binding for listed companies."
> Zünd (1991, p. 90)

> "In any case, the opportunity to improve the accounting of listed companies through a reorganization of the stock market shall not be missed. In this way, the weaknesses of the company law reform could be reasonably well corrected without the necessity to touch the politically sensitive company law."
> Zünd (1991, p. 90)

In 1990, FER had the opportunity to submit an offer to the Swiss Stock Exchange on the development of EC compliant accounting rules (source: 31st Meeting of the Executive Committee dated 4 April 1990). Independently of the acceptance of the offer, FER decided to launch a project to analyze differences between EC directives and FER and to agree on a potential alignment. A working group was formed of four members of the Executive Committee. The Executive Committee noted that the idea of having two different segments of listed companies at the Swiss Stock Exchange appeared popular, of which one would have to prepare EC or IAS compliant annual statements and the other could rely on the existing FER. The founder agreed to get in touch with the responsible authorities at the EC to discuss the outlined plan (source: 32nd Executive Meeting dated 15 June 1990). Finally, the working group at FER received the order and developed a concept by March 1991. The bodies of FER debated on the way forward. The idea to issue a separate EC equivalence recommendation to address potential gaps was dismissed. The Executive Committee was convinced that FER 1 to 8 represented a sufficient comprehensive framework to address all important aspects (source: 34th Meeting of the Executive Committee dated 9 April 1991). The concept developed by FER found wide approval with the Swiss Stock Exchange and its stakeholders and was subject to a consultation process, resulting in around 100 opinions. Thus, the representatives of the working group were confident to also receive a follow-up order to define more concrete guidelines (source: 35th Meeting of the Executive Committee dated 8 July 1991). In 1992, FER considered it as very likely that political authorities would integrate FER 1 to 8 as minimum requirements for listed companies with the listing requirements (source: 19th Meeting of the Commission dated 12 May 1992).

The prospect of receiving recognition by the Swiss Stock Exchange and in view of the equivalence discussions, FER also accelerated with the issuance of new standards.

> "Together with the existing FER recommendations No. 1-5 and the now presented drafts on FER No. 6, 7 and 8, FER will take a significant step forward to a modern and transparent consolidated accounting. Except for few punctual and to be revised exceptions (particularly with FER No. 2 Consolidated Financial Statements), Switzerland would thereby have an EC equivalent concept on consolidated accounts in place. " Canepa (1991, p. 687)

In 1990, working groups started elaborating first drafts on FER No. 6 Funds flow statement, FER No. 7 Presentation and format of the consolidated balance sheet and income statement and FER No. 8 Notes to the consolidated financial statements. Regarding the funds flow statement, the Commission agreed not to include illustrative examples into their accounting standards and noted that the planned rules were not addressed by the EC directives, but that they nevertheless reflected other international standards such as the IAS or US GAAP (Canepa, 1991). However, concerning a rule in the draft of FER No. 8 requiring the disclosure of operating profits on segments, the Commission was unsure and decided to have it addressed during consultation. The three new standards were approved for consultation in September 1991 (source: 18th Meeting of the Commission dated 26 September 1991) and eventually enacted in May 1992 (source: 19th Meeting of the Commission dated 12 May 1992). Because of responses from the consultation, the Commission dropped the original draft rule on segment reporting and only required a disclosure of net sales of goods and services by geographical market and business sectors (FER No. 8.3).

- **Convening: As foundation work**

> "You had to establish a basis. That was André Zünd's genius. He correctly read the signs of the times. By the way, he wrote his habilitation on Roche on corporate monitoring. He was brilliant. He knew exactly how things functioned in the transnational realm and how they had to be shaped to be accepted. Every single politician had to be convinced." Former Member of the Commission

The general composition of the Commission has been broad from inception and is a perfect example of co-opting influential stakeholders into FER bodies, engaging leading technical experts, integrating representatives from different Swiss language regions and mobilizing support and acceptance. In other words, the composition of FER from the very beginning aimed at establishing input legitimacy by ensuring broad participation to establish congruence between affectedness and voice in decision-making. This characteristic was emphasized publicly and differentiated FER from law commentaries and statements in the audit manual, which were considered as one-sided expressions of will (Zünd, 1985). The following quotation reflects the definition and understanding of stakeholder groups in terms of accounting for FER:

> "The developments abroad point into the direction to broaden standard-setting institutions beyond the involvement of audit professionals. More and more, the awareness rises for the wide-ranging interests in respect to accounting; because financial reporting is of interest not only to auditors but also to owners, management, employees, lenders, customers and creditors, financial analysts and business journalists, consumers, tax authorities, the broader public, etc."
>
> Zünd (1985, p. 253)

During the discussion on the composition of the Commission, the Executive Committee realized that financial analysts and the insurance sector were not represented. So, it agreed to recruit a representative of financial analysts and an insurance representative into the Commission (source: 1st Meeting of the Executive Committee dated 18 January 1984).

> "And therefore, I tried to root the organization on broad consensus. I asked many eligible persons to participate. A high versatility of the Commission was important. Though it was not always clear. There were many economists involved, but they covered different areas. It was strange for some lawyers that laypersons interfered with legal questions, because they were not used to it. I primarily wanted lawyers to ensure that the wordings of the standards were legally perfect." Zünd

The founding team did not have to actively recruit all members because, as the plan was spread by word of mouth that a new institution was about to be created, some organizations considered it beneficial to participate in this "new experiment". Examples include the Federation of Trade Unions and the lawyer association that showed interest in participating in private accounting standard-setting even though accounting issues seldom represented court issues[107] and thus court decisions hardly influenced accounting practice (source: 1st Meeting of the Commission dated 6 April 1984).

However, co-opting stakeholders was also used to reduce criticism and increase legitimacy. In its first meeting on 9 December 1985, the Board of Foundation decided to seek to integrate a member of the Industrie-Holding, which fiercely opposed the activities of FER, and to also look for a representative from the Italian-speaking part of Switzerland. Up to that point, the members represented mainly the German and French-speaking parts of Switzerland.

[107] The importance of accounting issues in outside court consulting activities rose over time. In parallel, the professionalization into economy lawyer proceeded and represented an own branch.

Moreover, the availability of the accounting standards in four different languages not only reflected FER's international orientation in the early days, but it also fostered the acceptance of the accounting standards in the French- and Italian-speaking parts of Switzerland. The buy-in of the different language regions was important from the very start. The founder and various other members of the Commission were bilingual.

> "From the very beginning, the accounting standards were published in four languages. We had great people in the Commission, who fluently spoke English and French. As a result, you could simply hand over the brochure to Americans and Indians and tell them how it works. That was ingenious and has continued to be so until today. The brochure gradually became thicker. The availability in different languages supported the development and diffusion of the Swiss GAAP FER." Former Member of the Commission

Although the composition of the Commission was based on the premise of broad representation, the founding team around Prof. Dr. Zünd was reluctant to co-opt politicians into FER's bodies. They wanted to avoid politically motivated interferences, which could eventually undermine the legitimacy derived from technical superiority and instead foster the undesired law-dominated perspective on practical issues. Nevertheless, the issuance of accounting standards represented a regulatory activity for which political acceptance in Switzerland was crucial:

> "We acknowledged that our recognition was dependent on political acceptance. We could not integrate politicians into the Commission. That would not have gone well." Former Member of the Commission

As a result, regulatory authorities were invited to participate in the standard-setting processes as observers, giving them a voice in discussions but excluding them from voting.

Despite the broad composition of the Commission, FER started to hire external experts for its working groups and integrated actors beyond the organization on a flexible basis:

> "The development and presentation of FER 4 is different from the so-far issued recommendations in two regards: Firstly, only a single issue of the annual accounts is addressed in a very detailed way by FER 4, and secondly, for the first time there was a working group established that mainly consisted of non-FER members." Canepa (1989, p. 12)

FER No. 4 The translation of financial statements expressed in foreign currencies for consolidation purposes was not controversially discussed. Certainly, the fact that it outlined four different eligible conversion methods, which had to be consistently applied, contributed to the acceptance. It was released for consultation by the end of

1988 and enacted in 1989 (source: 14th Meeting of the Commission dated 5 September 1989).

To further foster the alignment with international accounting rules, FER established a working group on FER No. 5 Valuation directives for consolidated financial statements. Again, the working group was mostly comprised of external experts and dealt with consolidated accounts. As a result of the discussions in the Commission, the working group had to delete a rule on the disclosure of provisions because it would have "impeded" the dissolution of hidden reserves. Apart from this amendment, the draft was approved for consultation (source: 14th Meeting of the Commission dated 5 September 1989). As there were no major objections in the consultation, the Commission enacted FER No. 5 in 1990 (source: 15th Meeting of the Commission dated 8 May 1990).

- **Educating: First steps**

In the realm of education, evidence for numerous individual efforts can be found. In particular, the founder hosted several seminars and training events on FER-related topics during the period. At the same, other members were quite active and acted as speakers at various events. These activities were not done on behalf of FER as a standard-setting organization but privately or within the framework of different employment. Nevertheless, FER as a set of accounting standards and as standard-setting organization both benefited from these activities. The involvement of academia and the education sector contributed to the recognition, acceptance and diffusion of the FER.

> "And the founder integrated the professors from western Switzerland. The university offers a great leverage: You teach students, you supervise master's and doctoral theses about Swiss GAAP FER, etc. It is a sure-fire success. Later, previous students apply the standards in practice."
>
> Former Member of the Commission.

The high number of university professors within the Commission and the Board of Foundations resulted in a proximity to students and executives participating at trainings. A new generation of young talents learned about the benefits and requirements of a more transparent financial reporting. These efforts involved different locations in Switzerland. The following activities serve as illustrative examples:

- In 1986, two different seminars for executives on standard-setting and balance sheet analysis were hosted at the University of St.Gallen. Various members of the Commission acted as speakers (source: 8th Meeting of the Commission dated 12 December 1986).
- In 1989, two well-attended events on FER No. 3 Generally accepted accounting principles took place in Zurich and Lausanne, on which Prof. Dr. Zünd even issued a publication in 1990 (source: 15th Meeting of the Commission dated 8 May 1990).

These events were organized by the University of St.Gallen in close cooperation with the Swiss Institute of Certified Accountants and Tax Consultants.

- In 1990, FER also hosted a special seminar for journalists in Zurich. The idea was to increase the recognition of FER (source: 15th Meeting of the Commission dated 8 May 1990).

- **Negotiating: The need to overcome fierce resistance**

In terms of its work program, the Commission was aware that defining generally accepted accounting principles would have been the logical starting point for a newly created set of accounting standards. Nevertheless, it decided to first address less complex and less controversial issues, such as the definitions of components of financial statements (both for individual company accounts as well as for groups) and the definition of rules for consolidated financial statements.

> "Simpler topics of concern were preferred — probably rightly from today's point of view, because gnawing at a single bone for years had to be avoided, given that others had already found them a hard nut to crack. This approach enabled the Committee and Executive Committee to become operational from a group dynamic perspective and to quickly provide a sense of achievement that had a motivating effect on all persons involved. Moreover, public expectations could be met in a timely manner." Zünd (1985, p. 254)

The Commission had consensus that it did not intend to issue a flood of different accounting recommendations/standards but really wanted to focus on the most important accounting questions and publicly confirmed this intention (Zünd, 1985). FER has remained faithful to that principle — even more than 30 years later.

To ensure that decisions were also made on the basis of a broad consensus, the Commission defined decision rules in its provisional Organizational Regulation[108], which was enacted at the 1st Meeting of the Commission on 6 April 1984. Accounting recommendations (standards) could be approved, changed or abolished by a two-thirds majority vote of all members. However, the same decision could also be made by three-quarters of the voters present, if the voters present represented at least two-thirds of all members. Decisions by the Executive Committee had to be reached in consensus.

The initial drafts for the first accounting recommendations outlining accounting fundamentals and rules on consolidation[109] were developed by working groups,

[108] The Commission classified the Organizational Regulation, outlining objectives and responsibilities of the different FER bodies, as provisional as it intended to revise the document after gaining some experience with it over time.

[109] These involved FER No. 0 Objectives, subjects and procedures of the accounting and reporting recommendations, FER No. 1 Components of individual company accounts and consolidated financial statements, FER No. 2 Consolidated financial statements and FER No. 3 Generally accepted accounting principles.

which were formed exclusively of members of the Executive Committee. Other members of the Commission did not volunteer to participate in the early work (source: 2nd Meeting of the Executive Committee, dated 17 April 1984). Nevertheless, the majority of the other members of the Commission provided written opinions on the drafts, which were circulated and discussed in the Commission's meetings. All drafts were approved by the Commission prior to their release and publication for public consultation. Particularly in the first few years, the workload for the Executive Committee was high, given that they worked on an honorary basis. In addition to working group meetings, they met eight times in 1984.

> "My first task at Swiss GAAP FER was to develop a standard on consolidated financial statements. We argued that the lack of transparency at Swiss multinational companies was only a symptom. During my work as an auditor, I realized that the carrying amount for participations of CHF 1, which was reported by certain companies, represented the face value of numerous subsidiaries that were not consolidated. Therefore, the most important task to implement the true and fair view principle was to issue reporting standards for consolidated financial accounts. That represented common ground. In the early '80s, companies did not have any interest in detailed disclosures or transparency. Everything was tax-driven."
> Former Member of the Commission

However, FER No. 2 can be considered as a first rather hesitant step in the direction of defining accounting rules for consolidated accounts. In its early days, FER aimed at providing the surest possible view into the financial situation. In essence, FER No. 2 defined basic elements of consolidated financial statements, favored the full consolidation method and required a uniform application of consolidation principles as well as the disclosure of the principle of consolidation.

> "Thus, the accounting and reporting recommendation does not anticipate legislators in any way because it does not deal with the duty to consolidate but primarily goes into detail on procedural matters that legislators only marginally address."
> Schultz (1988, p. 166)

> "With the establishment of an accounting standard for consolidated financial accounts, we faced a different problem: deferred taxes. However, most people did not realize that the deferred tax position represented about a third of the difference between the carrying amount of CHF 1 and the market value."
> Former Member of the Commission

In autumn of 1985, the public consultation of the first three accounting recommendations (FER No. 0-FER No. 2) took place[110]. Only five opinions were obtained. FER 0 and 1 were approved in the same year (source: 5th Meeting of the Commission dated 9 December 1985). In 1986, FER No. 2 was also enacted (source: 7th Meeting of the Commission dated 11 September 1986).

[110] The drafts on FER No. 0 and FER No. 1 had previously already been approved but then reconsidered.

Despite the prudent approach by the Commission in terms of new regulation (and presumably due to lack of legitimacy), a considerable dispute with the Industrie-Holding[111] could not be prevented. Members of the Industrie-Holding included the 12 largest Swiss multinationals such as Nestlé, Ciba-Geigy and Elektrowatt. FER came to know that the large industrial groups opposed an increase in regulatory density. Large multinationals did not see themselves as beneficiaries of new regulations. They saw advantages for banks because of increased transparency and for audit companies, which could offer more services. Also, medium-sized companies benefited from the know-how transfer (source: 23rd Meeting of the Executive Committee dated 1 June 1987).

Nevertheless, the majority of the Commission and also the founder in particular wished to confer upon the newly created accounting recommendation a more binding character. Thus, the idea came up to introduce a “seal of approval” where auditors confirmed that an annual financial statement was prepared in accordance with Swiss GAAP FER as part of FER No. 0 Objectives, Subjects and Procedures of the Accounting and Reporting Recommendations.

> “The Executive Committee will elaborate a draft in cooperation with the Commission of Audit Practice of the Swiss Institute of Certified Accountants and Tax Consultants. It is about a declaration that the annual financial statement agrees with the accounting recommendations. This declaration is to be acknowledged by auditors.” Zünd (1985, p. 254)

Industrie-Holding regarded the introduction of a seal of approval as entirely unacceptable.

> “They perceived it as encroachment on their autonomy. There were endless discussions.” Zünd

The result was a debate at the end of 1987 between the Executive Committee and representatives of Industrie-Holding. According to Industrie-Holding, the planned “seal of approval” would result in unnecessary social pressure on companies to adopt Swiss GAAP FER, which would lose their voluntary character as a result. Moreover, Industrie-Holding did not consider it appropriate for FER to introduce soft law; in its view, FER did not possess the legitimacy to act as standard-setting body and anticipate law (source: 11th Meeting of the Commission dated 1 December 1987). Finally, Industrie-Holding wished for stronger representation as it criticized FER for its proximity to the Swiss Institute of Certified Accountants and Tax Consultants. The Board of Foundation of FER noted the criticism but did not react. It feared adverse implications of potential concessions on the independence of the standard-setting organization and the overall objectives of FER that could potentially be undermined (source: 5th Meeting of the Board of Foundation dated 1 December 1987). Eventually,

[111] Today, Industrie-Holding is known as SwissHoldings (Federation of Industrial and Service Groups in Switzerland).

in 1988, FER considered the dispute with Industrie-Holding as settled (source: 6th Meeting of the Board of Foundation dated 2 December 1988).

However, on a concept level, negotiation was necessary. Introducing "best practices" from abroad was often time-consuming and cumbersome, because actors and stakeholders rooted in the traditional world had to be convinced and not seldomly were reluctant to adopt changes. Alone, the term transparency was defined and interpreted in so many ways. Actors needed to engage in discussions and agree on a more or less common understanding. Since the principle of prudence and creditor protection dominated the thinking for decades, it required a substantial change of mindset, which was gradually achieved through lengthy and persistent discussions and negotiations with representatives of different stakeholder groups.

> "The majority was against the true and fair view, because they considered it as too ambiguous a term. It did not clearly stipulate which elements you needed to disclose, but it had to be true within the meaning of truthful and fair. Lawyers were not familiar with this way of thinking. They did not ask: 'true' and 'fair' but 'yes' or 'no', 'permitted' or 'not permitted'. Over the course of time, as there was also progress in the company law, the true and fair view idea prevailed." Zünd

In the first years, the use of the term "true and fair view principle" was controversial. This controversy became apparent even at the end of the phase. In 1992, a member insisted on policing communication and asked the Technical Secretary to avoid publicly using the term "group accounts based on the true and fair view principle", although the conversion to the true and fair view principle already was agreed on and it was just a matter of time until it was emphasized in external communications (source: 41st Meeting of the Executive Committee dated 2 December 1992).

In addition, turning away from the concept of hidden reserves required a major shift in norms, as the principle of prudence for creditor protection reasons dominated financial reporting (and continues to do so for tax reporting purposes even now).

> "It took a lot of effort to get rid of hidden reserves. There was always the fear of revealing far too much if 'everything' was disclosed. However, not 'everything' had to be revealed though it may not be incorrect … but there was much debate. As time went by, people like Prof. 'X' cleared up the old thinking. Thus, initially, it played a role but later not." Zünd

Another project that involved a significant amount of negotiation was the development of FER No. 3 Generally accepted accounting principles. Thereby, the treatment of hidden reserves was a heavily discussed topic. The initial drafts proposed by the working group foresaw an explicit mention and disclosure of dissolved hidden reserves (if material). Finally, the Commission abandoned the usage of the term hidden reserves and also did not include an indirect definition. Instead, it used more generic language, but resourceful readers understood the message that, in case of material dissolution of hidden reserves, this circumstance had to be disclosed (source: 10th Meeting of the Commission dated 3 September 1987). Eventually, the Commission discussed the 13th draft of FER No. 3, amended it again and subsequently unanimously approved it for consultation by the end of 1987 (source: 11th Meeting of the Commission dated 1 December 1987). The consultation only resulted in five opinions and led to minor improvements. Nevertheless, the Commission was reluctant to enact it. It faced the dilemma of wearing “two hats” — one of the standard-setter and one of the preparers, who wanted to wait until there was more clarity on the changes of the company law. Thus, it approved the content of FER 3 and agreed to enact it later, as the immediate enactment was not supported by a qualified majority of the members. Furthermore, the content of FER 3 should be first made known to a broader public (source: 12th Meeting of the Commission dated 6 September 1988). In 1990, the Commission eventually decided to enact FER 3, as it no longer expected any friction regarding the company law (source: 15th Meeting of the Commission dated 8 May 1990).

- **Mimicking: Imitating best practices**

> “I did my CPA in the US [in the early 1980s]. The CPA provided me with mileage during my whole professional career.” Former Member of the Commission

Both in terms of the organizational setup as well as in terms of the content of accounting standards, the actors within FER took foreign accounting standard-setters as an example. Particularly, the FASB and US GAAP were considered best practice at that time.

> “The Swiss Institute of Certified Accountants considered 1983 as the right point in time to take the initiative and create an independent Commission for accounting standards. Although the concept was inspired by the American FASB, a typical Swiss solution was sought.” Zünd (1985, p. 253)

> “However, the Americans already had it in place: a Commission that was regularly opened to include additional people for special questions. The Commission was very flexible and had a good reputation. For Switzerland, I had something similar in mind. And it took a lot of effort until we found a solution that was reasonable … also today in place.” Zünd

FER did not make a secret of the orientation toward other standard-setters and standards; in fact, it openly acknowledged the fact – even in its standards.

> “From inception, the accounting and reporting recommendations were developed with a look abroad. This is not only proven by the fact that foreign, international accepted know-how is integrated into the accounting and reporting recommendations but also by the fact that accounting and reporting recommendations are issued in four languages, of which three represent official languages of Switzerland, in addition to English. Thereby, the accounting and

reporting recommendations shall serve as a means of communication with foreign experts. Therefore, they are deliberately exposed to critics in the international realm." Zünd (1991, p. 89)

The international orientation was also stipulated in the accounting standards. According to FER 0.4, the purpose of the recommendations was to improve the quality and comparability of individual company accounts as well as consolidated financial statements and to make them equivalent to the requirements of international accounting standards. As equivalence to EC standards was desired, it was clear that during the creation of a new accounting standard an analysis was done on respective EC directives as well as on US GAAP. Also, in matters of work program and prioritization of topics, developments with other standard-setters were considered. For example, the Executive Committee compiled a list of further topics to be addressed by the FER based on the status of IAS, US GAAP and OECD guidelines at the end of 1985 (source: 13th Meeting of the Executive Committee dated 23 September 1985).

- **Monitoring: Catching up with international developments**

FER monitored developments both in the national and the transnational realm. As members of the Commission wore "several hats" due to the militia organization[112], and as observers from important federal authorities participated at the meetings, monitoring the developments in the national environment was quite straightforward. Several members had their fingers on the pulse of developments within Switzerland. Thus, the emphasis of FER's monitoring activities was more strongly focused on the transnational realm in the early days. Members of FER sought to exchange experiences regarding standard-setting with other renowned standard-setting organizations. For example, the founder was invited to visit FASB in March 1985. He attended two public board hearings on pension funds and income taxes and came to know the functioning and procedures quite well. Only a month later, a delegation of the Commission attended an OECD meeting of standard-setting bodies to discuss harmonization of accounting (source: 4th Meeting of the Commission dated 26 June 1985). In May 1986, representatives of FER met with representatives from the IASC (source: 7th Meeting of the Commission dated 11 September 1986). In the same year, the founder attended another conference on standard-setting in Princeton organized by two large auditing firms, and the Technical Secretary participated at a meeting with the SEC in Washington (source 20th Meeting of the Executive Committee dated 8 September 1986). Members also attended a discussion of German accounting and reporting law following an invitation by the Association of Swiss Companies in Germany. Briefly summarized, there was a great deal of

[112] The main advantages of a militia organization are the availability of otherwise scarce resources from experienced technical experts and an efficient, lean organizational structure.

communication and exchange on the intra-organizational level in the transnational realm.

Transnationally well-connected members could report on the developments taking place outside Switzerland and bring fresh ideas to ongoing discussions and developments. In 1986, the Commission took note that a member became the Swiss representative of the Organisation Fédération Européenne des Experts Comptable in Brussels (source: 8th Meeting of the Commission dated 12 December 1986). The founder and his successor acted as Swiss representatives of the Federal Office of Foreign Trade with working groups at the OECD and the UN[113] dealing with accounting-related questions (Behr, 1992). Both organizations aimed at fostering the exchange between developed, emerging and developing countries. According to Behr (1992), main discussion points at the UN on accounting included the content of annual statements, the accounting of joint ventures, accounting-related questions around environmental protection, privatization and education in accounting. The author classified the report, e.g., on environmental protection as follows:

> "… is a treasure trove for those people who also wish to set up and extend the reporting of their companies also with ideas of environmental protection."
>
> Behr (1992, p. 407)

He considered also the participation at the OECD to be of the utmost importance due to the broad representation of countries and interests beyond the scope of private standard-setters. Particularly, the question of mutual recognition of accounting standards by stock exchanges and federal authorities of different countries could be addressed (Behr, 1992).

- **Protecting: "Walking the talk" regarding transparency**

Although accounting practices cannot be classified as transparent in the 1980s, Swiss GAAP FER as a standard-setting organization appeared very transparent under the then-prevailing circumstances. Surprisingly, it was in some questions even more transparent than in subsequent phases (including the most recent phase). The Technical Secretary, A. Canepa from ATAG/Ernst & Young, published articles accompanying the consultation drafts of: FER 4 The translation of financial statements expressed in foreign currencies for consolidation purposes (Canepa, 1989), FER 5 Valuation directives for consolidated financial statements (Canepa, 1990), FER 6 Funds flow statement, FER 7 Presentation and format of the consolidated balance sheet and income statement and FER 8 Notes to the consolidated financial statements (Canepa, 1991). In addition to providing background information and explanations of the drafts, the Technical Secretary disclosed the names and company affiliations of the subcommittee members who

[113] The Federal Office of Foreign Trade delegated a representative to the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) of the United Nations Conference on Trade and Development.

had developed the drafts. The drafts were published in German and French. The consultation phase usually lasted 60 days, but opinions received 30 days after the end of the consultation were considered as well (source: 5th Meeting of the Commission dated 9 December 1985).

> "Everyone is invited to give his opinion on FER 4 by 30 April 1989 at the latest (Address: FER, P.O. Box 892, 8025 Zurich). The Commission will respond to all opinions and consider them in the final version as far as possible."
>
> Canepa (1989, p. 14)

Nevertheless, the Commission was not satisfied with low number of opinions it received during consultation, although it appreciated the quality of the overall opinions received and the often very helpful inputs. In the consultation on FER 3, it only received five opinions. Thus, it agreed to compile a list of addresses of affected stakeholders to whom it, from 1988 onward, directly sent the draft texts on new standards and who were directly invited to participate in consultation (source: 28th Meeting of the Executive Committee dated 11 November 1988).

Upon the initiative of the Executive Committee, the Commission also addressed procedural rules that members had to apply. The Executive Committee agreed to distribute drafts on accounting rules as soon as possible and to involve members of the Commission early in the process. Members of the Commission were expected to submit their opinions on drafts prior to the meetings of the Commission — ideally in writing to allow for an efficient preparation and organization of the meeting. And finally, members of the Commission were obliged to stick to the wording of the approved draft upon release into consultation and should not require amendments after a draft was released to the public (source: 6th Meeting of the Commission dated 22 April 1986).

In terms of its own financial situation, FER can be considered as quite transparent at that time. In 1985, it decided to publish and distribute an annual report on the previous year, giving account of the work done and the financial situation (source: 3rd Meeting of the Commission dated 8 January 1985). The Swiss Institute of Certified Accountants and Tax Consultants provided the starting capital of CHF 10,000 in 1984, and the budget remained truly modest as outlined in its brochure (Swiss GAAP FER, 2014b). Given that all members of FER bodies worked in an honorary capacity, the standard-setting organization was self-supporting. It financed itself through the sale of standards and few contributions of companies. As of 31 December 1991, the Foundation reported assets of CHF 33,091 (source: 11th Meeting of the Board of Foundation dated 2 December 1992).

Finally, a small (merely cosmetic) step was taken to loosen the proximity to the Swiss Institute of Certified Accountants and Tax Consultants. By 1991, most of the administrative work was assumed by personnel of the Swiss Institute of Certified Accountants and Tax Consultants and the cooperation worked very well. To emphasize independence externally, the Executive Committee agreed to request a separate mailing address for FER.

Summary of impacts on legitimacy

- **Input legitimacy**

All stakeholders: Cognizant of the broad range of stakeholder interests on accounting issues, the founder and his team sought to representatively reflect these in the composition of the FER bodies. Not only broad professional representation of different stakeholder groups but also geographical spread (e.g., the integration of the French and Italian parts of Switzerland) played a vital role. At the same time, the founder and his team knew that they had to integrate renowned technical experts in the field with a strong public image to establish sufficient momentum to drive the envisaged changes in accounting practices, to fight upcoming resistance and to provide for the standard-setting organization as well as the standards to be developed with legitimacy in a sustainable way. The broad representation provided a solid basis. In this respect, it is noted that the content of the standards as well as the organizational setup and processes represented a fundamental break with established practices in the field, and thus a cautious and slow consensus-based approach, integrating different stakeholder groups (including regulators), was key to success.

> "All of them were outstanding. These were top professional people. I could participate in the selection process. We consulted each other: 'What do you think? This guy does not have the professional expertise, but he is useful for political reasons…'" Former Member of the Commission

Swiss Stock Exchange: Toward the end of this phase, an important cooperation between FER and the Swiss Stock Exchange was initiated. By developing and proposing a concept for accounting requirements for listed companies, FER set the groundwork for a mutually beneficial cooperation with the Swiss Stock Exchange in the subsequent period, when FER as accounting standards were defined as minimum requirements for the financial reporting of listed companies in 1996.

- **Throughput legitimacy**

All stakeholders: In the early days, FER as a standard-setting organization suffered from a lack of legitimacy and democratic underpinning. To compensate for it, it implemented quite rigorous and transparent processes and strict decision-making rules at that time. Put differently, it put in place a strong governance. Thus, it could ensure that only solutions capable of gaining majority support were enacted. Despite the organizational proximity to the Swiss Institute of Certified Accountants and Tax Consultants, it tried to balance different perspectives as much as possible and avoid any improper lobbying activities, which would have undermined its legitimacy. The Executive Committee managed to achieve significant media presence with virtually no means and proactively disclosed processes and the financial situation of the standard-setting organization. All standards were subject to prior public consultation, and FER learned on its way how to mobilize stakeholders and to engage them in their processes. Being aware of Swiss peculiarities and the diverse cultural setup, it paid attention to take these into consideration in external communications. Furthermore, it created a bridge between the national and transnational realms by integrating concepts and ideas from elsewhere and adopting them to the Swiss context. Mimicking widely accepted norms and also organizational principles from the transnational realm mostly positively influenced stakeholder judgments at that time.

- **Output legitimacy**

Preparers: Although representatives from the Industrie-Holding feared more regulation and, in the early years, openly questioned the legitimacy of FER as a standard-setter, preparers benefited from the newly created standards. Not only could they participate and (successfully) influence the standard-setting process and outcome, they also were provided with a national solution on unregulated accounting questions, particularly on consolidation issues. The FER represented a viable intermediate step to more transparent financial reporting and facilitated a later adoption of, e.g., IAS. The availability of the standards in four languages contributed to better understanding and easier communication between different entities of a group, as the main target group of FER represented large and medium-sized companies.

Users and other stakeholders: Although from today's viewpoint, the first standards cannot be classified as comprehensive and overly modern compared to frameworks in other countries, they must be appreciated as an important milestone in the context of the 1980s and as a step in the right direction. They took account of the information requirements of stakeholders that were previously entirely neglected. For the first time, investors and others such as, e.g., employee and employer representatives were directly involved in the standard-setting process and could argue for their interests.

Legislators/regulators/auditors/Swiss Stock Exchange:
The FER spelled out acceptable accounting rules and contributed to the sophistication of accounting practices and their rooting in daily business operations, especially for large groups. The newly defined accounting standards (or recommendations, as they were called at that time) gradually influenced judgments of what is acceptable and what is not. They provided terms such as transparency and the true and fair view principle with a more sophisticated meaning, compared to the

prevailing understanding in the Swiss context of the day. In general, they supported and accelerated the shift in values from prudence and secrecy to more transparency, taking the most important stakeholder groups with them. Thereby, FER offered a broad platform on which foreseen changes could be discussed and reflected from different angles. A mutual common understanding could be slowly developed, which of course was a lengthy and cumbersome process. Thus, FER did not only fill an obvious regulatory gap in terms of financial reporting in Switzerland in the 1980s and decrease differences to transnational regulations, but they also contributed to paving the way for legislative processes in the field in later phases. Of course, this happened indirectly: A more sophisticated understanding of accounting practices pushes boundaries, what is politically accepted and what is not any longer. Although legislators and regulators could not vote, they had an important say, which they did not have with other transnational organizations in the same way. However, compared to legislators, FER could respond to developments in the national and transnational realm in a timelier and more flexible manner and integrate practices from other countries. Various members of the Commission had excellent personal networks that included connections to numerous other transnational actors and could introduce foreign know-how into the Swiss cultural context in a fairly straightforward manner. Moreover, FER managed to pool considerable expertise from different fields, which was not always readily available in a legal environment.

6.2 Phase II: Expansion phase (1993-2001) — Speeding up developments

> "The breakthrough came with the revision of FER in 1994 — particularly with the full acceptance of the true and fair view concept and the admission of the FER in the listing rules of the SWX Swiss Exchange in the year 1996."
>
> Helbling (2001, p. 763)

The recognition of FER at the Swiss Stock Exchange as minimum applicable accounting standards indeed marked its breakthrough and signaled the start of a new phase. The recognition at the Swiss Stock Exchange emerged in the early 1990s. By then, FER had overcome the cumbersome founding years, where it had to gain and defend its legitimacy. The second phase was characterized by a significant expansion of accounting standards and increase in diffusion rates mainly driven by the needs of listed companies. It was FER's heyday phase at the Swiss Stock Exchange.

Institutional environment

In contrast to the start of the prior phase, two things appear remarkable in the 1990s. First, the trend toward more transparency in financial reporting had eventually spread to Switzerland. Creditor protection concerns faded into the background. Large companies prepared annual accounts increasingly for information purposes and frequently adopted IAS on a voluntary basis. Surprisingly, various Swiss multinationals assumed a pioneering role in the adoption of IAS in Europe. Second, the regulative density in the Swiss national environment increased. Not only the revised Code of Obligations eventually came into force and set out consolidation requirements for stock companies but also regulation at the Swiss Stock Exchange tightened.

- **The trend toward more transparency in financial reporting**

> "Many Swiss multinationals responded early to the market forces and have partly already advanced to the forefront, at least in comparison with Continental Europe. Thus, as trendsetters, they played a vital role for the accounting in Switzerland and the role of capital markets. What in for many verged on blasphemy in the 1980s, became therewith reality." Behr (1994a, p. 330)

	1988	1993	1998
IAS	*3*	29	44
EC Directives	*3*	24	7
FER	*0*	8	27

Table 7: Accounting standards for group accounts of largest Swiss companies (sources: Arthur Anderson AG and IRC Zürich (1999, p. 44) and Arthur Anderson AG and IRC Zürich (1996, p. 38)

One reason for the improvements in transparency was the growing importance of capital markets, especially for large multinational groups. It was clear that the meaningfulness of consolidated accounts was limited without adherence to internationally accepted standards/principles — also for internal management purposes. Large shareholder groups such as pension and investment funds increasingly invested in international capital markets based on recommendations of financial analysts. Transparency and comparability of financial statements played a vital role in the decision-making process. Companies wishing to benefit from large liquid capital markets had to cater to these requirements and thus upgraded the quality of their financial reporting. The Swiss Society of Financial Analysts and Portfolio Managers regularly analyzed the annual reports of listed companies and ranked them following a name-fame-shame approach. Braun (1994) pointed to the close correlation between overall reporting quality and the selected accounting standards. In the top tier, names of numerous Swiss IAS reporters could be found. Arthur Anderson AG and IRC Zürich (1996) conducted an analysis of the largest 200 Swiss trading and industrial companies[114]. The analysis was replicated in 1999 (Arthur Anderson AG & IRC Zürich, 1999) and documented the impressive improvements achieved by Swiss companies in terms of transparency of financial reporting in accordance with true and fair view principles. More and more companies adopted IAS or FER. According to Leu and Schneider (2004), the 298 in 2001 primarily listed companies prepared their financials according to the following standards: 155 IFRS, 101 Swiss GAAP FER, 20 RRV-EBK[115], 18 US GAAP and 8 other.

The popularity of IAS and the pioneering role of Swiss multinationals did not remain unnoticed by the IASB as illustrated by the following quote by the Michael Sharpe, Deputy Chairman of the IASB in an interview conducted by Eric Ohlund on behalf of “Der Schweizer Treuhänder”:

[114] From the largest 200 companies, the authors excluded public companies, subsidiaries of foreign international groups and companies that did not disclose their financial reporting. Based on these criteria, the sample sizes varied between 60 (1988), 61 (1993) and 74 (1998). Few companies published financial statements in accordance with more than one set of accounting standards (e.g., FER and IAS).

[115] RRV-EBK refer to the accounting standards for Swiss banks laid down by the Swiss Federal Banking Commission.

"Switzerland has been very progressive in this area and has many of its large companies reporting under IAS. This helps immensely." Ohlund (1995, p. 617)

While IAS became increasingly popular in Switzerland and elsewhere, the EC directives slowly faded into the irrelevance. There were different reasons for this. One reason was their objective to harmonize rather than to standardize. The EC directives represented minimum standards and member countries could decide on the exact rules so that accounting standards in every EC country were slightly different. Another reason was that the EC directives became outdated the mid-1990s, because they were not updated. Given the cumbersome political processes, the EC/EU in time concluded that it would rather concentrate on other areas of regulation and leave it up to transnational organizations to regulate this field. At the same time, it sought cooperation with the IASC as outlined in Chapter 2.

- **The increasing regulatory density in the national environment**

"The development of accounting in Switzerland — unfortunately — also leads to an increased regulation density. To a certain extent, this regulation is necessary to avoid misuses in accounting. Foreign countries have set out already earlier. The fundamental necessity for such an approach is not in question. But, in reverse, the example of Switzerland exactly shows that a liberal order allows for positive developments." Behr (1994a, p. 330)

After more than two decades of political debate, the revised Code of Obligations eventually came into force from 1 July 1992 outlining, among other things, consolidation requirements for stock companies. The next regulative steps proceeded comparatively fast. In 1995, the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act)[116] was passed. The Stock Exchange Act stipulated the principle of self-regulation, which implied the issuance of listing rules. Furthermore, the Stock Exchange Act (Article 8) obliged the Swiss Stock Exchange to take into consideration international recognized standards. As a result, the Swiss Stock Exchange integrated the requirements stipulated in the EC directives on admission, prospectus and interim reporting. Accounting-related questions were outlined in the listing rules that became effective on 1 October 1996. Therein, the Swiss Stock Exchange outlined its approach on accounting standards. All companies had to comply with the requirements set out in the revised company law. In addition, listed companies had to adopt FER or FER-equivalent accounting standards[117]. Annual accounts had to provide a true and fair view of the assets, liabilities, financial position and profit or loss of a company. Alternatively to FER, listed companies had the option to prepare their financial reporting in accordance with the EC directives,

[116] The Federal Act on Stock Exchanges and Securities Trading is known in German as "Bundesgesetz über die Börsen und den Effektenhandel (Börsengesetz, BEHG)" dated 24 March 1995 and enacted as of 1 January 1997 (The Federal Assembly of the Swiss Confederation, 2018).

[117] Banks also had to comply with additional rules such as outlined in the Guidelines of Swiss Banking Commission governing financial statement reporting (RRV-EBK).

IAS and US GAAP. The minutes of the FER bodies in 1992 and 1993 provide evidence that the basic decision to declare Swiss GAAP FER as minimum mandatory accounting standards was already clear by that time. However, the mode of formalization (whether law, directive or listing rules) was debated and eventually resulted in the integration into the listing rules.

In the listing rules[118], the Swiss Stock Exchange[119] defined the single applicable FER. Listed companies presenting individual accounts had also take into consideration the rules for consolidated financial statements particularly on valuation issues, cash flow statement, presentation and format as well as notes. Interim reporting was also mandatory. Thus, the Admission's Board of the Swiss Stock Exchange retained the right to decide which of the FER standards it endorsed. At inception as of 1 October 1996, FER 1 to 8 as well as FER 12 and FER 14 were endorsed. From 1998, FER 9, 11 and 13 became mandatory. A year later, the Swiss Stock Exchange added FER 10 and 15 and eventually FER 16 in 2000 to the list of FER standards to be applied by listed companies (Meyer, 1998). This endorsement procedure required a close coordination between the Swiss Stock Exchange and the bodies of FER. It was quite cumbersome given the rapid expansion of the FER and resulted in ongoing revisions of the listing rules. Eventually in 1998/1999, the Swiss Stock Exchange decided to revise the listing rules in such a way as to include a dynamic reference to the FER and other accepted accounting standards.

Organizational structure and accounting standards

The structural setup in terms of the composition of the Commission along the different stakeholder groups remained quite stable despite regular fluctuations caused by retirements and job changes. FER managed to replace leaving members quickly. Also, by 2000 it continued to have members representing large multinational companies and representatives of Swiss Industrial Holding Companies, although many of these companies were (no longer) FER reporters such as, e.g., Nestlé. For most of the time, almost all seats were filled. Thus, in 1996, the Board of Foundation approved to increase the maximum number of members in the Commission from 25 to 35 (source: 16th Meeting of the Board of Foundation dated 4 December 1996). Later, in the implementation of the decision, the maximum number of members was limited to 30. In 2000, the Executive Committee still comprised three professors from universities (St.Gallen, Zurich and Lausanne) as well as a representative of an audit firm and a multinational company.

The Board of Foundation underwent several changes in this period. Prof. Pierre Tercier resigned in 1995 due to other time-consuming commitments. He was

[118] Art. 67 as well as Appendix II contained the applicable FER (listing rules as of 1 October 1996).

[119] At that time, the Swiss Stock Exchange was called SWX Stock Exchange. Later, it became known as SIX Swiss Exchange.

replaced by Prof. Georges Muller (source: 14th Meeting of the Board of Foundation dated 29 May 1995). One year later, in 1996, Alphons Egli stepped down as President of the Board of Foundation and at the same time Prof. Dr. Arthur Meier-Hayoz resigned. The founder of Swiss GAAP FER, Prof. Dr. André Zünd, returned to the standard-setter in 1996 and assumed the position of the President of the Board of Foundation. Reto Domeniconi (former CFO at Nestlé) was appointed as member (source: 15th Meeting of the Board of Foundation dated 11 June 1996) and stayed for two years in this role. In 2000, Prof. Dr. Carl Helbing and Dr. André von Moos joined the Board of Foundation.

Furthermore, the number of observers increased quite substantially in this period. Following the decision to dynamically refer to FER, the Swiss Stock Exchange was appointed as observer (source: 18th Meeting of the Board of Foundation dated 7 May 1998). In 2000, a representative from the Swiss Federation of Trade Unions joined. Also, ZEWO was added to the list of observers in 2001 because of the development of FER 21 for nonprofit organizations (source: 38th Meeting of the Commission dated 22 November 2001).

The position of the Technical Secretary continued to be assumed by representatives of the big audit firms. At the end of 1993, Ancillo Canepa from ATAG/Ernst & Young resigned as Technical Secretary and was superseded by Thomas Stenz from Arthur Anderson. In July 1998, Daniel Suter from PricewaterhouseCoopers assumed the role of the Technical Secretary.

Regarding the standards, FER rapidly advanced the development of further standards after the rather sluggish developments of the first ones. In the newly created standards, it mainly addressed single accounting issues. The topics mirrored the most important developments of IAS in this period. In terms of the publication of standards, FER tested different approaches. It published the altered FER 0-8 in book form (as opposed to folders) in March 1994. Thereby, it lumped the German and English versions into one book and French/Italian into another book (source: 45th Meeting of the Executive Committee dated 14 January 1994). Subsequently, the Commission noted that the joint publication of two language versions in one brochure was not well received and suspended it (source: 24th Meeting of the Commission dated 6 December 1994). In 1995, it returned to the old approach of publish standards separately by language but in book form. At the beginning of 1997, a new separate brochure for each language was published and included also all exposure drafts (source: 28th Meeting of the Commission dated 4 December 1996). At the end of 1998, FER worked on an updated brochure. Eventually, in 2000, it issued again an updated brochure in German, French and English. The publication of the Italian version was suspended for a couple of years.

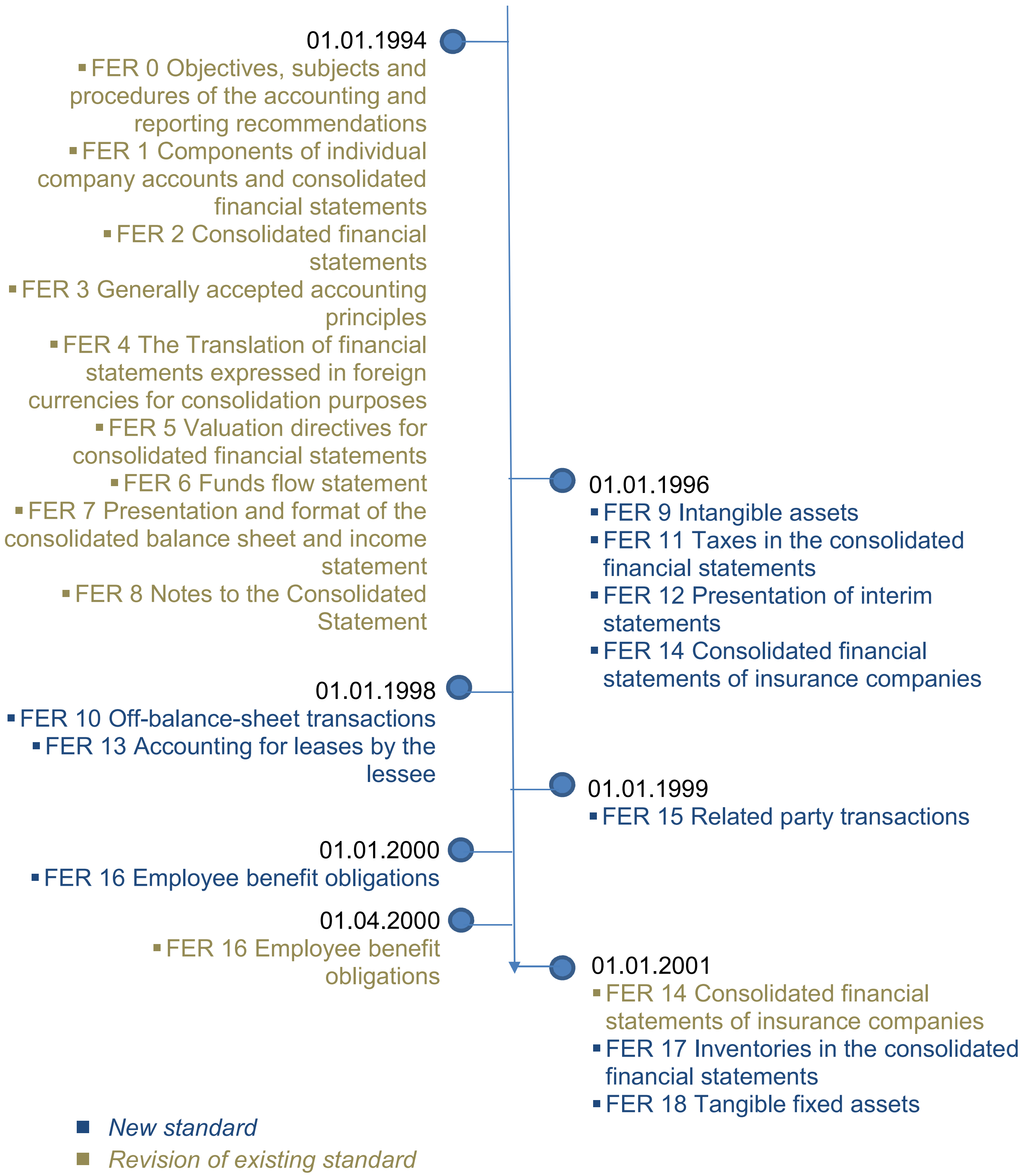

Figure 5: Enactment of new accounting standards from 1993 to 2001

Actors and actions

- **Constructing identities: Bridging the transnational and national realms**

> "The FER are not a Swiss specific regulation but an implementation of IAS and EC directives adapted to Swiss requirements." Lehner (1997, p. 795)

In this period, FER as a standard-setter continued to emphasize its international orientation, whereby it increasingly outlined its pragmatism and orientation toward practice. It coined the perception of being a type of "IFRS/IAS light", which persisted with some stakeholders for years despite differentiation efforts in later periods (Raffournier, 2017). A major paradigm shift that supported this perception was the commitment to the true and fair view principle, which was adopted in 1993. This shift was uncontested and adopted after almost no discussion and no objections in the Commission and thus it came into force as of 1 January 1994. As stipulated in FER 2.1 (1994), consolidated financial statements must present a true and fair view of the financial position, the results of operations and the cash flows of the group. From 1993 to 1995, FER was occupied with completing and revising FER 1-8 in a timely manner as well as FER 12 and FER 14 so that they could be included in the listing rules of the Swiss Stock Exchange in 1996. In the 1990s, FER never tired of emphasizing its international orientation. Even in the brochure of 2000, a section on the most important differences to IAS can still be found (The Foundation for Accounting and Reporting Recommendations, 2000, pp. 11-12).

> "The expansion phase after 1994 was characterized by a pronounced convergence of FER standards to IAS/IFRS." Boemle (2006, p. 11)

Nevertheless, FER did not aspire to reproduce the complexity of IAS/IFRS at any point in time. Its strategy was to reflect commonly agreed-upon concepts from the transnational realm in a pragmatic "Swiss style" way.

> "With the recommendations in place today, FER has already implemented all accounting directives by the EU. The ideas of IAS have been included in FER. It would hardly make any sense to develop additional accounting rules on a legislative level." Behr (1994b, p. 894)

The above quote also reflects the positioning of FER, which occupied the space between the rather loose legal accounting requirements in Switzerland and the ever-more-sophisticated transnational accounting standards such as IAS or US GAAP.

> "The wide discretion that was granted to Swiss groups increases the importance of a national and international set of rules, which enact recommendations on the selectable methods in detail." Arthur Anderson AG and IRC Zürich (1999, p. 9)

> "In this sense, FER tries to concretize the leeway in the company law through possible solutions. Linked to this is the clear wish to improve the quality of the published annual accounts. The objective of FER is an EU compliant, internationally oriented and compatible accounting."
> Arthur Anderson AG and IRC Zürich (1999, p. 12)

In 1998, the Board of Foundation summarized the philosophy of FER by the following four points: avoid arising contradictions to IAS; fair presentation as primary objective; deliberately allowing for options; and consciously leaving selected sub-areas unregulated (source: 19th Meeting of the Board of Foundation dated 9 December 1998). This philosophy was mirrored in the standards as well as in public communications.

To modernize its external appearance and reflect the international orientation, the Commission agreed to relabel the issued accounting standards from "FER" to "Swiss GAAP FER" (source: 35th Meeting of the Commission dated 8 June 2000):

> "Also, the modernization and the expansion of the previously rather conservatively appearing term FER recommendations to include 'Swiss GAAP' in 2001 also aimed at an increasing international acceptance of the Swiss set of rules. This step is even more remarkable when the already mentioned objections in the founding years are remembered, where some influential annual statements preparers left nothing undone to prevent the equation of FER standards with the generally accepted accounting principles outlined in the law (OR 959)."
>
> Boemle (2006, pp. 11-12)

Thereby, it stipulated the more legally binding character of the accounting standards, which becomes evident in the following quote:

> "The ARR [FER] will support that the recommendations shall also and mostly be applied by small and medium-sized companies. For lenders (banks, insurances, pension funds, etc.) the ARR offer an ideal reporting concept, whose adherence enables a low-cost financial analysis. Therefore, banks and insurances are encouraged to include the possibility of an obligation for a financial reporting in compliance with ARR (connected with a corresponding audit) in their contracts. With this, the ARR will become Generally Accepted Accounting Principles of Switzerland, or, with other words, some kind of Swiss GAAP."
>
> The Foundation for Accounting and Reporting Recommendations (2000, p. 2)

Toward the end of this phase and presumably driven by the increasing popularity of IAS with large companies (and because of looming threats of losing attractiveness in this segment), FER slowly grasped the opportunity of SMEs as preparers. It started targeting at SMEs more directly by, for example, outlining benefits of applying FER from the perspective of smaller non-listed companies.

> "In Switzerland, the accounting recommendations by FER offer SMEs a suitable instrument. An annual statement prepared in accordance with the rules of FER meets the above outlined requirements: An annual statement according to FER can ensure the informative function also in the interest of owners. A user-friendly design of the FER framework is ensured; as a simple, short and easy to understand wording of the principles is an explicitly stipulated objective by FER."
>
> Behr and Eberle (1999, p. 59)

Based on an analysis of 40 companies in the over-the-counter market in 1997, Behr and Eberle (1999) identified significant accounting inconsistency. Still, creditor protection and secrecy played an important role in this segment. The authors did not miss the opportunity to highlight the advantages that an adoption of FER offered to SMEs in terms of their own internal management as well as in the interaction with banks and investors.

> "The increased transparency with listed companies was expected to also generate a pull effect toward improved accounting with non-listed companies as a result of applying FER. However, the efforts of FER were hardly noticed by SMEs. (…) The increased orientation toward international developments from 1994 onward is also reflected in the discussed topics. (…) These standards cannot be justified with the information needs of accounting users of SMEs, because spin-offs, cash generating units, share-based payments and the discounting of provisions are only in exceptional cases a topic in the annual statements of a SME!"
>
> Boemle (2006, p. 11)

Beside the international orientation and the gradual discovery of SMEs, FER started occupying new niches by developing industry-specific accounting standards also taking into account Swiss peculiarities. While FER 14 Consolidated financial statements of insurance companies originated from requirements by the Swiss Stock Exchange (source: 46th Meeting of the Executive Committee dated 10 May 1994), the bodies of FER more actively sought new niches to whom they could offer added value. Non-profit organizations represented such a niche that had sufficient peculiarities to justify a separate accounting standard. It is to be noted that Switzerland, due to its history, its traditions and its status as a "safe heaven" has long been home to many non-profit organizations. Thus, FER launched a project in 1997 to develop Swiss GAAP FER 21 Accounting for charitable, social non-profit organizations[120]. In 2000, it appointed an external working group to develop Swiss GAAP FER 26 Accounting of pension plans, because members of the Commission and the Executive Committee regarded the field of independent pension funds as under-regulated and as an important area with numerous specificities.
Already in an earlier step, FER recognized and responded to the Swiss-specific requirements of employee benefit obligations (Swiss GAAP FER 16 Employee benefit obligations, enacted as of 1 January 2000).

[120] In 1997, a working group started with the development of FER 21 Accounting for charitable, social non-profit organizations, which was enacted five years later. Particularly, large non-profit organizations had an interest in obtaining some guidance on accounting issues specific to their non-profit-oriented nature. On 8 June 2000, the Commission dealt with the proposed FER 21 regulations in detail. Particularly discussed were the scope of FER 21 due to the high diversity of non-profit organizations. The Commission mandated the working group to conduct hearings with the affected stakeholder groups (source: 35th Meeting of the Commission dated 8 June 2000). FER 21 was passed into consultation by the end of 2000 (source: 36th Meeting of the Commission dated 5 December 2000). For further details, please refer to phase 3 of this chapter and to Müller (2002).

> “As overall result, the parroting of good-sounding foreign or international norms that do not take the peculiarities of the Swiss pension system into account at all was avoided.” Behr (2010, pp. 25-26)

The creation of industry-specific accounting standards represented a deliberate divergence from international accounting standards and was regarded as adherence to Switzerland specific needs. To preserve comparability of presented financial information, IAS have avoided issuing industry-specific accounting standards. Nevertheless, the launch of industry-specific accounting standards resulted in a competitive advantage for FER and also helped to define its identity and presence, as these standards were well received and were mostly considered as best practice in the respective sectors.

- **Advocacy: Liaising with the Swiss Stock Exchange and the legislator**

Beside the publication of articles in national professional journals, where FER outlined its international orientation and its pragmatic approach, the standard-setter concentrated on more indirect ways to increase diffusion rates and bolster legitimacy. In contrast to the previous period, little evidence can be found that FER tried to be present in the international press. Its activities nearly exclusively concentrated on Switzerland. However, it could rely on the support of its members and close organizations. For example, in 1994 the members of the Commission were pleased to note that the Swiss Institute of Certified Accountants and Tax Consultants planned to issue a special edition of its magazine on FER. The purpose was to further increase the recognition of FER. It intended to attach the enacted FER standards up to that point to the publication of its monthly magazine “Der Schweizer Treuhänder” and compensated FER with a lumpsum payment of CHF 10,000 (source: 24th Meeting of the Commission dated 6 December 1994).

Coming back to the more indirect methods of advocacy activities, the close cooperation with the Swiss Stock Exchange needs to be highlighted. As outlined in the prior phase, members of the Executive Committee were significantly involved in the process of developing an accounting concept for the Swiss Stock Exchange. It goes without saying that this involvement and the resulting close cooperation with the Swiss Stock Exchange provided FER with an enormous impetus, positively affecting recognition and diffusion. However, to make the recognition of the FER standards possible, the accounting standard-setter had to accommodate for the Swiss Stock Exchange’s demands on the alignment of international standards. At that time, EC directives played a vital role. In autumn 1992, a project called “synchronization” was launched to ensure consistency between the standards FER 1 to 5 and to identify and close gaps with EC directives (source: 40th Meeting of the Executive Committee dated 10 September 1992). The working group, made up of only members of the Executive Committee, very quickly identified the required changes (source: 41st Meeting of the Executive Committee dated 2 December 1992). The most notable change was the planned introduction of the true and fair view principle in FER 2. The

Commission discussed the envisaged adoptions and released them into consultation in early 1993 (source: 20th Meeting of the Commission dated 22 January 1993). It was pleased that only few though important changes were necessary to ensure the alignment to EC directives. The consultation only resulted in three opinions with few requested adaptations. The revised drafts were discussed by the Executive Committee in its 42nd Meeting on 26 April 1993 and subsequently approved and enacted by means of circular resolution of the Committee as of 1 January 1994 to save time in view of the discussions with the Swiss Stock Exchange.

> "The improvement of accounting shall be accomplished by the adoption of the rules from the Accounting and Reporting Recommendations FER into the revised listing rules. In this context the FER were revised and differences to the accounting rules of the EC directives were eliminated." Behr (1994a, p. 324)

The most important changes from the synchronization project related to FER 2 Consolidated financial statements and involved the requirement to prepare the consolidated financial statements according to the true and fair view principle (FER 2.1), the calculation of share of equity of consolidated companies according to the Anglo-Saxon method (FER 2.5), the elimination of inter-company profits resulting from inter-company transactions (FER 2.7) and disclosure requirements of shareholders' equity (FER 2.9). Furthermore, the concept of individual valuation of assets and liabilities (FER 3.3) was introduced, and foreign currency translation methods were restricted (FER 4.1).

> "The revision of FER led to a set of rules that corresponds to the regulations of the EC directives and in some points even exceeds the EC accounting concept."
>
> Behr (1994a, p. 327)

With reference to the description of the institutional environment on a national level in this period, a close cooperation and coordination between the Commission and the Swiss Stock Exchange was necessary from 1996 onward to ensure the endorsement and update of the listing rules. Eventually, the Swiss Stock Exchange decided in 1998/1999 to replace the static references in its listing rules to FER with a dynamic reference.

> "The stock exchange will limit itself to a procedural control rather than the review of standards. Thereby, the two interested divisions of the stock exchange (Admissions Board as well as the new oversight board on the ongoing financial reporting of issuers) will follow the work of FER with one observer each."
>
> Behr (2000, p. 266)

As of 1 June 2000, the Swiss Stock Exchange also passed the directive on the enforcement of accounting rules as outlined in the listing rules. It planned to constitute an Expert Group. FER was invited to nominate two representatives, which it did (source: 20th Meeting of the Board of Foundations dated 10 June 1999). Thereby, an enforcement team of the Swiss Stock Exchange reviewed the quality of the reported information on a random basis and brought breaches to the attention of the Admission Board or Disciplinary Commission. An Expert Group drawn from a pool of external auditors, accounting standard-setters, etc., assessed critical cases (Schneider, 2002a).

In addition to the close cooperation with the Swiss Stock Exchange, members of the Commission also supported legislative accounting projects with their technical expertise. They established a good and close working relationship.

> "The expert commissions comprised always the same people. There were around 50 experts that you came across all the time. I really enjoyed the work. I participated in around 50 such meetings. These people were not stupid. Put differently, they represented the elite of the country in the field and also volunteered their work. It was a win-win situation for everyone."
>
> Former Member of the Commission

> "With the development of the new Swiss Accounting and Auditing Act, the Commission Revision of the Accounting Act, constituted by the Federal Council, will heavily rest on the existing FER." Bertschinger (1997, p. 384)

Already two years after the revised Code of Obligations was enacted, the President of the Commission was invited to participate in the Expert Commission to revise the legislative rules on accounting and audit by the Federal Office of Justice in 1994 (source: 45th Meeting of the Executive Committee dated from 14 January 1994). The objectives were to upgrade the existing legal requirements to the level of the 4th and 7th EC directive and to make them mandatory to all companies regardless of their legal form. In 1998, the Expert Commission, to which various members of the FER Commission[121] belonged, presented a draft. Unfortunately, it was rejected based on the argument that it insufficiently addressed specific needs of SMEs. The further developments in this context are outlined in the subsequent time periods.

However, independent of this outcome, two important things are to be noted for FER as a standard-setting organization. The deepening of the relationship between members of the Commission and the Federal Office of Justice helped paving the way for when, more than a decade later, Swiss GAAP FER eventually became an accepted accounting standard in 2012[122]. Moreover, the members of FER could ensure that the interests of the standard-setter were preserved in the legislative process. However, it must me said that it was commonly agreed that a private standard-setting organization was in a better position to develop and enact suitable accounting rules in a dynamic economic environment.

> "In the report of the 'Groupe de Réflexion'[123] it is indicated that a quick revision of accounting rules is required. For this purpose, a directive is proposed as means.

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[121] Regarding the composition of the expert commission and for further background information, refer to Stenz (1997).

[122] Please refer to period IV (VASR 221.432).

[123] "Groupe de Réflexion" refers to the expert group established by the Federal Council to analyze the necessity of revising rules for stock companies.

However, the standardization of accounting as part of a law or a directive contradicts the dynamic character of the financial reporting of companies. The rather technical character of many questions also leads to difficulties with a standardization by a directive (or even by a law). It appears more suitable that important principles are outlined in a law and that the further development and specification of accounting standards is delegated to an expert committee. This delegation must be linked to conditions. The expert committee shall be broad-based — as FER already is today — and be open to all interested parties and directly include them in the work. (…)" Behr (1994b, p. 894)

- **Convening: Integrating external technical experts**

Also in this period, FER continued to create collaborative arrangements to induce change. In response to the requirement of the Admission Board of the Swiss Stock Exchange to issue a separate industry-specific accounting standard for insurance companies, FER agreed to do so. It constituted a working group, which not only comprised external technical experts but also was led externally.

"Also for insurance companies, a customized accounting concept was developed by a working group headed by the Admission Board and comprising representatives of the insurance sector, the Federal Office of Private Insurance and auditors." Behr (1994a, p. 326)

Compared to other standards enacted until the early 1990s, FER 14 Consolidated financial statements of insurance companies was more comprehensive. The reasons for this were that the insurance business was rather complex and that EC directives on the insurance business[124] had to be taken into consideration. Despite the complexity of the standard, the public consultation was not considered as critical because objections were already pre-empted by the broad composition of the working group and the conferred responsibility for the project to one of its main stakeholders: the Swiss Stock Exchange.

"An initial consultation in the insurance sector took place on an informal basis. However, since almost all listed companies were represented in the working group, no material issues should arise during consultation."

46th Meeting of the Executive Committee dated 10 May 1994

Prior to passing the draft into public consultation in autumn 1994, the Commission discussed the most important points after having obtained detailed background information from the project working group. Only two opinions were received during the public consultation. The project working group explained implications of the resulting (minor) changes of the draft with the Executive Committee (source: 48th Meeting of the Executive Committee dated 21 November 1994), which justified it with the Commission. In December 1994, the Commission unanimously passed FER 14

[124] Most notably was the Council Directive of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC). For further details on issues regarding insurance companies in Switzerland, please refer to Meyer (1994).

effective from 1 January 1996 onward (source: 24th Meeting of the Commission dated 6 December 1994).

In a similar vein, in 1994, FER launched a project on interim reporting following the requirements of the Swiss Stock Exchange, which acted as observer in the Commission by that time: The project was led by a member of the Commission.

> "A further project group deals with interim reporting (which shall be introduced for public companies according to the listing rules)." Behr (1994a, p. 327)

At the same time, FER agreed with the Admission Board that it would incorporate the existing regulation set out in listing rules on interim reporting into the new standard to be developed, except for the reporting deadlines, which remained part of the listing rules. In contrast to FER 14, the Commission was more proactively engaged in the project and set out basic principles for the new standard. For non-listed companies, FER 12 shall be only applicable on a voluntary basis, and banks and insurance companies shall be excluded from the scope, because they were subject to separate regulation. Furthermore, interim reporting was to be prepared based on consolidated figures (source: 23rd Meeting of the Commission dated 10 June 1994). In close cooperation with the Swiss Stock Exchange, a draft was developed by the project team and released for public consultation. In January 1995, the Swiss Stock Exchange started a four-month-long consultation on the listing rules and also enclosed FER 12 (source: 24th Meeting of the Commission dated 6 December 1994). During the debriefing of consultation results, FER had to admit that it did not receive any feedback while the Swiss Stock Exchange reported few comments. For some companies, the required presentation in FER 12 was too detailed, whereas other stakeholders wanted more qualitative information on the developments to be expected in the second half-year period. In sum, there were no major objections, and the Commission passed FER 12 Presentation of interim statements effective from 1 January 1996 at its meeting on the premises of Nestlé in Vevey in May 1995 (source: 25th Meeting of the Commission dated 29 May 1995).

Later, following the bursting of the dot-com bubble, the Commission again dealt with a request by the insurance sector to adjust FER 14 in such a way to allow accounting for negative valuations of securities in the revaluation reserve of equity in 2001. After a short and intense discussion of this request and different potential solutions, the Commission decided to allow negative postings to the revaluation reserves given certain conditions. Impairments were to be recognized immediately, and declines in the current value as compared to the historical cost were not allowed to exceed 12 months. Thereby, the Commission left considerable leeway to companies with the assessment of impairments, which had to be performed and documented on the basis of written criteria for each investment (source: 38th Meeting of the Commission dated 22 November 2001).

- **Educating: Introducing the annual seminar**

Beside the individual efforts of members of the Commission, FER decided to approach the topic of educating a bit more systematically. In 1994, the Executive Committee discussed the idea of hosting one-day seminars by the Swiss Institute of Certified Accountants and Tax Consultants. Members of the Commission were engaged as speakers. The aim was to increase the recognition of FER including among banks and journalists (source: 45th Meeting of the Executive Committee dated 14 January 1994). In 1995, two such seminars took place in the German-speaking part of Switzerland, with around 250 participants overall, and were repeated in 1996. From 1997 onward, FER also launched a separate seminar in the French-speaking part of Switzerland, which was again hosted by the Swiss Institute of Certified Accountants and Tax Consultants (source: 28th Meeting of the Commission dated 4 December 1996). Subsequently, the seminar in the German-speaking part took place only once per year.

These seminars also proved to be valuable for the work of the Commission and the Executive Committee, as they offered the opportunity to gain insights and views on current accounting issues from a broader circle of FER stakeholders. For example, after having presented the approved but not yet effective FER 13 Accounting for leases by the lessee, participants of the seminars pointed to uncertainties and potential misconceptions in the wording (source: 28th Meeting of the Commission dated 4 December 1996). Also, in the case of FER 16, the dissatisfaction with the standard was addressed, leading to a revision only a few months after its first enactment in 2000.

In parallel, the Commission also increased its communication on the content of standards, particularly on those that it considered as rather complex. In the cases of FER 14 Consolidated financial statements of insurance companies and FER 16 Employee benefit obligations, it included a glossary outlining the most important terms and concepts. Also, FER 18 Tangible fixed assets included an appendix with illustrative examples and a glossary. Furthermore, it published explanatory articles providing background details and examples (Manach, 2000; Suter, 1999; Teitler-Feinberg, 2000).

- **Negotiating: Finding compromise solutions**

Finding balanced compromises is often a time-consuming and cumbersome process. For some projects, this is truer than for others. In this section, I will outline four projects as examples.

The first example is the development of FER 10 Off-balance-sheet transactions, which did not only involve lengthy FER internal negotiations and coordination but also with the Admission Board later. The endorsement process of the Swiss Stock Exchange foreseeing a consultation on new accounting standards on behalf of the stock exchange resulted in a high need for coordination and cooperation between the Commission and the Admission Board. While it was common that working groups presented drafts on a discussion basis for new standards, Prof. Dr. C. Meyer, who was in charge of developing FER 10, took a different approach. Due to differing views on the topic, he started off with a debate in the Commission on fundamental principles on which the draft should be based. Eventually, the Commission set the scope of FER 10 and included therein contingent liabilities, other commitments and derivative financial instruments and related valuation questions, including some basic rules on hedge accounting. The Commission desired an orientation on IAS but allowed for simplifications (source: 23rd Meeting of the Commission dated 10 June 1994). A draft was elaborated, and members of the Commission representing different stakeholder groups intensively discussed it. Given the relative complexity, illustrative examples were included into the draft standard. Although the IASC[125] and the FASB did not finalize its rules on the topic, the Commission decided to address recognition, valuation and disclosure issues regarding off-balance sheet transactions and passed it into consultation (source: 25th Meeting of the Commission dated 29 May 1995). Particularly, Sandoz[126] raised various concerns on the published draft of FER 10. For example, it considered it as important for FER to wait until the related IAS was released. Despite these raised concerns, the FER Commission enacted FER 10 effective from 1 January 1998 onward[127], as it believed that the rules set out in FER 10 were so generous that they could hardly interfere with any regulation to be released in the transnational realm (source: 26th Meeting of the Commission dated 5 December 1995). This judgment disregarded the outcome of the consultation on FER 10 by the Swiss Stock Exchange, which took place in early 1997 together with the consultations on FER 9, 11 and 13. The Swiss Stock Exchange received opinions asking it to further wait with the endorsement of FER 10 until IAS regulations were clear, which mainly focused on financial assets and liabilities, in contrast to FER 10, which had a broader scope. In response to the external pressure, the Commission reconsidered FER 10 and adjusted the wording once again prior to its own enactment as of 1 January 1998. Finally, the Swiss Stock Exchange integrated FER 10 in its listing rules as of 1 January 1999.

An example that illustrates a rather hasty decision-making process and explains the limited scope of a standard on a specific accounting issue is the development of FER 13. In 1994, a working group lead by a Commission member started on FER 13 Accounting for leases by the lessee and developed an initial draft, which was discussed by the end of the year. As already suggested by the title, the new standard

[125] An exposure draft on IAS 39: Financial Instruments: Recognition and Measurement was published in 1998, and the standard was enacted as of 1 January 2001. As a result of the development of IAS 39, IAS 32 Financial instruments: Presentation was revised in 1998 effective from 1 January 2001.

[126] In December 1996, Sandoz and Ciba-Geigy merged to become Novartis.

[127] Initially, the Commission enacted FER 10 as of 1 January 1997 but postponed it then to a year later (see also Meyer (1996)).

only dealt with the perspective of lessees and neglected that of lessors. Certain rules were exclusively applicable to consolidated accounts. These shortcomings were noted and raised by some members of the Commission. However, the responsible project manager and member of the Commission stifled the discussion by referring to previous debates on the scope of the standard and rejected a reconsideration. Presumably to avoid conflicts, the Commission released the draft into consultation. At the same time, it noted for its future agenda that it had to review the rules applicable to individual accounts because the standards so far heavily focused on consolidated accounts (source: 26th Meeting of the Commission dated 5 December 1995). As no opinions were received during the consultation, the Commission enacted FER 13 as of 1 January 1997 (source: 27th Meeting of the Commission dated 11 June 1996). It proved to be a premature decision because the Commission revised the wording of two articles in the same year after concerns raised by participants of the FER seminars hosted by the Swiss Institute of Certified Accountants and Tax Consultants (source: 28th Meeting of the Commission dated 4 December 1996). Later, the Swiss Stock Exchange endorsed FER 13 after its separate consultation in 1997 as of 1 January 1998 (source: 29th Meeting of the Commission dated 27 May 1997).

Another important topic that involved intense negotiations between stakeholder groups was the topic of related party transactions. In 1994, the Technical Secretary assumed the responsibility for the working group on FER 15 Related party transactions. In May 1995, he presented a first draft, which was based on the principles outlined in IAS, US GAAP and UK GAAP. It required the disclosure of all significant transactions with related parties but excluded remuneration questions in the end version. However, a member of the Commission representing preparers initiated the development of an alternative draft based on the assumption that only non-operational transactions and such that were not in line with market conditions were to be disclosed. The Commission mandated the working group to develop such an alternative draft (source: 25th Meeting of the Commission dated 29 May 1995). Both drafts were debated during two subsequent Commission meetings with differing positions between preparers and users as well as the Swiss Stock Exchange. The latter group favored the inclusion of regulation on remuneration such as share-based payments. The "international" draft version included a proposal (source: 52nd Meeting of the Executive Committee dated 13 November 1995). Eventually, the Commission agreed on a compromise to pursue the international version but to exclude remuneration from the scope of the standard (source: 27th Meeting of the Commission dated 11 June 1996). As outlined earlier, FER strived for compatibility with EC directives:

> "Thus, two divergences still remain: the requirement to publish the emoluments of board members according to EU directives and the in Switzerland permitted valuation of current assets' securities at average stock market prices as opposed to the lower acquisition cost." Lehner (1997, p. 795)

To avoid the uncoordinated approach in consultation as with FER 9, 10, 11 and 13, the working group ensured that the consultation by the Commission took place in parallel to that of the Swiss Stock Exchange. In May 1997, the Commission debriefed all opinions including those sent to the Swiss Stock Exchange and discussed resulting changes to be made. In close coordination with the Swiss Stock Exchange, both organizations enacted FER 15 Related party transactions as of 1 January 1999 (source: 29th Meeting of the Commission dated 27 May 1997).

Finally, the development of FER 16 Employee benefit obligations involved lengthy discussions within the Executive Committee and the Commission. Revised versions of the draft were discussed three times in the Executive Committee before an approved draft was released for further discussion to the Commission (source: 54th Meeting of the Executive Committee dated 6 May 1996). Also, the Commission had numerous additional specification requirements on definitions and unregulated questions such early retirements, partial liquidations or, e.g., why BVG[128] plans did not represent pure savings plans (source: 27th Meeting of the Commission dated 11 June 1996).

> "However, it was insofar a complex project, because not all people in the different bodies understood the technical aspects to the last detail. And those who technically understood it were partially against the proposed way of doing it."
>
> Former Member of the Commission

The Commission reminded the working group that it did not want any regulation that was stricter than IAS. The developments with the IAS[129] were closely followed and discussed. Nevertheless, the idea behind the standard was to take into consideration Swiss peculiarities. The Commission noted the most important deviations from IAS as follows: a) the requirement to re-compute employee benefit obligations only every three years, b) the 10% corridor[130] and c) the possibility of expense revaluation differences over the average expected remaining working lives, if they exceeded the corridor (source: 29th Meeting of the Commission dated 27 May 1997).

> "At the very beginning, there was an agreement that FER may not contradict IFRS, while it had to be simpler. At that time a project resulted that had similar dimensions as IAS 19."
>
> Former Member of the Commission

The consultation was planned for the second half of 1997. Thereby, the Technical Secretary was instructed to coordinate the exact period with the Admission Board of the Swiss Stock Exchange. In May 1998, the Commission debriefed a summary of the opinions received during consultation and was surprised by the high participation. Due to the complexity of the topic and the nature of the comments, it anticipated

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128 BVG refers to Federal Law on Retirement Provisions, Survivors Pension, and Disability Pension.

129 In October 1996, the exposure draft E54 Employee Benefits was released, and the revised IAS 19 Employee Benefits became operative from 1 January 1999 onward.

130 The corridor refers to differences from re-valuations exceeding 10% (FER 16.10 as of 1 January 2000).

increased training requirements. Opinion providers questioned the necessity of an economic perspective of employee benefit obligations and asked for further facilitations for small and medium-sized companies as well as for exempting companies that were linked to collective pension plan foundations. The Commission debated the issues raised and adopted a partial step decision process by first voting on the individual issues (retention of the economic perspective and the scope including companies linked to collective pension plan foundations, further facilitations for SMEs and for the preparation of individual accounts by non-listed companies and a late enactment date as of 1 January 2000 to allow for sufficient training time). After the partially reached compromises the Commission approved the overall FER 16 (source: 31st Meeting of the Commission dated 7 May 1998).

Although FER 16 Employee benefit obligations was in place only for few months, the Commission felt obliged to revise it as a result of concerns raised during the FER seminar as well as by important stakeholders (source: 36th Meeting of the Commission dated 5 December 2000). Thereby, it planned to host a public hearing with the interested stakeholders in January 2001 and enact a revised version of FER 16 in March 2001. The new draft to be discussed was immediately published on the homepage and brought to the attention of auditors by the support of the Swiss Institute of Certified Accountants and Tax Consultants. Especially, the classification into defined benefit plans or defined contribution plans raised concerns. The Commission adjusted the wording of FER 16 and passed it in March 2001 (source: 37th Meeting of the Commission dated 28 March 2001) to be effective from 1 April 2000.

- **Mimicking: Integrating ideas from IAS in a pragmatic way**

> "FER is well on track to close the gaps to IAS." Bertschinger (1997, p. 379)

Although FER openly admitted that it mimicked the content of the IAS, it did so quite in a pragmatic and opportunistic way by, e.g., retaining options. This assertion becomes evident with several projects. One of them was the development of FER 9 Intangible assets.

> "At present, FER works on several projects. The draft on the accounting recommendation on intangible assets is available; however FER wishes to strictly avoid contradictions to international standards and thus this draft cannot be published prior to the IASC decision on the depreciation matter (primarily the depreciation period)." Behr (1994b, p. 327)

FER 9 stayed close to IAS rules except for the option to write off goodwill to equity, because international standards were about to abandon this option and to require capitalization and amortization. The Executive Committee also debated the question and agreed to present the different options to the Commission for determining the future handling (source: 44th Meeting of the Executive Committee dated 17 September 1993). After lengthy internal discussions, the Commission eventually agreed to retain the option to write off goodwill to equity linked with a disclosure requirement in deviation from IAS (source: 22nd Meeting of the Commission dated 7 December 1993). Following the public consultation, the Executive Committee discussed the feedback of four received opinions and agreed on avoiding the revisiting of the above outlined goodwill issue (source: 48th Meeting of the Executive Committee dated 21 November 1994). The project manager promised to directly respond to the opinion providers, and eventually the Commission passed FER 9 effective from 1 January 1996 (source: 24th Meeting of the Commission dated 6 December 1994), while it was endorsed by the Admission Board of the Swiss Stock Exchange from 1 January 1998 onward.

Another example of the orientation on IAS rules was the development of FER 11 Taxes in the consolidated financial statements, where the Commission agreed that the new standard had to stay as close as possible to IAS. FER engaged external specialists but also relied on the experience of internal representatives from large preparers. Following the request of preparers, the scope of FER 11 included not only deferred taxes but also in general questions around income taxes, because practitioners especially from small and medium-sized groups were divided on how the related issues should be dealt best with.

> "Not least because of missing regulation on accounting for income taxes in consolidated accounts in Switzerland, there is a large application uncertainty with groupsand hence also a broad variety of methods." Tschopp (1994, p. 401)

As a result, the Commission decided to include comprehensive explanations with the recommendations (source: 22nd Meeting of the Commission dated 7 December 1993). In view of transnational accounting standards, the Commission required the usage of current tax rates for the calculation deferred taxes and the application of the balance sheet method for the annual calculation (requiring the consideration of temporary differences between the tax balance sheet and the balance sheet used for consolidation purposes as well as all future income tax effects).

> "As contribution to practice and to foster the development in this area, the FER Commission presently develops a corresponding recommendation in the form of FER 11 Taxes in the consolidated financial statements. This accounting and reporting recommendation strives for compatibility with existing rules set by the EC, the IASC and the FASB." Tschopp (1994, p. 400).

Particularly, members of the Commission representing large preparers such as Nestlé and Ciba Specialty Chemicals engaged in the discussions of the drafts and proposed various improvements on wordings. After the consultation in autumn 1994, the Commission enacted FER 11 as of 1 January 1996 (source: 24th Meeting of the Commission dated 6 December 1994). The Swiss Stock Exchange also did so two years later, after having carried out a separate consultation without major objections (source: 29th Meeting of the Commission dated 27 May 1997).

A further example of adopting ideas IAS in a pragmatic way was FER 17 Inventories in the consolidated financial statements. Before the members of the Commission discussed the content of the draft rules that were presented in 1997 for the first time, they held a general debate on the desirability of detailed regulation. In this context, they agreed that accounting regulations should be kept as short and concise as possible and that excessive regulation is to be avoided. In the case of regulatory gaps, users of Swiss GAAP FER were supposed to identify a solution in accordance to the true and fair view principle and should not be required to refer to IAS/IFRS. Considering this more strategic discussion, the proposed draft was returned to the working group for revision and simplification. Nevertheless, the Commission at least determined the most important principles (source: 30th Meeting of the Commission dated 9 December 1997). The revised draft was discussed and amended several times until the Commission agreed to pass it into consultation in June 1999 (source: 33rd Meeting of the Commission dated 10 June 1999).

> "The Accounting and Reporting Recommendation is structured in a clear and easy-to-understand way and orients itself toward international conditions. However, it leaves the preparer extensive options in the handling of paid and received prepayments. For valuating inventories the lowest value principle applies: at the lower of cost or net realizable value." Suter (2000, p. 272)

Subsequently, the Commission enacted FER 17 as of 1 January 2001 (source: 34th Meeting of the Commission dated 7 December 1999). The orientation on international accounting standards is also evident in the published article by Suter (2000), as he explicitly outlined important differences to IAS.

In 1996, FER tasked a working group to develop FER 18 Tangible fixed assets. Following the real estate crisis in the 1990s in Switzerland and massive write-offs by renowned groups, the necessity to issue regulation on fixed tangible assets including impairment was uncontested.

> "The responsible persons at the IASC but also at the FER Commission took note of these write-offs in 1995/96. Several business journalists highlighted to their readers the arbitrariness with the recognition and release of significant provisions and write-offs on tangible fixed assets. They questioned the meaningfulness of true and fair view based audit opinions, criticized the informative value of IAS as well as FER accounts and noticed the lack of clear guidelines on the valuation and disclosure of fixed assets." Manach (2000, pp. 273-274)

At the start of the project, the scope of the standard to be created included impairments. However, to ensure alignment to IFRS and prevent delays, the Commission decided to deal with impairment issues in more detail in a separate standard. After a detailed discussion of the draft, the Commission released it into consultation (source: 32nd Meeting of the Commission dated 9 December 1998). While allowing for options in valuation questions such as, for example, that group accounts tangible assets could be either valued at cost less cumulated amortization or at actual values less cumulated amortization, etc., FER 18 considerably expanded disclosure requirements.

> "The FER disclosure requirements, illustrated by a practical example at the end of the standard, shall lead to increased transparency. With the option to disclose the required information in the balance sheet or in the notes, the Commission opted for a flexible and pragmatic solution — all information and figures that are described in the notes do not need to be listed separately in the balance sheet. The consistency of the presentation is ensured by the prescribed table format of the schedule of assets." Manach (2000, p. 275)

In June 1999, the Commission debriefed on the opinions received during consultation. Thereby, they agreed to approve FER 18 on the condition that the wording of article 14 on tangible fixed assets held for investment purposes was revised (source: 33rd Meeting of the Commission dated 10 June 1999). Eventually, in December 1999 the Commission discussed last minor changes and enacted FER 18 Tangible fixed assets as of 1 January 2001 (source: 34th Meeting of the Commission dated 7 December 1999).

> "Unfortunately, FER 18 will be enacted later than expected by the Commission. This is mainly due to the delay of the enactment of IAS 36: The Commission did not want to give rise to contradictions against the detailed rules of IAS 36."
> Manach (2000, p. 274)

Before FER 18 became effective, the Commission revised the standard:

> "The FER want to implement the ideas of IAS and avoid contradictions to IAS. Therefore, the Executive Committee of FER agreed as of 26 January this year to adopt a corresponding change, which was approved by the FER Commission on 8 June according to the below cited wording (…). The recommendations 18/4 and 18/19 , which regulate the recognition of tangible fixed assets held for investment purposes, also allow for the recognition of actual cost adjustments in the profit and loss account." Teitler-Feinberg (2000, p. 1129)

Teitler-Feinberg (2000) provided a detailed explanation on the required changes and included a detailed illustrative example.

The development of FER 20 Impairment of assets was a follow-up project to FER 18 Tangible fixed assets, which deliberately left detailed impairment questions unregulated due to developments in the transnational realm as outlined earlier. In 1998, the working group started with the development of the new standard and the Commission permitted a deviation from IAS rules[131], which were considered too strict, if it was ensured that an IAS-compliant financial reporting was also compliant to Swiss GAAP FER (source: 31st Meeting of the Commission dated 7 May 1998). While the working group was encouraged to investigate IAS and US GAAP rules, the

[131] In 1998, the IASC released IAS 36 Impairment of Assets effective from 1 July 1999 onward.

new standard should account for Swiss peculiarities and not neglect the requirements of SMEs.

> "The examination of applicable rules of the FASB, the IASC and FER by the author showed that, without a specific norm on impairments, there would be considerable differences in financial reporting resulting in lack of transparency due to the absence of such a norm. Following the true and fair view principle of FER, the necessity arises to address this area by a separate accounting and reporting recommendation." Eberle (2000, p. 278)

In June 2000, the Commission passed the draft into consultation (source: 35th Meeting of the Commission dated 8 June 2000). In December 2000, the Commission took note of 11 opinions, including divided requirements in various aspects, and finally approved it in its next meeting in 2001 effective from 1 January 2002 (source: 37th Meeting of the Commission dated 28 March 2001).

An example of smooth and quick project was FER 22 Long-term contracts, which for example implemented the already well-recognized percentage-of-completion method. In 2000, the first draft was discussed in the Commission. It welcomed the proposed wording and had only minor inputs so that the standard was passed into consultation in June 2000 (source: 35th Meeting of the Commission dated 8 June 2000). As the Commission only obtained positive feedback on the draft, it was unanimously enacted as of 1 January 2002 (source: 37th Meeting of the Commission dated 28 March 2001)

- **Monitoring: Staying close to the developments with IAS**

Due to the international orientation and as outlined with various projects, FER closely monitored the developments in accounting in the transnational realm as well as on a national level. Most remarkable, it tried to build and maintain a good relationship to the IASC. In November 1993, the President of the Commission and the Technical Secretary attended an International Standards Setting Meeting of the IASC in London (source: 44th Meeting of the Executive Committee dated 17 September 1993). Also, the Commission took note of the actions by the IASB and was informed of the IASB meeting in Zurich in November 1998 (source: 30th Meeting of the Commission dated 9 December 1997).

In the minutes of 1994, there is evidence that the Commission and the Swiss Institute of Certified Accountants and Tax Consultants supported the efforts to obtain a seat on the IASC by a representative of the Swiss Industrial Holding Companies (source: 23rd Meeting of the Commission dated 10 June 1994). As the Swiss multinational that took a pioneering role in adopting IAS, Mr. Harry K. Schmid from Nestlé was appointed and held this role from 1995 until 2004. After his resignation, he was not replaced by a Swiss representative. Mr. Schmid was not only a representative of the Swiss Industrial Holding Companies but also a member of the FER Commission from

1985 until 1998. As he was also a member of the Executive Committee from 1992 onward and as he managed various projects at FER, he could ensure that other FER members received a timely information about ongoing developments at the IASC/IASB.

Independent of the above outlined monitoring activities, the convergence efforts between IAS and US GAAP were observed and were, in general, well received in Switzerland. At the same time, members of the Commission took note of difficulties[132] with the convergence. FER as a national accounting standard-setting organization regarded the growing complexity of IAS not only with concern but also saw the rising opportunity for itself and as a source of its own legitimacy. Behr (2000) doubted that a potential convergence resulted in relief for European companies seeking capital:

> "In fact, American dominance is cemented thereby. From the point of view of investors, this does not need to be a disadvantage. However, companies win much less than many today think or hope. Therefore, it is important to further advance accounting standards in Switzerland in a concise and not overly complex way in parallel to these processes." Behr (2000, p. 268)

- **Protecting: Some internal policing activities**

The period of 1993 to 2001 marked a time with little focus and few activities on governance and transparency compared to the previous period. In terms of the accounting standard-setting process, the Commission continued to follow the outlined project process requiring a public consultation and voting procedures stipulated in the Organizational Regulations. However, compositions of working groups, etc., were no longer systematically disclosed, and media presence was slightly decreased and limited mainly to the national environment.

On an organizational level, FER dealt with issues of participation and communication by its members. Participation at the Commission meetings was often only slightly above the minimum attendance of two-thirds of the members of the Commission to establish quorum. At the 32nd Meeting of the Commission on 9 December 1998, the quorum was not established, delaying decisions to be made. As a result, the Executive Committee started analyzing participation of members more closely. Members who did not regularly attend the meetings of the Commission were asked to either increase their participation or to resign (source: 67th Meeting of the Executive Committee dated 26 January 2000). In 1999, members of the Commission were also

[132] In 1999, Meyer and Spreiter (1999) published an analysis on the US accounting standard-setting process and involved institutions in the US since the crash of the stock market in 1929 and highlighted the convergence difficulties between the IAS/IFRS and US GAAP that led these efforts to stop several years later.

reminded that personal letters and interpretations had to include a comment pointing to the personal nature of such documents to avoid the impression of an official FER statement (source: 34th Meeting of the Commission dated 7 December 1999).

To improve transparency, the Executive Committee approved the revision of the FER homepage in 1999, because it was considered outdated and contained little information (source: 62nd Meeting of the Executive Committee dated 10 May 1999). The Executive Committee also discussed the idea of setting up an interpretative committee of Swiss GAAP FER several times (source: 67th Meeting of the Executive Committee dated 26 January 2000), but the idea was never pursued.

The launch of FER 19 Individual accounts can be considered a clean-up effort to ensure a balanced implementation of the true and fair view principle. In the past, the Commission deliberately concentrated on consolidated accounts. However, the true and fair view principle should also be applicable to a similar extent to companies that voluntarily adhere to FER standards and at the same time are not subject to consolidation. Several members of the Commission pointed to potential adverse tax implications if companies suddenly disclosed true and fair view based financial statements. They feared the awakening of claims by tax authorities implied by the authoritative character of the commercial balance sheet to the one for tax purposes. Nevertheless, after discussing potential implications particularly on SMEs, the majority of the Commission insisted on the implementation of its guiding principle and confirmed the requirement to prepare financial statements according to the true and fair view principle, to avoid impending loss of credibility as a standard-setter (source: 34th Meeting of the Commission dated 7 December 1999). The Commission also did not follow the argumentation that such a preparation would result in an unreasonable burden because companies had to maintain the information anyway for determining their hidden reserves. At the end of 2000, the Commission passed FER 19 into consultation (source: 36th Meeting of the Commission dated 5 December 2000) and enacted it by the end of 2001 as of 1 January 2003 (source: 38th Meeting of the Commission dated 22 November 2001).

Summary of impacts on legitimacy

- **Input legitimacy**

All stakeholders: FER maintained its broad composition of the Commission throughout the period. It even expanded the maximum number of members from 25 to 30 to include more representatives. Nevertheless, it is to be noted that FER put a great deal of effort into recruiting members from the French- and Italian-speaking parts of Switzerland so that it could stabilize it with five representative members in 2000. The extension of standards was accompanied by an increase in observers as the accounting and reporting standards started to address topics such as, for example, employee benefit obligations and accounting for non-profit organizations. These organizations often participated in the working groups responsible for developing accounting standards and could share experience and technical expertise with the Commission. Also, the integration of representatives from the Swiss Stock Exchange ensured that FER were endorsed in the listing rules for listed companies. Furthermore, FER as a standard-setter opened itself up to interactions with external stakeholders by hosting annual seminars on current accounting topics in cooperation with the Swiss Institute of Certified Accountants and Tax Consultants. However, the gradual orientation toward SMEs at the end of the period was not (yet) reflected in the composition of the FER bodies. Regarding subsequent periods, the involvement of FER members in legislative projects is to be noted.

- **Throughput legitimacy**

All stakeholders: As outlined in the numerous projects, FER continued to follow its due process set out in the Organizational Regulations requiring for example a public consultation of at least 60 days. At the same time, it became slightly less transparent in its external communications on projects and the resulting outcome as well as on FER internal procedures. Having said this, it is hardly surprising given the increased workload from new and revised standards mainly caused by its international orientation. Simultaneously, FER remained a militia-based organization, for which all members worked on an honorary basis.

Swiss Stock Exchange: The recognition of FER by the Swiss Stock Exchange and the integration of the standards into the listing rules as of 1 October 1996 not only marked a breakthrough, but it also came at a price. The prospect of acceptance and the static link to specific FER standards in the listing rules in the first years resulted in increased coordination requirements with the Swiss Stock Exchange. Initially, the situation was messy because FER enacted some standards earlier than the Swiss Stock Exchange endorsed them. Also, the initial consultations were inefficient, as they were not coordinated, and the Swiss Stock Exchange carried out its own separately. Also, the bargaining power resulting from such a procedure and constellation may not be left unmentioned. This situation eased when the Swiss Stock Exchange replaced the static reference to FER with a dynamic one in its listing rules in exchange for increased representation on the Commission.

- **Output legitimacy**

Preparers: Although the number of issued accounting standards more than doubled in the second period and thus the regulatory density was substantially increased, particularly preparers from listed companies and private larger organizations that wished to increase the transparency in their financial reporting benefited from the FER standards. Compared to US GAAP or IAS, FER managed to maintain its comparative cost-benefit ratio by following a pragmatic and opportunistic strategy of mimicking international accounting standards. At the beginning of the period, the equivalence of FER to EC directives played an important role before IAS came to the fore. Listed companies that were less active on international capital markets were offered a viable national alternative at a favorable cost-benefit ratio. Furthermore, FER addressed specific accounting questions of important sub-stakeholder groups with tailored accounting standards for insurance companies and non-profit organizations. Thereby, output legitimacy was deeply embodied with these stakeholders.

Users and other stakeholders: With the adoption of the true and fair view principle and the extension of standards to address numerous single accounting issues, the quality of financial reporting in accordance with FER increased substantially. An important shift in mindset (away from creditor protection and hidden reserves toward the true and fair view) was facilitated. The international orientation on mainly IAS ensured that well established and recognized concepts were integrated into the local context. Certainly, numerous regulatory gaps remained compared to IAS, but overall the extension of regulation was a considerable step in the right direction from the perspective of users and other stakeholders.

Swiss Stock Exchange: The endorsement of Swiss GAAP FER represented also for the Swiss Stock Exchange a win-win situation. The international orientation of FER was compliant with the requirement in Article 8 BEHG to follow international developments, while the accounting standards simultaneously offered the constituents of Swiss Stock Exchange a true and fair view-based alternative with a reasonable cost-benefit ratio. Such considerations were particularly important for smaller listed companies. Furthermore, the close cooperation with FER bodies ensured that the interests of the Swiss Stock Exchange were implemented in the decision-making processes.

Legislators/regulators: Regulators were able to present their views on accounting issues and had the opportunity to engage in different projects of FER. The private standard-setting organization managed to quickly address important accounting-related questions, which could not have been addressed timely in the legislative process.

6.3 Phase III: Refocus on SMEs (2002-2008) — Small is beautiful

> “After the decision of the SWX, FER stands before a turning point. The since 1996 enduring efforts for recognition of the equivalence of FER standards in the transnational realm were deprived of their basic foundations.” Boemle (2006, p. 12)

From 2002 to 2008, Swiss GAAP FER experienced turbulent times. External events such as the recognition of IFRS/IAS by the EU and the introduction of IFRS for SMEs triggered actions and discussions in the Swiss national standard-setting environment. To avoid losing legitimacy and fading into irrelevance, the positioning of Swiss GAAP FER was turned upside down. Under the direction of Prof. Dr. Conrad Meyer (president of the Commission), a new modular setup was implemented, and the target group was redirected to SMEs and companies with national reach.

Institutional environment

In this phase, mainly three developments had marked effects on the accounting standard-setting process of FER. First, the decision of the Swiss Stock Exchange to proscribe Swiss GAAP FER as an acceptable accounting standard in its main segment was a wakeup call for FER to rethink its positioning. Second, large accounting scandals adversely affected investors’ confidence and impacted the formulation of accounting standards. Third, Swiss GAAP FER suddenly faced fierce competitive pressure caused by the enactment of IFRS for SMEs during the development and introductory phase of the newly created standard.

- **The proscription of Swiss GAAP FER in the main segment of the SIX Swiss Stock Exchange**

To a similar extent that the full acceptance of FER in the listing regulations of the SWX Swiss Exchange marked a breakthrough a decade earlier, the decision of the stock exchange to no longer allow the application of FER in the main segment represented a major setback. The full acceptance of listed companies had a positive signaling function (bandwagon effect) on other potential Swiss GAAP FER preparers and users. After the turn of the millennium, the trends toward a single set of global accounting standards continued as IOSCO officially endorsed IAS in 2000 (Botzem & Quack, 2006) and as the EU decided on 19 July 2002 to make adoption of IAS for the consolidated financial statements of listed companies mandatory from 1 January 2005 onward (Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards). Since the EU is by far Switzerland's most important trading partner and has Switzerland incorporated EU law in its own legislative environment, the SIX Swiss Stock Exchange faced pressure to react in terms of defining acceptable accounting standards for listed companies. In Article 8 on the admission of securities, the Federal Act on Stock Exchanges and

Securities Trading[133] (Stock Exchange Act) had stipulated in Paragraph 3 the following requirement: “The stock exchange shall take into account internationally recognized standards.” The SIX Swiss Stock Exchange faced a dilemma between alignment requirements to the transnational developments and the interest of its national constituents, who did not all fully appreciate IFRS/IAS as beneficial in terms of cost-benefit arguments and complexity. It feared that it could suffer from a reputation of a non-transparent stock exchange (Schneider, 2002b). The SIX Swiss Exchange was reluctant to mirror the decision taken by the EU for all its segments and thus carefully considered its available options. Also, the close cooperation between the SIX Swiss Exchange and Swiss GAAP FER in the decade up to that point presumably played an important role. In an initial step, the SIX Swiss Exchange conducted a survey[134] on different potential options of eligible accounting standards in different reporting segments. Thereby, only 8 percent of the respondents favored the EU approach to exclusively allow IFRS as an accounting reporting standard. At the same time, only 37 percent were in favor of a recognition of Swiss GAAP FER for all segments apart from the SWX New Market, which meant that respondents supported the idea to restrict the application of Swiss GAAP FER for listed companies (Schneider, 2002b). The survey results provided the SIX Swiss Exchange with a basis for identifying an appropriate solution in the Swiss context. Put differently, it legitimated itself to go its own way, independently of EU decisions.

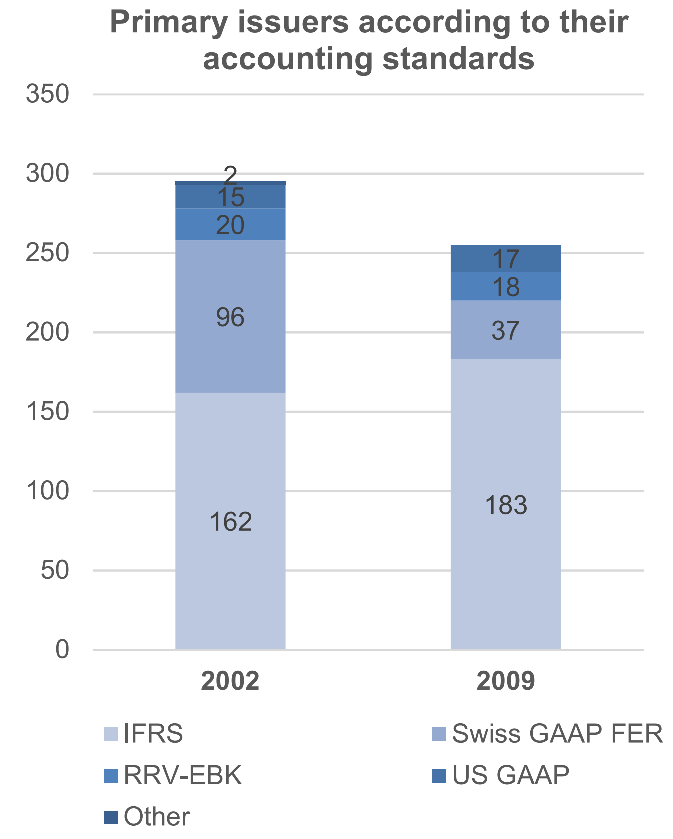

Figure 6: Primary issuers according to their accounting standards
(sources: Bucher and Zemp (2018, p. 406) and Leu and Schneider (2004, p. 647))

[133] The Federal Assembly of the Swiss Confederation (2018)
[134] According to Schneider (2002b), the SWX Swiss Exchange obtained 241 responses of issuers, which corresponded to a response rate of 80 percent.

With reference to Article 8, § 3 of the Stock Exchange Act, the SIX Swiss Exchange eventually decided on 11 November 2002 to restrict the eligible accounting standards to IFRS and US GAAP in its main segment. The adoption of Swiss GAAP FER was allowed in the segments SWX Local Caps, Real Estate and Investment Companies. Thus, companies that issued only bonds and other debt securities could stay with Swiss GAAP FER. After the decision of the SIX Swiss Exchange, around 70 companies were listed in these segments and continued to be allowed to apply Swiss GAAP FER. Leu and Schneider (2004) reported the results of an inquiry of around 62 affected Swiss GAAP FER reporters following the decision of the SIX Swiss Exchange to disallow the application of the national accounting standard in the main segment. Of the 62 respondent issuers, 40 indicated their intent to convert to IFRS, whereas 13 decided to be re-segmented into SWX Local Caps. Eight were undecided, and one obtained an exception.

The purpose of this new regulation was to improve efficiency in the transnational trade of securities as well as to reduce capital cost for the affected companies. At the 40th Commission meeting on 20 November 2002, Schneider explained that the SIX Swiss Exchange wanted to avoid creating an “accounting island Switzerland”. Being aware of the implications of an IFRS adoption for smaller companies, the Head of Financial Reporting at the SIX Swiss Exchange wrote in an article:

> “For small companies with little international business activity and for whom cross-border trade of its securities is less important, the possibility exists to avoid an expensive IFRS conversion by re-segmenting into the SWX Local Caps segment.”
>
> Schneider (2003, p. 594)

In subsequent years, the option to seek re-segmentation to avoid IFRS adoption was quite actively used[135]. Nevertheless, Swiss GAAP FER lost various publicly well-known preparers.

Moreover, Schneider (2003) outlined the necessity of SIX Swiss Exchange maintaining a high pace of regulation in order to preserve the international competitiveness of the Swiss capital market[136]. He also pointed to the increased attention to enforce accounting standards and ensure a high quality of published financial reporting information.

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[135] Meyer (2007) referred to 16 companies that were re-segmented by 2006 because of their application of Swiss GAAP FER.

[136] The author represented SIX Swiss Exchange as an observer on the Commission of Swiss GAAP FER, became a member of the Commission on 14 November 2003 and was subsequently elected to the Executive Committee.

- **Corporate governance and implications of the big accounting scandals**

In the aftermath of the big accounting scandals[137] at the beginning of this millennium, corporate governance issues became a central topic of debate. Investors lost confidence due to manipulated financial statements caused by greedy managers and passive Boards of Directors. The standard-setters of US GAAP and IFRS not only responded to the accounting scandals with more detailed rules, but the US enacted the famous Sarbanes-Oxley Act in 2002, significantly tightening audit regulation and control requirements. With the introduction of the PCAOB (Public Company Accounting Oversight Board), the time of self-regulation with the audit sector came to an end.

In Switzerland, the SIX Swiss Exchange reacted to these developments by issuing the Corporate Governance Directive effective from 1 July 2002. The directive obliged issuers to make key information relating to Corporate Governance available to investors in an appropriate form (see Article 2, purpose of the Directive Corporate Governance). In 2002, economiesuisse[138] also introduced the Swiss Code of Best Practice for Corporate Governance, which has been a widely received set of recommendations on a self-regulation basis. Swiss legislators also responded on a national level. The Code of Obligations was altered and the new Law on Audit Supervision (RAG) enacted in 2007. Independent of its legal structure, the size of an organization determined whether an ordinary or a limited audit was to be conducted. Similar to the PCAOB in the US, the Swiss Audit Supervision Authority was founded and oversees audit firms that audit banks and listed companies.

As part of their external scientific work, actors of Swiss GAAP FER had a conscious look at the scandals and their implications. In an analysis of the causes, Meyer (2003a) found that scandals mainly occurred because of deliberate manipulations of general accounting principles and not because of regulatory gaps or complex areas of accounting requiring detailed technical expertise[139]:

> "Standard-setters realized that it is not a viable solution to regulate accounting with ever more detailed rules. With such case-oriented approaches, it cannot be avoided that always new discretionary elements are being sought. From the perspective of a standard-setter, it is crucial to get a grip on fundamental questions of accounting. This relates to the development and stipulation of an underlying "framework" in the sense of an overriding principle." Meyer (2003a, p. 703)

[137] Examples of such scandals were Enron, WorldCom and Xerox. In Switzerland, Swissair, Rentenanstalt/Swiss Life and Jomed were examples of companies that were involved in scandals.

[138] Economiesuisse is a national Swiss federation that represents the interests of around 100,000 companies from all business sectors and regions of Switzerland with a collective work force of some 2 million people (economiesuisse, 2018).

[139] In literature, agency theory discusses in-depth the underlying principal-agent problem and the self-interested behavior of managers.

- **The enactment of IFRS for SMEs**

Speculations prior to and in the aftermath of the publication of IFRS for Small and Medium-sized Entities and discussions of potential implications led to uncertainty among FER stakeholders and potential prepares and users. In response to the request of developed and emerging countries to have a simpler set of standards in place for smaller companies, the IASB launched a project for small and medium-sized entities. The topic was taken over from the IASC. On 24 June 2004, the IASB published its discussion paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities". On 15 February 2007, the exposure draft "Proposed IFRS for Small and Medium-sized Entities" was released. IFRS for Small and Medium-sized Entities was issued on 9 July 2009 and came into effect immediately. In contrast to Swiss GAAP FER, listed companies, regardless of their size, are prohibited from using IFRS for SMEs. IFRS for SMEs targets small and medium-sized entities that do not have any public accountability and that publish general purpose financial statements for external users (see Section 1 of IFRS for SMEs: International Accounting Standards Board (2015)).

At the end of 2003, BDO and the University of Zurich conducted a survey[140] of medium-sized companies in Switzerland. The purpose was to obtain views on the accounting landscape and its developments — particularly focusing on the trend toward IFRS (BDO & University of Zurich, 2004). Some 47 percent of the responding companies solely applied the Swiss Code of Obligations for establishing their yearly financial statements, whereas 30 percent used Swiss GAAP FER and 23 percent IFRS. In terms of influences from the macro-environment, 60 percent of the Swiss companies regarded the future accounting developments in the EU as also relevant for Switzerland. The survey revealed inter alia arguments for and against IFRS. Arguments for IFRS included the increased transparency resulting in better comparability with peers, improved communication with investors and debt capital providers, an improved competitive position and basis for internal management, lower cost of capital, lower integration cost with business cooperations and acquisitions and improved communication basis with different group entities. Disadvantages of applying IFRS included financial reporting differences to determine distributable results, a limited balance sheet policy, the existing alternative sources for obtaining information, an adverse cost-benefit ratio, potential legal consequences in case of over-indebtedness and the necessity to prepare financial reporting for statutory purposes. Regarding IFRS for SMEs, the companies welcomed the efforts of the IASB to create a separate standard and to consider SME requirements in such

[140] The survey questionnaire was sent to 328 medium-sized companies in Switzerland and Liechtenstein in December 2013 (selection criteria: > turnover CHF 75m — excluding listed, public, financial services and consulting companies and subsidiaries). 118 companies completed the questionnaire, a response rate of 36% (BDO & University of Zurich, 2004).

a framework. At the same time, the majority of the Code of Obligations and Swiss GAAP FER reporters were satisfied with their current situation and thus had a wait-and-see attitude when it came to a decision to adopt an alternative accounting reporting standard such as IFRS for SMEs. So, it was unclear in what direction these developments would continue and how IFRS for SMEs would prevail after its definite issuance.

At first glance, IFRS for SMEs appeared to stand in direct competition to Swiss GAAP FER in terms of the target group of SMEs (Leibfried, 2007a). The IASB considered a company with approximately 50 employees as a basis for determining the accounting standards, whereas the size criteria of Swiss GAAP FER was in line with the Swiss Code of Obligations. Small companies that do not exceed two out of three criteria[141] in two consecutive years may apply core FER. Thus, Leibfried (2007a) concluded that there would be overlaps between the target groups of IFRS for SMEs and Swiss GAAP FER. These overlaps were particularly strong for companies above the core FER criteria. In terms of standards from an output perspective, Leibfried (2007a) also saw overlaps. Both standards highlighted the true and fair view principle. While Swiss GAAP FER remained principle-based, the fallback option in certain topics to the full IFRS has made IFRS for SMEs an accounting standard with a potentially high density of rules. Regarding the competition of the two accounting standards in the Swiss context, Leibfried (2007a) stated:

> "This competition is probably not yet decided; banks and other users will have a final say. However, all Swiss GAAP FER practitioners may contribute to the maintenance of national standards as an independent Swiss solution: It may never happen that a company applying Swiss GAAP FER comes into troubles, where public opinion will subsequently conclude that it would not have happened under the stricter IFRS for SMEs. Principle-based accounting namely requires always a certain degree of discipline in its use." Leibfried (2007a, p. 63)

As the discussions on implications of the released exposure draft in 2007 continued, it became clearer that medium-sized companies in Switzerland considered IFRS for SMEs still too cumbersome and regarded Swiss GAAP FER as more suitable for the Swiss context (Leibfried, 2007b).

[141] The three criteria involve: a) a balance sheet total of CHF 10 million, b) annual net sales of goods and services of CHF 20 million and c) 50 full-time employees on average per year (Swiss GAAP FER, 2014b).

Organizational structure and accounting standards

2002 marked a turn for Swiss GAAP FER due to major developments in its institutional environment as outlined above. There was consensus that the repositioning of the Swiss GAAP FER also needed to result in adjustments of the composition of its bodies. More members should represent preparers from SMEs and users in this segment. Briefly summarized, fresh forces were designated to inject impetus into the high-priority changes that needed to take place in response to the increasingly contested environment. For example, the founder of Swiss GAAP FER, Prof. Dr. André Zünd, retired in 2002. In the same year, Prof. Dr. Giorgio Behr stepped down as president of the Commission to become president of the Board of the Foundation. His successor as president of the Commission was Prof. Dr. Conrad Meyer from the University of Zurich. The tradition to have university representatives as president of the Commission in order preserve independence and balancing of interests was continued. Prof. Dr. Reto Eberle (KPMG AG) assumed the position of the Technical Secretary from June 2002 onward and was superseded by Reto Frey (BDO AG) in December 2007. The Board of Foundation doubled from three members in January 2000 to six members in January 2004[142] and continued to include three (former) university professors. With Prof. Dessemontet from the University of Lausanne, the Board of Foundation was successful in its efforts to have a member from the French-speaking part of Switzerland. However, Prof. Dessemontet resigned in 2006. While university professors dominated the Executive Committee in 2002, three out of six Executive Committee members came from one of the Big 5 auditing firms in 2004. In the subsequent three years, the bodies of Swiss GAAP FER directed their attention to the development of standards rather than organizational structure. In 2006, organizational topics regained importance. The Commission discussed and submitted an altered version of the Organizational Regulations to the Board of Foundation for final approval. Thereby, the existing decision-making rules were retained. A recommendation could only become effective if it was approved by a qualified majority of the Commission (source: 50th Meeting of the Commission dated 16 November 2006). At the same time, the revised personnel concept was discussed in the different bodies of Swiss GAAP FER. As a result, six members of the Commission decided to resign at the end of November 2006. Earlier in 2006, members were asked to think about potential new candidates from underrepresented stakeholder groups. The Commission discussed potential candidates (mainly preparers) and proposed them for election to the Commission by the Board of Foundation. Eventually in 2007, the Commission welcomed five new representatives from preparers and two from banks. Also, with the observers there were some few adjustments. The Federal Audit Oversight Authority was added to the list of organizations that acted as observers. Background was that the previous

[142] The Board of Foundation included as of 1 January 2004 Prof. G. Behr (president of the Board of Foundation, University of St.Gallen), Prof. F. Dessemontet (University of Lausanne), Prof. C. Helbling (Zurich), K. Jenny (Zurich), Alberto Togni (UBS) and André von Moos (Lucerne) (Foundation for Accounting and Reporting Recommendations, 2004).

representative from the Swiss Federal Office of Justice changed employers, and the Board of Foundation considered it as beneficial to also have a representative from the Federal Audit Oversight Authority on board. Later, a member from the Swiss Fiduciary Association (today known as TreuhandSuisse) was appointed to the Commission.

In response to the developments in the institutional environment, Swiss GAAP FER's primary focus in this period was on developing and revising its accounting standards:

01.01.2002
- Swiss GAAP FER 20 Impairment of assets
- Swiss GAAP FER 22 Long-term contracts

01.01.2003
- Swiss GAAP FER 19 Individual accounts*
- Swiss GAAP FER 21 Accounting for charitable, social non-profit organizations

01.01.2004
- Swiss GAAP FER 23 Provisions
- Swiss GAAP FER 24 Shareholder's equity and accounting for own shares and transactions with shareholders
- Swiss GAAP FER 26 Accounting of pension plans

01.01.2005
- Swiss GAAP FER 12 Interim financial report
- Swiss GAAP FER 21 Accounting for charitable, social non-profit organizations

01.01.2006
- Swiss GAAP FER Framework
- Swiss GAAP FER 16 Pension benefit obligations

01.01.2007

- Swiss GAAP FER 1 Basics
- Swiss GAAP FER 2 Valuation
- Swiss GAAP FER 3 Presentation and format
- Swiss GAAP FER 4 Cash flow statement
- Swiss GAAP FER 5 Off-balance sheet transactions
- Swiss GAAP FER 6 Notes
- Swiss GAAP FER 10 Intangible assets
- Swiss GAAP FER 11 Taxes
- Swiss GAAP FER 12 Interim Reporting
- Swiss GAAP FER 13 Leases
- Swiss GAAP FER 15 Related party transactions
- Swiss GAAP FER 17 Inventories
- Swiss GAAP FER 18 Tangible fixed assets
- Swiss GAAP FER 20 Impairment
- Swiss GAAP FER 21 Accounting for charitable, social non-profit organizations
- Swiss GAAP FER 22 Long-term contracts
- Swiss GAAP FER 23 Provisions
- Swiss GAAP FER 24 Equity and transactions with shareholders
- Swiss GAAP FER 27 Derivative financial instruments
- Swiss GAAP FER 30 Consolidated financial accounts

**Abolished as of 1 January 2007*

- *New standard*
- *Revision of existing standard (may involve renumbering)*

Figure 7: Enactment of new and revised accounting standards from 2002 to 2008

The brochure was issued in German, French and English up to the release in 2007. From 2009 onward, the brochure was again published in Italian. The industry-specific Swiss GAAP FER largely remained unchanged during the FER restructuring. Concerning insurance contracts, the Commission decided to wait with an update of Swiss GAAP FER 14 Consolidated financial statements of insurance companies until the international accounting community reached greater consensus on the way forward (Meyer, 2007).

Actors and actions

- **Constructing identities: The way to a distinct profile**

The events that marked the start of a new phase for Swiss GAAP FER were far-reaching, and the standard-setter decided to mainly target at SMEs from that point on. Following internal discussions within the FER bodies, the standard-setter proactively involved its stakeholders by regularly and openly communicating its thoughts and future plans and inviting the public to participate in the consultations of

SWOT Analysis of Swiss GAAP FER

Opportunities
- Development of own standards
- Increased credibility, consistency and comparability of accounting
- Cost-efficient set of rules
- Access to the national capital market
- 30,000 potential SMEs
- Audit by qualified auditors

Threats
- Lack of acceptance of Swiss GAAP FER among banks and companies
- IFRS concept for SMEs
- Implementation too expensive
- Lack of support of the economy (financially and in terms of manpower)

Strengths
- New framework for SMEs
- Simple and flexible standards for SMEs
- Technical expertise of the Commission
- Experts from science and economy

Weaknesses
- Not (yet) exactly defined project
- General trend toward IFRS
- No clear differentiation toward IFRS

Figure 8: SWOT analysis
(source: Meyer (2003b, p. 106))

the revised standards. In 2003, the president of the Commission (Meyer, 2003b) published a relentless SWOT analysis of Swiss GAAP FER (see Figure 8) in the journal "Der Schweizer Treuhänder". The surprising transparency was presumably a preparatory step for onboarding its stakeholders for the planned restructuring of the accounting standards and mobilizing their support through open communication of the sense of urgency. Although the strategic repositioning still had to be developed in detail and discussed within the FER bodies, the Executive Committee already recognized in 2002 the importance of ongoing communication on the planned restructuring with the public[143].

As also can be seen in Figure 8, Swiss GAAP FER as a standard-setter recognized the trend toward IFRS and its own lack of differentiation:

> "The Commission clearly stipulated in its media release in January 2003 that Swiss GAAP FER need to differentiate themselves from IFRS in a clearer way in

[143] Source: 40th Commission Meeting dated 20 November 2018

future and need to consider specific Swiss accounting interests. This results in the fact that the restructuring of existing standards must take into consideration that the “new target group” in general only needs to establish separate financial statements, whereas the existing standards always were explicitly oriented toward consolidated financial statements.” Boemle (2006, p. 12)

“IFRS represent the most severe competitor of Swiss GAAP FER. However, realistically seen, the application of IFRS is an expensive option for the specific segment of mainly non-listed and nationally operating SMEs.” Meyer (2003b, p. 106)

In response to the vague positioning of Swiss GAAP FER, the president of the Commission, Prof. Dr. Conrad Meyer, outlined the future orientation toward small and medium-sized organizations and groups with national reach. Thereby, he also highlighted Article 3 of the Deed of Foundation:

"The Commission has the mandate to develop accounting standards that take into consideration Swiss circumstances and set out viable ways. These standards shall contribute to the harmonization of accounting in Switzerland, improve the comparability and increase the quality of accounting in Switzerland.”

40th Meeting of the Commission dated 20 November 2002

Considering Swiss circumstances implied a reconsideration of the target group. In contrast to the situation in the 1980s, multinational companies were no longer a key stakeholder group of Swiss GAAP FER, since they had mainly adopted IFRS or US GAAP in the meantime. Nevertheless, Meyer (2003b) included smaller listed companies (excluding those in the main segment) also in the defined target group. Overall, he estimated that Switzerland had around 300,000 small and medium-sized organizations and that for 10 percent of them Swiss GAAP FER could be of interest. Thereby, he recognized the need to take into account cost-benefit arguments and the limited availability of resources among the target group. At the same time, he pointed to the valid interests of other stakeholders that needed to be considered in parallel. Particularly, interests of lending banks were paramount, since Swiss GAAP FER enjoyed a good reputation with them. The president of the Commission publicly reported on the ongoing project to establish an underlying framework to ensure fair presentation in accounting. Furthermore, he referred to the ongoing work on the new strategy by the Commission.

In 2004, Meyer and Teitler-Feinberg (2004b) explained the new positioning of FER in an article titled “Swiss GAAP FER on its way to an own profile” and outlined the timeline for completing the restructuring project. The article was also published three months later in French (Meyer & Teitler-Feinberg, 2004a). Thereby, they added non-profit organizations and pension funds to the above outlined target group of Swiss GAAP FER. The authors summarized efforts of the IASB and the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting to offer accounting guidelines for SMEs. They argued in favor of continuing to develop national accounting standards, building on arguments of national divergences and potential cost implications due to the fallback of IFRS for SMEs on the full IFRS. They also referred to changes in the national legal environment[144] such as amendments of the audit requirement in the company law. Swiss GAAP FER aimed at improving the communication of SMEs with investors, banks and other interested stakeholders. Comparability across companies and time should be fostered and a more solid basis for strategic business management should be provided:

> "An accounting standard for SMEs has become necessary. The present Code of Obligations is outdated and not in the position to provide relevant impetus for a meaningful accounting. It is evident that there is an "accounting vacuum" for SMEs and that they need support for their accounting. It is important that specific characteristics of SMEs are considered during the creation of relevant standards."
>
> Meyer and Teitler-Feinberg (2004b, p. 718)

The objectives of the new revised Swiss GAAP FER standards were the presentation of the yearly financial statements according to the economic reality following the true and fair view principle in a simple, clear and concise way (supporting cost-benefit considerations). Meyer and Teitler-Feinberg (2004b) explained the reasoning behind the Swiss GAAP FER framework and highlighted proposed differences to IFRS and US GAAP.

> "The discretionary formation and release of hidden reserves will not be tolerated. Whereas, it corresponds to the prudence principle to "chose the less optimistic alternative in case of uncertainty and equal probability of occurrence." The prudence principle is more tangible in this statement than in the provisions of the IASB (F.37 or IAS 1.20). Also US GAAP rather neglected the prudence principles in implementation." Meyer and Teitler-Feinberg (2004b, p. 722)

The authors already differentiated between "Core FER" and so-called "Best Practice FER" (Meyer & Teitler-Feinberg, 2004b, p. 719). Later, the labeling of "Best Practice FER" was abandoned. Auditors highlighted difficulties with the type and scope of audit opinions to be issued, if accounting standards were labeled as best practice.

In the same issue of the journal[145], the Commission published a draft of the proposed Swiss GAAP FER Framework for consultation purposes and also outlined the cornerstones of its planned restructuring of the Swiss GAAP FER into the modular setup.

The Swiss GAAP FER Framework was enacted on 1 January 2006 following a consultation phase, and Swiss GAAP FER continued with its proactive external communication. The project manager and member of the Executive Committee, Mrs.

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[144] Swiss GAAP FER refrained from issuing guidance on corporate governance topics, because these issues had been sufficiently addressed by the Corporate Governance Directive issued by the SIX Swiss Exchange and Code of Best Practice for Corporate Governance issued by economiesuisse.

[145] The referred journal is: Der Schweizer Treuhänder, issue 9, 2004.

E. Teitler-Feinberg, reported consultation feedback by 30 different stakeholder representatives and explained resulting changes to regulations concerning first-time application, short-term liabilities, the management report and the substance over form principle (Teitler-Feinberg, 2005).

Meyer and Eberle (2005) again highlighted the target group and outlined important cornerstones and changes of the new setup of the standards. They also reported on the planned timeline of the consultations to be taken place in the subsequent months.

In December 2005, Swiss GAAP FER opened the consultation process on the Core FER. Prior to the official consultation phase, the project team responsible for the restructuring obtained opinions on the planned amendments of the standards from selected preparers, who identified several contradictions and proposed various clarifications (source: 44th Meeting of the Commission dated 11 November 2004). On 7 April 2006, the Commission passed the Core FER with the abstention of one member after discussing and adjusting the standards as result of the consultation feedbacks (source: 48th Meeting of the Commission dated 7 April 2006).

The rest of the amended Swiss GAAP FER standards were released into consultation at the end of 2005 (source: 47th Meeting of the Commission dated 11 November 2005). The most discussed standards were Swiss GAAP FER 16 Pension benefit obligations, Swiss GAAP FER 30 Consolidated financial statements[146] and Swiss GAAP FER 27 Derivative financial instruments, which was a new accounting standard. After lengthy discussion of the opinions received in the consultation phase, the Commission unanimously decided to enact the rest of the amended Swiss GAAP FER as of 1 January 2007. Despite the tight timeline, the Commission succeeded in adhering to it.

[146] Swiss GAAP FER 30 is a ragbag of consolidation rules. The unclear separation between rules for separate and consolidated financial statements was removed in the course of the restructuring. The new FER standards targeted all financial statements, whereby Swiss GAAP FER 30 included specific requirements for consolidated financial statements. As a result, Swiss GAAP FER 19 Individual accounts was suspended four years after its enactment.

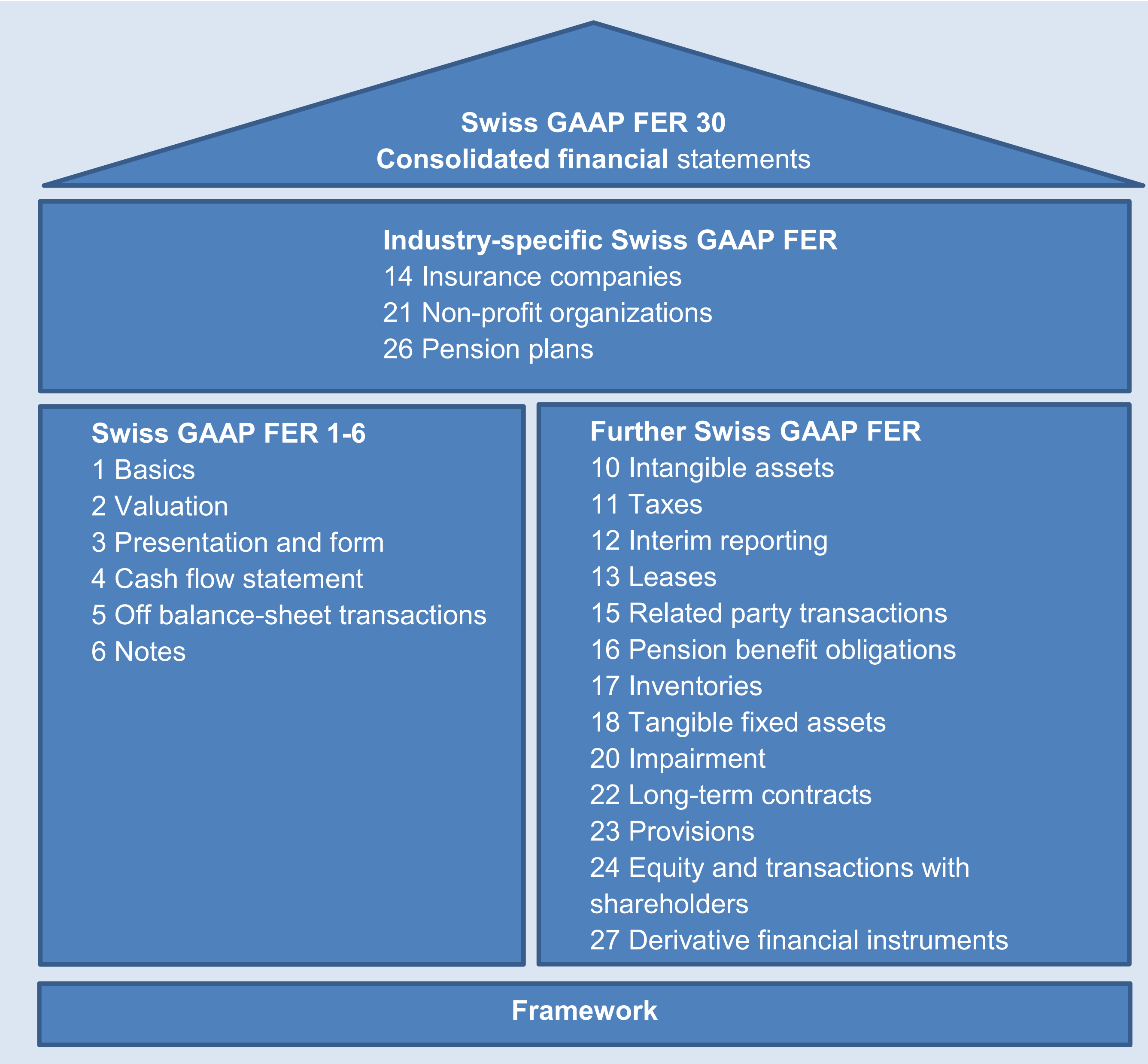

Figure 9: House of Swiss GAAP FER
(source: Meyer (2008, p. 290))

After the new standards were released, the Executive Committee continued its communication efforts with the public in the same way and highlighted benefits of applying FER as well as cornerstones of the amended standards. The graphic depictions of the modular setup became increasingly professional (see Figure 9). Meyer (2007) repeated the objective of Swiss GAAP FER to provide organizations with a suitable basis for meaningful accounting that provided a true and fair view of the financial position, the cash flows and the results of operations.

> "The lean set of standards gives thousands of small organizations the chance to improve their accounting by applying the framework and a few more standards."
>
> Meyer (2007, p. 57)

After the enactment of the revised Swiss GAAP FER, Meyer (2007) clarified the altered positioning and outlined the final new concept of Swiss GAAP FER. Although it was probably quite early to judge how the stakeholders received the restructuring of the Swiss GAAP FER, Meyer (2007) drew a positive conclusion and referred to a study as follows:

> "More than 80 percent of the companies applying Swiss GAAP FER confirm that thanks to the application of the standards an accounting in line with the true and fair view can reached, which at the same time has an acceptable cost-benefit relation." Meyer (2007, p. 61)

The article in 2008 published by the president of the Commission on the restructuring of the Swiss GAAP FER did not include a comparison to other transnational accounting standards (Meyer, 2008). Meyer (2008) mainly concentrated on explaining the modular setup of Swiss GAAP FER and the content of the Core FER for potential new SME preparers. He pointed to expected changes in the Code of Obligations requiring large organizations for example to prepare financial statements according to a recognized private accounting standard (Swiss GAAP FER, IFRS or US GAAP). Thereby, Swiss GAAP FER would offer organizations that fall into that scope an efficient and practicable alternative to transnational accounting standards.

> "Small organizations are enabled to follow the Core FER in an initial step. At a later point in time, as circumstances change, they may adopt the entire Swiss GAAP FER without unnecessary additional efforts. Thus, Swiss GAAP FER offers both small and large organizations a customized concept for meaningful financial statements according to true and fair view." Meyer (2008, p. 294)

In 2008, first insights from practical application of the restructured Swiss GAAP FER were available. As no substantial criticism was raised by important stakeholder groups, the only possible conclusion was that the restructured Swiss GAAP FER and the reconsideration of the target group were well-received.

- **Advocacy: In a soft and often indirect way**

The relationship between Swiss GAAP FER and its stakeholders is best characterized as a give and take. While the members of the Commission openly lobbied for support for the restructured modular setup as outlined earlier and also produced an information flyer on the basic concept of the standards that was distributed 30,000 times in 2008, I will concentrate on describing the subtler approaches to advocacy in this section, because they presumably are of the same importance. A good relationship with the legislators/regulators and with SIX Swiss Exchange represented an important success factor for obtaining a broad acceptance of Swiss GAAP FER. In the following, I will take the examples of the SIX Swiss Exchange and the Federal Office of Justice. The SIX Swiss Exchange was represented at the Commission meetings by an observer and a member, who was also elected into the Executive Committee by the end of 2003. The representatives communicated their support of Swiss GAAP FER quite openly:

> "Swiss GAAP FER will continue to play an important role at the SWX, independently of the fact that this accounting standard will no longer be admitted in the main segment from the year 2005 onward. The importance of Swiss GAAP FER for SWX has different reasons: On the one hand, nationally oriented listed companies in SWX Local Caps have the possibility to apply a less comprehensive and more cost-effective standard. Thereby, Swiss GAAP FER provide issuers with a good starting basis to adopt IFRS in a later stage in case of changes of orientation (growth, widening the circle of shareholders, internationalization, etc.) and thus it can act as 'stepping stone' or preliminary step to IFRS. On the other hand, SWX wishes to maintain the attractiveness of its segment SWX Local Caps for small national companies by retaining Swiss GAAP FER."
>
> Leu and Schneider (2004, p. 645)

> "Since SWX — as outlined — is convinced of the significance of national standards, particularly for small (listed) companies, it tries to contribute to the development and the professionalization of FER through different measures. Thus, several SWX employees are actively involved in FER bodies. Further, SWX newly contributes through a sponsorship arrangement a notable annual contribution to cover the cost of the planned institutionalization and professionalization of FER. These measures additionally aim at making the standards of FER more concise and better enforceable for listed companies. An initial step into this direction due to the development of a framework is already well on the way."
>
> Leu and Schneider (2004, p. 645)

On the other hand, various members of the Commission supported the enforcement initiative by the SIX Swiss Exchange on a private basis. Already starting in 1998, the SIX Swiss Exchange increased its efforts to limit mistakes and abuses of accounting rules with listed companies. In 2000, it enacted a directive on the enforcement of financial reporting regulations. Two years later, Schneider (2002a) publicly explained the enforcement directive and the underlying organizational structure with the different responsibilities. SIX Swiss Exchange checks whether listed companies comply with regulatory provisions and reviews financial statements including audit reports. Critical cases are forwarded to an Expert Group, which provided advice to the Admissions Board and the Sanctions Commission. The Expert Group comprised representatives of listed companies, audit firms and university professors and maintained strong relationships with different accounting standard-setters[147]. In 2002, the Swiss GAAP FER president of the Commission chaired the Expert Group.

[147] Please note that SWX Swiss Exchange was also concerned about the enforcement of IFRS and maintained good relationships to the IASB and IOSCO. The SWX Swiss Exchange was an affiliated member of the Standing Committee No. 1 of IOSCO, which dealt with accounting-related questions. As of 19 January 2007, an IFRS enforcement database was launched and SWX Swiss Exchange shared information on the IFRS related issues identified (Leu & Teitler-Feinberg, 2007).

"I appreciated the involvement because I learned about the issues that companies were occupied with. I saw when they made mistakes and what the issues were. Of course, I could bring that knowledge into the work at Swiss GAAP FER."

Former Member of the Commission

The mutual support and cooperation also became evident in the standard-setting process. On 14 November 2003, the Commission adopted the revised version of Swiss GAAP FER 12 Interim reporting[148] into consultation following a request from Swiss SIX Exchange to update the standard. The revision took place in cooperation with the Swiss SIX Exchange[149].

"Nevertheless, from the findings of SWX it resulted that Swiss GAAP FER 12 Interim reporting, which has been unchanged since 1996, no longer meets the requirements of the capital market. The FER Commission came to the same conclusion and passed a revised draft version of Swiss GAAP FER into consultation. The revised standard achieves added value by stipulating the obligation to prepare a shortened balance sheet and profit and loss statement. At the same time, the extra efforts are limited for the reporting company. Since no considerable opposition is anticipated, it can be assumed that Swiss GAAP FER 12 (revised) will be enacted in its present form in the near future."

Leu and Schneider (2004, p. 648)

The draft was not only published, but SIX Swiss Exchange directly sent it to all affected issuers. The Commission received eight opinions, which were analyzed and summarized by the Executive Committee. Finally, the Commission enacted the revised Swiss GAAP FER 12 as of 1 January 2005.

Another important stakeholder was the Federal Office of Justice. In 2004, the Executive Committee discussed the status of the revision project of the accounting rules in the Code of Obligations and potential implications for Swiss GAAP FER. Also, the Commission outlined the need to ensure alignment of Swiss GAAP FER, which were to be restructured with the new rules that were expected to be enacted[150]. Thereby, it decided to proactively support the efforts of the Federal Office of Justice and offer its technical expertise as needed[151]. As outlined in the previous phase, various members of the Commission, including the president of the Board of Foundation, supported the project by the legislators on a private basis. However, a direct cooperation on an institutional level did not take place. After an attempt to revise the law at the end of the 1990s was put on hold, the Federal Council mandated the Federal Office of Justice to revise the draft on the accounting and

[148] Swiss GAAP FER 12 was titled Swiss GAAP FER 12 Presentation of Interim Statements until 1 January 2005, when it was revised to Swiss GAAP FER 12 Interim financial report. With the revision effective as of 1 January 2007, it became Swiss GAAP FER 12 Interim reporting.

[149] Source: 42nd Meeting of the Commission dated 14 November 2003

[150] Source: 42nd Meeting of the Commission dated 14 November 2003

[151] Source: 87th Minutes of the Executive Committee dated 18 August 2004

reporting law in 2003. Subsequently, the project was split into two: one that concerned the new Swiss law on audit supervision (RAG, which was enacted in 2007) and one on accounting and reporting law that eventually was enacted as of 2013[152]. In this context, it is to be noted that the president of the Board of Foundation[153] was charged with the task of developing a draft on new accounting rules that both were SME-friendly and tax-neutral. The draft was passed into consultation by the end of 2005 and aimed at creating a uniform legal order independent of legal structures. Eventually, it also resulted in a regulation on accepted accounting standards including IFRS, US GAAP and Swiss GAAP FER. On 21 December 2007, the Swiss Federal Council published its message on the amendments of the Swiss Code of Obligations. For further details, please refer to phase IV in this chapter.

In general, Swiss GAAP FER benefited from the multiple activities of its members and stakeholders, who were sympathetic to the standards and reflected their view in articles, analysis and other public statements. In the following, I will outline some examples.

Scherer-Bissig and Suter (2007) published a comparative analysis between Swiss GAAP FER and the IFRS for SMEs. The authors strived to maintain objectivity by outlining both pros and cons of both sets of accounting standards from a Swiss perspective:

> "The co-existence of both systems appears to be absolutely possible from today's point of view. However, the question arises of whether it makes sense to offer two systems with an overlapping user group and the identical background (true and fair view)." Scherer-Bissig and Suter (2007, pp. 544-545)

Although the article was not published on behalf of Swiss GAAP FER and the authors invited Swiss entities to participate in the IASB's consultation, it was not a strong case in favor of IFRS for SMEs:

> "The first reactions of experts and entrepreneurs is unanimous: The rules [of IFRS for SMEs] continue not to meet the requirements of medium-sized and non-listed companies." Scherer-Bissig and Suter (2007, p. 545)

In addition, the president of the Commission and the Technical Secretary directly published their own article on the suitability of IFRS for SMEs in Switzerland:

> "The new IFRS targets small and medium-sized organizations. This could create the impression that Swiss GAAP FER are superseded by the IFRS for SMEs. In

[152] For further details on the legislative process and background information, please refer to The Swiss Federal Council (2007).

[153] The president of the Board of Foundation acted as an expert nominated by the Swiss Federal Council in charge of developing and revising the new Swiss audit legislation and new accounting regulations within the Swiss Code of Obligations.

the following statements, the characteristics of both accounting standards are compared to each other and a conclusion is drawn for Switzerland."

Meyer and Eberle (2007, p. 536)

After a balanced consideration of both set of standards, Meyer and Eberle (2007) argued in favor of Swiss GAAP FER for cost-benefit reasons.

Also preparers outlined the benefits of adopting Swiss GAAP FER:

> "Thanks to the English translation of Swiss GAAP FER, it was also possible to quickly translate the Emmi accounting manual into English and thereby make it available groupwide." Conrad and Müller (2008, p. 315)

The CFO of the Emmi Group and the Head of Group Accounting summarized their experience in a bidding process for refinancing debt amounting to CHF 375 million including Swiss and multinational (Anglo-Saxon) banks:

> "Neither Swiss nor foreign banks cared for the accounting standards that the Emmi Group used for reporting purposes. (…) The conditions of LIBOR plus 0.4% (including all costs) are very beneficial to the Emmi Group. This bidding process leads to the conclusion that the group would not have received more beneficial conditions when applying IFRS. It is to be considered, that this bidding process took place substantially before the global financial crisis."

Conrad and Müller (2008, p. 313)

Another important area of advocacy is related to sponsoring. In the first two decades of its existence, the budget of Swiss GAAP FER as standard-setter indeed remained modest with very limited scope for further activities. To finance the increased administrative costs related to the restructuring of the standards and to be able to engage in further activities (e.g., publishing of a textbook, conducting of an empirical study, etc.), Swiss GAAP FER had to broaden its sponsoring activities. The Board of Foundation regarded this as one of its most important tasks beside the constituting the Commission. However, it was undisputed that members of the Commission would continue their efforts on an honorary basis despite their substantial investments of time in the ongoing projects. Also, independence from stakeholder influences had to be ensured, so donations were not allowed to be linked with any requirements.

> "It was a challenge. We wanted the participation of all stakeholders. That was one thing and was clear. The other thing was that we did not want to give rise to any accusations that we are influenced, steered and as a consequence are regarded as the extended arm of any interest groups. Therefore, we determined to write to all parties relevant to us. We defined certain limits of potential engagements and published on our website who paid how much. And the donors did not have any related rights, any advertising space — just nothing."

Former Member of the Commission

Thanks to the personal network of the president of the Commission, the members of the Commission and the Board of Foundation, the financial situation of Swiss GAAP

FER gradually improved, providing it with the resources to support its increased activities for a few years (still given the assumption that members continued to work on a honorary basis).

- **Convening: Engaging technical experts**

Despite the broad composition of the Commission, including observers and the reviews of the composition on a continuous basis, it was decided to engage external experts as project leaders under specific circumstances, e.g., in the case of Swiss GAAP FER 27 Derivative financial instruments and Swiss GAAP FER 26 Accounting of pension plans.

In the case of Swiss GAAP FER 27 Derivative financial instruments, FER engaged two external technical experts from two different Big 4 audit firms. They not only established a draft, which was discussed within the different bodies of FER, but they also analyzed the opinions received in the consultation phase and proposed amendments to be approved by the Commission. Seventeen stakeholders provided feedback during the consultation phase in the beginning of 2006.

> "He stipulated that the majority of the opinions obtained were positive. However, in many cases the opinions were written by professional accounting departments, which in his view did not result in user-friendly suggestions. (…) The president of the Commission is convinced that Swiss GAAP FER needs to follow its own way and needs to offer options that are simpler and better from the perspective of users." 49th Meeting of the Commission dated 8 June 2006

A great example of successful convening work was the project Swiss GAAP FER 26 Accounting of pension plans, which was initiated in 2000 and resulted in a legally binding accounting standard:

> "Balance sheets of pension funds were prior to FER a book with seven seals. There was almost no transparency. Only basic valuation rules existed, and the principle of prudence dominated. For example, equities could be reported in the balance sheet at acquisition cost. This practice resulted in balance sheets with lots of hidden reserves. Their disclosure in the notes of the financial statements was voluntary. Also, liabilities were not always correctly presented. These liabilities primarily concerned pension obligations: mainly coverage capital for pensions and vested termination benefits or assets. The positions did not even have to be recorded. Instead you often encountered only a single position named foundation capital." External Stakeholder

The subcommittee responsible for elaborating the new standards comprised 10 members. Most of the subcommittee including the project manager represented technical experts who were not part of the FER bodies. They included independent pension fund experts and representatives, auditors of pension funds, preparers and representatives from pension fund associations, from the Federal Office and from investment consulting.

> "The impetus came directly from FER. And a member of the Commission approached me and said: This is something for you. Come on, don't you want to form a subcommittee to create an accounting standard for pension funds? That was the starting point. It is important to note that the assignment was to establish an accounting standard for autonomous pension funds."
>
> External Stakeholder

> "Everyone was interested in a cooperation, and we were interested in having preparers involved and also a representative from the Federal Office."
>
> External Stakeholder

The increased political and public attention on accounting topics with pension funds represented a lucky coincidence for the FER subcommittee, because they were far advanced with the development of such an accounting standard for pension funds:

> "After the bursting of the dot-com bubble, the general public suddenly attained the awareness that pension funds were struggling. Then politics got involved and called for more transparency." External Stakeholder

The overall political sensitivity and public discussions on pension deteriorations put the subcommittee under time pressure to speed up the project work.

> "So, Swiss GAAP FER 26's big moment came. For the first time, a private standard was integrated into legislation." Sauter (2008, p. 352)

On 19 June 2003 in its 41st meeting, the Commission agreed to submit the draft on Swiss GAAP FER 26 for consultation. During the consultation phase, the subcommittee also conducted two hearings in Bern and Lausanne and received more than 50 opinions on the draft. The opinions were quickly processed to ensure a coordinated approach with the planned schedule of the BVG Commission and the related changes to be done by the legislator in BVV2[154]. Already at the 42nd Commission meeting on 14 November 2003, the draft could be finalized and approved.

> "And the Swiss Federal Social Insurance Office (BSV) quite quickly agreed to include a reference requiring the mandatory application of Swiss GAAP FER 26. And of course, this was a significant boost. We completed the project already in 2003. As of 1 January 2004, it was enacted by FER. By law, it had to be implemented from 1 January 2005. In 2004, the reference was included into BVV2."
>
> External Stakeholder

[154] Legislators referred to Swiss GAAP FER in article 47 §2:"Pension funds have to prepare their annual financial statements according to Swiss GAAP FER 26 as outlined in the version of 1 January 2014" (The Swiss Federal Council, 2018b). By referencing to a specific version of Swiss GAAP FER 26, the legislators retain control over potential new changes. Article 48 added: "Assets and liabilities have to be valued in accordance to Swiss GAAP FER 26."

In terms of content of the newly created draft, the subcommittee neither used IAS/IFRS nor US GAAP standards as reference[155] but developed its own solution. In contrast to international standards, it allowed the creation and release of fluctuation reserves. The new standard had to meet the requirements of FER and of the BVG. However, the course of events was surprising even to the involved actors:

> "The original working assumption to create a voluntary accounting standard for primarily autonomous pension funds turned into a legally binding norm for all occupational pension funds." Sauter (2008, pp. 352-353)

> "Swiss GAAP FER 26 was well received by the majority of practitioners and experts in the occupational pension business in Switzerland. Besides the practical wording of the standard, a contributory success factor was also the fact that it was a concise and stand-alone standard that only in exceptional cases referred to the overall set of Swiss GAAP FER." Sauter (2008, p. 353)

- **Educating: Continuing existing efforts and issuing a textbook**

From 2002 until 2009, the members of the Commission and the Executive Committee continued their previous activities. As the restructuring of the standards dominated this period and tied up available resources, only a few new initiatives around education could be started toward the end of the period. The major activities can be summarized into three points:

First, Swiss GAAP FER continued to offer its annual seminar on current accounting developments hosted by the Swiss Institute of Certified Accountants and Tax Consultants in Zurich. Throughout the period, the seminar was well attended with around 150 participants. Independently of the seminar in Zurich, also the seminar on Swiss GAAP FER continued to take place annually in Lausanne. The French seminar attracted around 40 to 50 participants. However, the organization of the seminar for the French part of Switzerland required significant efforts due to the limited available number of speakers (source: 85th Meeting of the Executive Committee dated 5 February 2004).

Second, members of the Commission continued to undertake seminars and presentations as (guest) lecturers in their private capacity in the education and training sectors with different large players in the Swiss market:

> "Veb is a very important player. I always did presentations at veb – exactly for this reason. I wanted to generate goodwill and I managed to do so. And in hindsight, I need to say that Mr. Mattle has been in charge for so many years and we always had a good relationship. We hosted seminars together. We were thankful that they

[155] Source: 80th Meeting of the Executive Committee dated 23 January 2003

applied/taught Swiss GAAP FER and they were thankful that we did not host too many seminars. Actually, it was a good cooperation."

Former Member of the Commission

But also, the Swiss Institute of Certified Accountants and Tax Consultants[156] offered specific training programs on Swiss GAAP FER, and members of the Commission continuously supported these efforts and held presentations and workshops on a private basis. An example was a 10-day trainings course on Swiss GAAP FER supported by a large number of Swiss GAAP FER Commission members as speakers (source: 94th Meeting of the Executive Committee dated 1 December 2005).

Third, the Commission decided to issue a non-binding textbook on Swiss GAAP FER in 2007 following continuous stakeholder requests to obtain more guidance on the interpretation of the standards[157]. One objective of the textbook was to increase the recognition of the Swiss GAAP FER, particularly among potential new preparers and users. Another objective of the textbook was to offer a means of support in the education on Swiss GAAP FER. The textbook was more comprehensive than the brochure and contained explanations, illustrations and examples. It covered all Swiss GAAP FER except the industry-specific Swiss GAAP FER and provided readers with a good basic knowledge of the standards. Members of the Commission acted as the main authors of the book. The textbook was edited by research assistants at the University of Zurich. In 2008, the textbook was finalized so that it could be published in 2009 in German. Although issued by Swiss GAAP FER, it did not represent an official document. Already in the preface, the authors highlighted that the textbook was not a mandatory element to be considered when applying Swiss GAAP FER (Meyer & Bertschinger, 2009). Moreover, profitability concerns did not dominate the pricing decision of the textbook. In contrast, the Board of Foundation and the Commission regarded it as important that the book remain affordable for a broad range of stakeholders and therefore priced it below CHF 100 (source: 29th Meeting of the Board of Foundation dated 29 November 2008). Earlier, the Executive Committee had decided that the brochure also could be sold to educational institutions and its students at a reduced price.

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[156] Until 2015, the training and education programs were offered by the Academy of the Swiss Institute of Certified Accountants and Tax Consultants (Akademie der Treuhand-Kammer). Subsequently, they were branded under name EXPERTsuisse.

[157] The issuance of interpretations was a topic that was discussed several times within the bodies of Swiss GAAP FER. For the members of the Commission, it was clear that if Swiss GAAP FER were to issue interpretations, it had to do so in a professional manner and had to update these interpretations on a regular basis. Because the standard-setter was organized as a militia system without permanent employees and lacked the resources to issue and maintain interpretations, the members decided not to do so (source: 43rd Meeting of the Commission dated 24 July 2004).

- **Negotiating: Discussing and agreeing on changes**

The discussion of controversial opinions and the balancing of different stakeholder interests or, put differently, negotiation work is ubiquitous in standard-setting.

Also in the restructuring project, negotiation played an important role. The question of which standards comprised the Core FER was subject to debate. Particularly, the decisions to require the preparation of a cash-flow statement and the disclosure of off-balance sheet transactions as part of the Core FER was intensely debated (source: 44th Meeting of the Commission dated 11 November 2004). Also, the nature and scope of the audit opinion to be issued for Core FER prepares and full Swiss GAAP FER prepares was a central topic of debate. The majority of the members of the Commissions favored a solution that also included an audit opinion in the audit report that confirmed that the financial statements provided a true and fair view of the financial position, the cash flows and the results of the operations in accordance with Core FER. All members agreed that at least the wording needed to relate to a reliable insight into the financial position, the cash flows and the results of operations in accordance with Core FER. Finally, a member of the Commission, who in parallel was the president of the Audit Commission at the Swiss Institute of Certified Accountant and Tax Consultants, confirmed that the Audit Commission was prepared to allow the issuance of an audit opinion on the application of Core FER, which confirmed that the financial statements provided a true and fair view on the financial position, the cash flows and the operational results (source: 52nd Meeting of the Commission dated 19 June 2008). The condition was that the Commission adjusted its wording in Swiss GAAP FER 1 § 2 to avoid contradictions and potential legal implications. The Commission checked the validity of the change request and immediately approved it.

To avoid redundancies, I will not go into further detail on the restructuring project, as there are plenty of other examples for negotiation work in this period.

Swiss GAAP FER 21 Accounting for charitable, social non-profit organizations was approved at the end of 2002 and enacted as of 1 January 2003 (source: 40th Meeting of the Commission dated 20 November 2002) after five years of project work.

> "Too quick processes question the completion of a generally accepted standard. If too little time is granted, primarily large well-funded interest groups benefit at the expense of small organizations. Due to lack of time and personnel resources, many small non-profit organizations could not immediately participate during the consultation phase." Müller (2002, p. 547)

Shortly before the final approval of the standard, Zewo also submitted a couple of minor change requests. In return, Zewo indicated that it was prepared to endorse Swiss GAAP FER 21 for large and medium-sized non-profit organizations, which of course was important for the recognition and diffusion of the newly created standard.

The Commission discussed the change requests and decided to adopt them, since they represented minor formal issues. The representative of Zewo highlighted in the above-mentioned meeting the clarity and materiality of the underlying concept. From the perspective of donors, corporate governance issues were sufficiently addressed. To support the implementation of Swiss GAAP FER 21 among small non-profit organizations, Zewo planned to prepare an illustrative financial statement.

> "The Board of Foundation of Zewo decided to make Swiss GAAP FER 21 mandatory for obtaining the Zewo seal of approval: for large organizations from the financial year 2004 onward and for small organizations for the financial year 2005 onward." Müller (2009, p. 202)

The Commission finalized Swiss GAAP FER 23 Provisions in its 41st meeting on 19 June 2003. In the preceding consultation phase, 15 opinions on the published draft were received. The opinions did not include major objections to the proposed rules but pointed to desired further specifications. The Commission discussed and agreed on proposed changes of the draft. It subsequently enacted it as of 1 January 2004. On 20 June 2003, the Commission also validated the results of the consultation on Swiss GAAP FER 24 Equity transactions with shareholders, which also did not contain any fundamental criticism of the proposed standards. Following discussions of minor adjustments, the Commission enacted the new standard as of 1 January 2004. The enactments of Swiss GAAP FER 23 and 24 triggered an update of Swiss GAAP FER 8, which became also effective as of 1 January 2004.

During the restructuring of the accounting standards, the agenda and work plan of the bodies of Swiss GAAP FER did not allow much flexibility and thus the agenda was determined by the tasks to be completed. At the end of 2006, after the restructured Swiss GAAP FER were enacted, the Commission could start thinking about and debating on future activities of Swiss GAAP FER. The idea to issue a Swiss GAAP FER for public organizations was brought up and various members pointed to the ongoing developments in the public sector as the Swiss Public Sector Financial Reporting Advisory Committee worked on an update of the accounting standards for public entities. The Commission decided to analyze the idea further. Furthermore, the Commission assessed the need to update Swiss GAAP FER 14, which was enacted on 1 January 1996 and was only partially revised in 2001. A preparer submitted a draft of a possible modified Swiss GAAP FER 14. A member of the Commission outlined the potential interest of 19 real estate and 80 health insurers (including also the Ministry of Private Insurance that later was merged into FINMA) to have such a standard. The Commission decided to also pursue this proposition further in the Executive Committee. In the subsequent meeting, the Commission decided to launch a project on insurance (source: 51st Meeting of the Commission dated 15 November 2007), which is outlined in the next period. At the same time, the Commission unanimously agreed to issue a textbook and a flyer on its current activities, to host information events on Swiss GAAP FER and to modestly increase the number of technical assistants to conduct an empirical study, make publications and hold presentations. Furthermore, it conducted a brainstorming session on potential new accounting standards that should serve as basis for future activities without defining a concrete work plan.

- **Mimicking: Differentiating from IFRS**

As Swiss GAAP FER strived to develop a distinct and independent profile, overtly mimicking activities such as the imitation of rules and practices of other accounting standard-setters stopped. In the restructuring phase of the Swiss GAAP FER, the Commission also issued Swiss GAAP FER 27 Derivative financial instruments and transferred existing rules on this topic from the standard on off-balance sheet transactions[158]. The issued rules on derivative instruments targeted mainly SMEs with an industrial background:

> "In an international comparison, there continue to be large differences between Swiss GAAP FER 27 and IAS 39, particularly in the areas of hedge accounting and the treatment of embedded derivates. These differences were deliberately taken into account by the FER Commission, and an approximation was not desired." Bielmann (2007, p. 68)

However, the actions of Swiss GAAP FER were not always consistent. Although Swiss GAAP FER invested a great deal of effort in communicating its new positioning (independent of IFRS), it only removed references to other accounting standards in the brochure issued as of 1 January 2007:

> "ARR/FER is a self-contained regulatory commission that strives to include developments in international accounting standards in its own work. In particular, the move to other principle-based standards (such as IFRS) should be simplified by allowing for various options within Swiss GAAP FER."
> Foundation for Accounting and Reporting Recommendations (2004, p. 5)

Also, the reference in Swiss GAAP FER 16 § 4 to an international accounting standard was not removed.

An important success factor for Swiss GAAP FER was the fact that IFRS mirrored US GAAP.

> "The project of the IASB on a special accounting standard for small and medium-sized entities (SME) results in a new uncertainty for the development of Swiss GAAP FER. However, the fact that IFRS are transforming themselves from a principles- into a rules-based concept due to the approximation to US GAAP speaks for an independent Swiss set of standards." Boemle (2006, p. 13)

[158] Originally, off-balance sheet transactions were included in Swiss GAAP FER 10. In course of the restructuring (also involving a renumbering) of the Swiss GAAP FER, Swiss GAAP FER 5 off-balance sheet transactions became part of the Core FER.

- **Monitoring: Focusing on needs of SMEs**

Main areas of monitoring activities concentrated on the needs of small and medium-sized preparers, the developments of IFRS (particularly IFRS for SMEs) and implications of changes in the national legal environment. The broad representation of different actors in the bodies of Swiss GAAP FER ensured a permanent discourse on external developments in the institutional environment of the standard-setter — often on an informal basis. Nevertheless, the Board of Foundation recognized the need to increase the monitoring activities upon completion of the restructuring project (source: 27th Meeting of the Board of Foundation dated 24 November 2006). The planned new monitoring activities foresaw a) a statistical analysis on the diffusion of Swiss GAAP FER in Switzerland, b) monitoring of the IFRS for SMEs project and c) coordination with the draft changes on accounting rules in the Code of Obligations, which was in the consultation phase at that point in time.

In terms of the statistical analysis, the University of Zurich prepared a questionnaire in 2008 so that the statistical analysis could be started in 2009. The objectives of the broad empirical study on the application of Swiss GAAP FER were to identify the level of information among finance managers on Swiss GAAP FER and the reasons in favor and against the application of Swiss GAAP FER. The study was also intended to gather information on potential future preparers, enabling Swiss GAAP FER to target them in a more focused way (source: 29th Meeting of the Board of Foundation dated 25 November 2008). Furthermore, the Commission agreed to host two to three information events on Swiss GAAP FER to take place in 2009 in Zurich and Bern. These events were targeted at interested stakeholders and potential new preparers.

At the same time, Swiss GAAP FER strived for cooperation with other accounting standard-setters. As a result, one member of the Commission and the Executive Committee took a seat on the Swiss Public Sector Financial Reporting Advisory Committee from 2008 onward. Furthermore, Swiss GAAP FER also highly appreciated continuing the cooperation with EFRAG (source: 77th Meeting of the Executive Committee dated 19 November 2002). Swiss GAAP FER prolonged its engagement in the Consultative Forum of Standard Setters of EFRAG. Since members worked on an honorary basis, the scope of involvement in EFRAG activities rested on the discretion of the representative member. However, the major discussion points at EFRAG-CFSS were regularly summarized in the Executive Committee and potential implications discussed. Also, the planned restructuring at Swiss GAAP FER was brought to the attention of other national accounting standard-setters represented in EFRAG-CFSS. The feedback was overwhelmingly positive (source: 89th Meeting of the Executive Committee dated 27 January 2005). And finally, a representative of Swiss GAAP FER took over the representation function at the UN from the president of the Board of Foundation and participated in the annual meetings of the Intergovernmental Working Group of Experts on International

Standards of Accounting and Reporting (ISAR) of the United Nations Conference on Trade and Development, which, among other things, deals with accounting issues mainly in developing countries.

Members of the Commission and the Executive Committee also continued to closely monitor the developments of IFRS. Especially, they took note of the status and content of the opinions submitted on IFRS for SMEs (source: 89th Meeting of the Executive Committee dated 27 January 2005). Sometimes they published articles on the developments of IFRS. For example, in an analysis of the ED IFRS 3 Proposed amendments to IFRS Business Combinations published on 30 June 2005, Teitler-Feinberg (2006) pointed to possible adverse implications of an impairment-only approach for intangible assets with an indefinite useful life. Occasionally, she also submitted comment letters on behalf of Swiss GAAP FER to the IASB as, for example, on the "public accountability and composition of the IASB" (source: 53rd Meeting of the Commission dated 12 November 2008). However, at the same time, it must be noted that Swiss GAAP FER as a standard-setter simply did not have sufficient resources to systematically engage in the accounting standard-setting process in the transnational realm.

- **Protecting: May take backbone…**

Swiss GAAP FER's primary focus in this period was not the protection of the status quo but rather the repositioning and thus the repair of legitimacy. Nevertheless, various situations arose where members of Swiss GAAP FER had to defend their position and resist joining trends in the transnational realm. One example related to the treatment of goodwill, where Swiss GAAP FER[159] did not adopt the impairment-only approach of IFRS:

> "If you are responsible for accompanying the development of a set of accounting standards as president of the Commission, the challenge is to resist certain influences. There are trends, such as the impairment-only approach, where we felt pressure from large preparers that preferred not to depreciate goodwill. We had to cope with this pressure and that is the virtue of a set of standards with limited size. IFRS did not resist the pressure and took on the US GAAP approach. The pressure for doing so was enormous. Resistance takes backbone. That is clear."
>
> Former Member of the Commission

However, protecting legitimacy also implied regularly carrying out maintenance work to preserve the validity of an accounting standard. In some cases, such changes offered the opportunity for simplifications and made quick reactions necessary. An

[159] Swiss GAAP FER 30.15 The amortization period of acquired goodwill is normally 5 years, in justified cases 20 years at the most.

Swiss GAAP FER 30.16: An offset of acquired goodwill with equity is allowed at the date of the acquisition. In this case the effects of a theoretical capitalization (historic cost, theoretical carrying amount, useful life, depreciation) as well as of any impairment are to be presented in the notes. (Swiss GAAP FER, 2014b) example of this is the revision of Swiss GAAP FER 16 Employee benefit obligations, which was previously revised as of 1 April 2000. Two changes on the legislation and regulation level[160] that became effective as of 1 January 2005 made an amendment of Swiss GAAP FER 16 necessary. Swiss GAAP FER 16 could have also been left unchanged, which would have resulted in an inconsistent standard with legal regulation in this area (source: 45th Meeting of the Commission dated 23 June 2005). As a result, a project team quickly developed a draft, which was then substantially revised based on various objections by members and observers of the Commission. During the unusually short consultation phase of five weeks in September/October 2005, the project team received 31 opinions, which were mostly positive. After discussing the main points of the opinions, the Commission decided to enact the altered Swiss GAAP FER 16 as of 1 January 2006 with a possible earlier adoption so that preparers may benefit from the simplifications in a timely manner (source: 47th Meeting of the Commission dated 11 November 2005).

Basically, the main benefit was that preparers could use the reported figures of the pension funds according to Swiss GAAP FER 26 and as a result could prevent time-consuming and costly calculations of their pension obligations. However, the new draft also caused some confusion and misunderstandings, and two members of the Commission wrote an explanatory article on the changes and benefits of the altered standard with the following conclusion:

> "The newly planned Swiss GAAP FER 16 results in essential simplifications without compromising the objective of the true and fair view. It is important that this accounting and reporting recommendation is enacted retroactively as of 1 January 2005 because, due to the amendments in BVG, companies may conclude that their pension fund is newly to be classified as a benefit-oriented pension plan; considerable disadvantage may result thereby because pension obligations may have to be re-calculated." Meyer and Suter (2005, p. 638)

Summary of impacts on legitimacy

- **Input legitimacy**

Preparers: As Swiss GAAP FER refocused on SMEs as their target group, it readjusted the composition of the Commission to reflect that circumstance by co-opting preparers from representative SMEs with national reach. Preparers were invited to participate in ongoing projects and/or to validate drafts. By increasing the number of preparers and giving them a voice in the ongoing projects, Swiss GAAP FER re-established and strengthened its input legitimacy and ensured it would not go over the heads of the affected parties.

[160] The two changes were: a) The requirement to apply Swiss GAAP FER 26 in BVV2 and b) the introduction of restructuring measures in the case of undercoverage of pension plans in BVG, Article 65d.

All stakeholders: The integration of independent technical experts such as, for example, in the development of Swiss GAAP FER 27 Derivative financial instruments and Swiss GAAP FER 26 Accounting of pension plans signaled commitment to technical expertise, professionalism and enhanced credibility. As a result, it fostered legitimacy for the work done and the results. Involving technical experts ensures that an area of regulation is adequately covered in all important aspects and in sufficient depth. Technical terms need to be used in such a way as to avoid any unintended interpretations. In this respect, it is noted that, for standard-setting purposes, technical experts need to act pragmatically and must favor simple and concise solutions over complex ones that are incomprehensible to the target audience.

- **Throughput legitimacy**

All stakeholders: In the context of the overall revision, Swiss GAAP FER transparently communicated the scope and nature of its planned restructuring of accounting standards, including detailed timelines. Thereby, it regularly provided updates on the status of the overall project work, considerations behind the planned changes and conducted a public consultation on all amended standards. Members of the Commission and observers discussed the summarized major points from the consultation, and finally the members voted on the changes to be enacted. Although Swiss GAAP FER did not formally disclose how it dealt with major issues, it was documented in the minutes of the Commission and the Executive Committee and main points occasionally addressed in published articles (Teitler-Feinberg, 2005). This did not preclude that members of the Commission or the project teams provided informal feedback to the opinion writers. Nevertheless, the actions of the standard-setter were predictable, timely and transparent. Due to the adherence to communicated timelines and the broad involvement of affected parties as well as experts as outlined earlier, Swiss GAAP FER appeared as a reliable and credible standard-setting organization that also was accessible by smaller national actors.

In a national context, where accounting standards also depend on the tolerance of legislators and other influential stakeholders such as the stock exchange, etc., the timeliness of action is crucial, not only the adherence to a due process. Due to the intense ongoing public debate on pension security following the shortfalls of pension funds, the Federal Social Insurance Office faced political pressure in 2003. If Swiss GAAP FER did not quickly finalize an accounting standard including public requirements, the Federal Social Insurance Office presumably would have felt pressured to integrate specific accounting rules in existing directives or to issue its own regulation so that there would have been no need for a further accounting standard by a private standard-setting organization such as Swiss GAAP FER. Thus, Swiss GAAP FER would have had very little legitimacy in the accounting area of pension funds. In a similar vein, the update of Swiss GAAP FER 16 Pension benefit obligations had to take place quickly (within 2005), if Swiss GAAP FER really wanted to live up to its promise to offer user-friendly standards to preparers and to avoid additional expenses for its target groups because of changes in the legal environment at the beginning of 2005. The quick update of the standard was necessary to preserve the acquired legitimacy, and inaction would have harmed it. The same is true for the revision of Swiss GAAP FER 12 Interim financial report, which was initiated upon the request of SIX Swiss Exchange, and Swiss GAAP FER responded to avoid the risk of losing further ground with listed companies, while integrating preparer and user requirements at the same time.

- **Output legitimacy**

Preparers: The two-step setup of Core FER and further FER lowered the adoption barriers for Swiss GAAP FER. The favorable cost-benefit ratio made the application of Swiss GAAP FER attractive to a broader number of organizations. This was eventually reflected in higher adoption rates in the subsequent period. Swiss GAAP FER continued to offer accounting options to preparers and left them considerable room for discretion. At the same time, Swiss GAAP FER became also visible to small organizations that did not adopt them:

> "There are for sure many small organizations that do not officially apply Swiss GAAP FER, but they take it as practical guidance. They take note of the six Core FER and that is a solid basis. Probably, they do not prepare a cash flow statement. The systematic efforts paved the way for the introduction of the modular setup in the early 2000s." Former Member of the Commission

Users: The extension of the target group to smaller organizations provided banks and investors with higher quality data, which led to a gradual increase of acceptance of Swiss GAAP FER (or put differently: it increased legitimacy with users).

> "Banks increasingly started to accept the fact that someone who adopted Swiss GAAP FER delivered better data into their rating system than someone else who did not apply Swiss GAAP FER." Former Member of the Commission

Legislators/regulators/auditors/SIX Swiss Exchange: The quick realization of projects and the responses to changes in the environment such as, e.g., the increased use of derivative financial instruments, etc., lowered the risks of regulatory gaps. Direct involvement as well as the integration of technical experts ensured that accounting standards were formulated in a concise enough way to be enforced later. For regulators, it was also a savings of time and money. The private setup of the standard-setter allowed it to convene all affected parties and jointly develop a mutually acceptable solution in an unbureaucratic and timely way, which would not have been possible following the legal processes. Smaller organizations could be convinced to adopt a true and fair view accounting at reasonable cost and satisfy the public interest for transparent information in a better way.

6.4 Phase IV: Preserving the legacy (2009-2017>) — In pursuit of quality

> "The IFRS/IAS are as accounting standard on a path of success. The development is characterized by a remarkable expansion accompanied with an ever tighter regulatory density. Meanwhile, medium-sized Swiss companies are no longer prepared to bear the related cost. They change at the SIX Swiss Exchange from the main into the domestic segment, which enables them to adopt the more pragmatic Swiss GAAP FER in their accounting." Boemle (2009, p. 824)

As preparers adopted and eventually prepared their financial statements according to the restructured standards in 2007/2008 with no major issues arising, a new phase started. From 2009 to 2017 was rather quiet for Swiss GAAP FER compared to the prior period. Diffusion rates started increasing again, particularly among listed companies. Although the Swiss economy soon faced adverse consequences of the financial crisis, which was followed by an economic and a debt crisis in many European countries (including a considerable appreciation of the Swiss Franc), Swiss GAAP FER remained largely spared. After the effortful restructuring in the prior phase, the standard-setting organization had time to consolidate and think about its future. After a breather, Swiss GAAP FER under the direction of Prof. Peter Leibfried as president of the Commission defined a new strategy, orienting its activities toward improving quality with the implementation of accounting rules.

Institutional environment

The institutional environment for Swiss GAAP FER turned from a headwind in the prior phase to a tailwind despite the turbulence in world economic markets (affecting also Switzerland) and the call for more governance and regulation. There are presumably only two major developments to be classified as of high importance to Swiss GAAP FER. First, the ever-growing complexity of IFRS made alternative accounting standard-setters increasingly attractive, particularly for smaller (listed) companies. On the other hand, the new accounting rules within the updated Code of Obligation upgraded the status of Swiss GAAP FER by acknowledging them as accepted accounting standards:

> "Since the approximate 35 years of the Foundation's existence, the history of Swiss GAAP FER was closely connected to the development of the financial reporting of listed companies as well as the related supervision and changes in the audit law as well as in legislation, particularly with the creation of a separate section on accounting in the Swiss Code of Obligations." Behr (2018, p. 356)

- **Implications of the growing complexity of IFRS**

In the slipstream of the ever-growing complexity of IFRS[161], more and more listed companies decided to switch from IFRS to Swiss GAAP FER[162]. In the last decade, practitioners as well as scientists published numerous studies and articles on reasons[163]. Recently, Bucher and Zemp (2018) analyzed the media releases of 39 companies (38 prior IFRS reporters and 1 prior US GAAP reporter) that switched during the period of 2008-2018 to Swiss GAAP FER. It was noted that 33 companies stated that their main reason for the decision was the growing complexity of international accounting standards (including the multitude of detailed regulations, the convergence between IFRS and US GAAP and further ongoing developments of IFRS). Twenty-nine companies (also) cited cost-benefit arguments, and 27 promised to maintain high quality and comparable transparency in financial reporting even under Swiss GAAP FER. They pointed to the true and fair view principle in Swiss GAAP FER and the high acceptance of the Swiss accounting standards in the market. In few instances, mainly large companies stated that they were not satisfied with specific IFRS rules such as IAS 19 Employee Benefits or IFRS 11 Joint Arrangements[164].

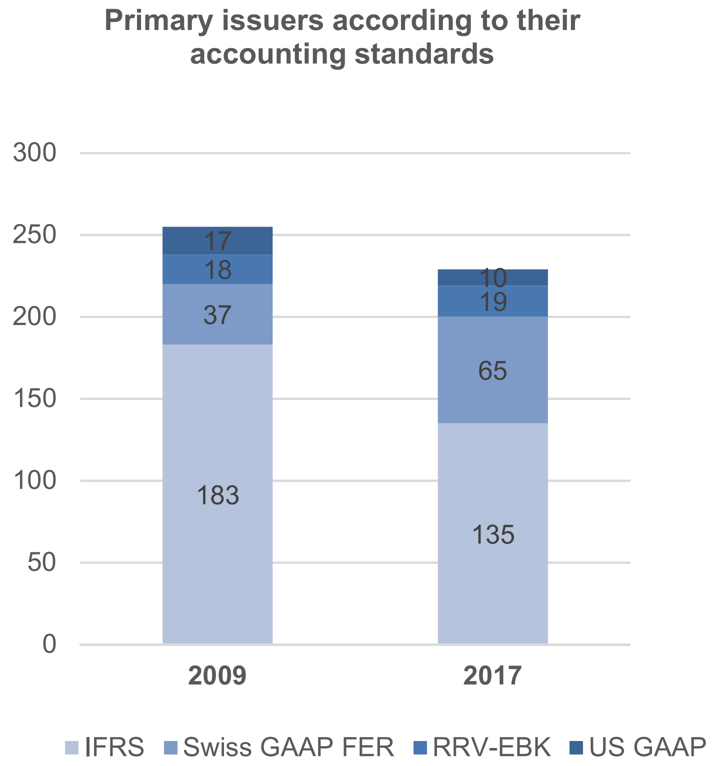

Figure 10: Primary issuers according to their accounting standards
(source: Bucher and Zemp (2018, p. 406))

In a more scientific vein, Fiechter, Halberkann, and

[161] Regarding the scope of changes of IFRS from 2005 to 2013, Fiechter, Meyer, and Hüppin (2018) pointed to the issuance of 64 new standards, interpretations or additions to existing standards as well as to the publication of 52 drafts and 12 discussion papers.

[162] Thereby, it is to be noted that the developments of IFRS are reasonable and justified given their convergence efforts with US GAAP and the pressures faced because of the financial crisis (see also Historical perspective on accounting standard-setting).

[163] Examples are: Boemle (2009), Pfaff and Hermann (2012), Fiechter et al. (2018) and Bucher and Zemp (2018).

[164] For example, Bösiger and Teitler-Feinberg (2015) outlined Georg Fischer's dissatisfaction with the abolition of the proportionate consolidation method in IFRS 11.

Meyer (2017) analyzed 34 firms that switched from IFRS to Swiss GAAP in 2008-2013 and concluded that, for small firms with higher insider ownership, a switch from IFRS to Swiss GAAP FER was beneficial and resulted in substantially reduced disclosure cost. They found neither a decrease in liquidity after the switch nor negative stock market reactions around the switching announcement. However, they noticed that after the switch, companies substantially reduced their disclosures (measured in number of pages in the notes to the financial statements or provided less information on earnings per segment).

However, Bucher and Zemp (2018) noted that in terms of market capitalization the share of Swiss GAAP FER reporters increased from ~ 2% in 2013 to ~4% in 2014 upon the switch of larger companies such as the Swatch Group. The share of market capitalization has remained quite stable at 4 to 5% since then. Thus, so far mainly smaller listed companies with a strong base in Switzerland have decided to switch to Swiss GAAP FER. However, the authors also emphasized the changes made by SIX Swiss Exchange and potential impacts in 2009. Then, the names of the “Main Standard” and “Domestic Standard” superseded the previous “Main Segment” and “SWX-Local-Caps-Segment” and listing requirements were aligned (apart from the accounting standard) so that a potential reputation loss was minimized when a re-segmentation took place. Also, Bucher and Zemp (2018) added a few words of caution to analysts in terms of major differences and options between the two sets of accounting standards and related impacts on the comparability and recommended to have a closer look at issues not regulated within Swiss GAAP FER.

Nevertheless, it is fair to conclude that these switches from IFRS to Swiss GAAP FER had a very positive signaling effect and resulted — intentionally or not — in a great deal of free publicity in favor of Swiss GAAP FER, since they attracted intense media attention.

- **Changes in the national regulatory environment**

As indicated in the previous period, the Swiss Federal Council published its message on the amendments of the Swiss Code of Obligations (OR) on 21 December 2007 (The Swiss Federal Council, 2007). The legislative process took a number of years due to the public initiative "against rip-offs". In 2009, it was decided to treat amendments affecting the accounting part of the OR separately[165].

The revised rules were enacted as of 1 January 2013, making it mandatory for the new legal rules had to be implemented in that financial year, which started two years after the enactment date of the new law.

[165] For more details on the legislative process and critical issues during the parliamentary discussions, please refer to Zihler (2012).

"The big issue was that we noticed that legislators were reluctant to accept Swiss GAAP FER. If they accepted a private standard, they feared that the responsibility for defining the accounting was delegated externally. For many years, they did not want such a delegation — they simply did not want it. And only now this change took place. They said that they needed to issue a new accounting law and therein it is only mentioned reservedly but nevertheless it is stipulated that certain large players need to adopt an accepted accounting standard in their consolidation."

Former Member of the Commission

The most relevant OR amendment for Swiss GAAP FER related to Article 962.1, which stipulated that listed companies, cooperatives with more than 2,000 members and foundations subject to an ordinary audit must also prepare a financial statement according to an accepted accounting standard. Article 962.2 aimed at safeguarding minority interests by permitting shareholders/partners representing at least 20% of the authorized capital, 10% of a cooperative's members or 20% of members of an association and shareholders/partners or members that are personally liable or that are subject to additional payment obligations to request a financial statement that was prepared in accordance with an accepted accounting standard. Furthermore, Art. 963b required the preparation of consolidated financial statements according to accepted accounting standards[166] for the same group as outlined in Art. 962.2, if they fell under the scope of the also defined consolidation criteria (Art. 963 and 963a). Also, in this context additional rules for protecting minority interests were enacted.

"Nobody had to proactively lobby. It was politically entirely unchallenged that Swiss GAAP FER will be one of the accepted accounting standards. Swiss GAAP FER were even explicitly mentioned in the Message of the Federal Council in 2007 in several places."

Observer

"Transparency is very important. From the cantonal side, from the federal administration and from the governments, one really must gain the impression that not primarily lobbying is done or that singular interests are being generalized. Rather, the focus shall be on attempts to create something that is of overall benefit for Switzerland as a business location. I consider it as very important and I also think it works well at FER by having the status of observers that the most important public institutions may participate in the decision-making process. Even if observers do not have a right to vote, they can still make requests and comprehensively participate in discussions."

Observer

[166] In this context, Behr (2012) and Zihler (2012) highlighted the relaxations made by the parliament by limiting the scope of companies to prepare a consolidated financial statements according to accepted accounting standards and by loosening the size criteria requiring groups to prepare consolidated financial statements.

The regulation on accepted accounting standards (VASR 221.432)[167] accompanied and completed the amendments of the Code of Obligations. Thereby, the regulation defined the following accounting standards as accepted for companies[168]: IFRS (issued by the IASB), IFRS for SMEs (issued by the IASB), Swiss GAAP FER (issued by the Foundation FER), US GAAP (issued by the FASB) and IPSAS (issued by the International Public Sector Accounting Standards Board).

> "In Switzerland, we do not follow such a proceeding as in the EU, where basically everything needs to be re-accepted as part of the endorsement process. We had to say that we did not see a reason why we should have also implemented such an elaborate process. We possess sufficient confidence in the standard-setter and the preparers. Another reason why we dynamically refer is that a financial statement in line with Swiss GAAP FER or IFRS is not relevant for determining taxes and social expenses. This resulted in the fact that there were no reasons for general political concerns with a dynamic reference (…)." Observer

It should be noted in this context that legislators may alter such a regulation within half a year's time, if ever necessary.

Organizational structure and accounting standards

The organizational setup of Swiss GAAP FER again remained stable in this period. One of the major organizational changes was the decision to relocate to St. Gallen following the insourcing of the remaining administrative tasks from EXPERTsuisse (previously known as the Swiss Institute of Certified Accountants and Tax Consultants) including the bookkeeping and change in mailing address in 2015. In the Board of Foundation, Prof. Dr. Giorgio Behr remained as president throughout the period. In 2010, Prof. Dr. Claude Bourqui (✞ 2014) and Rudolf Dellenbach replaced Prof. Dr. Carl Helbling (✞ 2016) and Alberto Togni, who both retired.

Given the long period of time, the composition of the Commission and the Executive Committee constantly changed as members retired or changed their professional careers.

> "What is interesting in Switzerland is: It is a small country with 8 million people, and it actually works in many areas, not just in accounting, in that way. Even its government is a sort of militia system, and it works actually pretty well. Many times, there are people that are in different bodies like me. I ended up working all of that in my spare time because I had an interest. You have people that have a passion, and you actually get people that want to do it. Many of the members, the

[167] The regulation on accepted accounting standards (Verordnung über die anerkannten Standards zur Rechnungslegung (VASR)) was approved by the Swiss Federal Council on 21 November 2012 and enacted as of 1 January 2013 (The Swiss Federal Council, 2018a).

[168] Banks, securities traders and collective capital investments under the Collective Investment Schemes Act have to adopt respective FINMA regulations.

more active members of the Swiss GAAP FER Commission have a passion and know what they are talking about." Member of the Commission

However, the Commission succeeded in maintaining a balanced representation of different stakeholder groups. Nevertheless, finding representatives from the French and Italian parts of Switzerland remained cumbersome. The most notable change in the Commission involved the presidency. Prof. Dr. Conrad Meyer was superseded as president of the Commission by Prof. Dr. Peter Leibfried as of 1 July 2014 (source: 36th Meeting of the Board of Foundation dated 13 May 2014). From June 2013 onward, Florian Baumgartner (Ernst & Young AG) took over the position of the Technical Secretary from Reto Frey (BDO AG). Four years later, Markus Wandeler (PricewaterhouseCoopers) superseded Florian Baumgartner. In terms of observers, Swiss GAAP FER increased its number of observers quite substantially by adding the Cantonal Building Insurers[169] (2010), santésuisse (2010), H+ Swiss Hospitals (2015) and recently in 2018 Treuhand|Suisse and veb.ch. In 2010, the representative from the Federations of Swiss Trade Unions resigned after almost a decade in this function and was not replaced (source: 56th Meeting of the Commission dated 29 June 2010).

Concerning the standards, the number of changes affecting accounting standards gradually decreased over time as minor issues were resolved that came up in the aftermath of the big restructuring as of 1 January 2007. In the period of 2009-2017, only two new accounting standards were introduced, Swiss GAAP FER 31 Complementary recommendations for listed companies and Swiss GAAP FER 41 Accounting for real estate and for health insurers. Parallel to the enactment of Swiss GAAP FER 31, Swiss GAAP FER 12 Interim reporting was revoked. The rest of the projects comprised revisions of existing standards with varying degrees of scope and impact. In many cases, they were the result of inconsistencies to other legal regulations. Given the long period and the changes in the economic environment, it is uncontested to conclude that the changes in accounting standards remained limited and manageable for most Swiss GAAP FER stakeholders.

[169] Initially, the observer came from the Cantonal Fire Insurers. Santésuisse and the Cantonal Building Insurers were added as observers due to development of Swiss GAAP FER 41 (source: 57th Meeting of the Commission dated 1 December 2010).

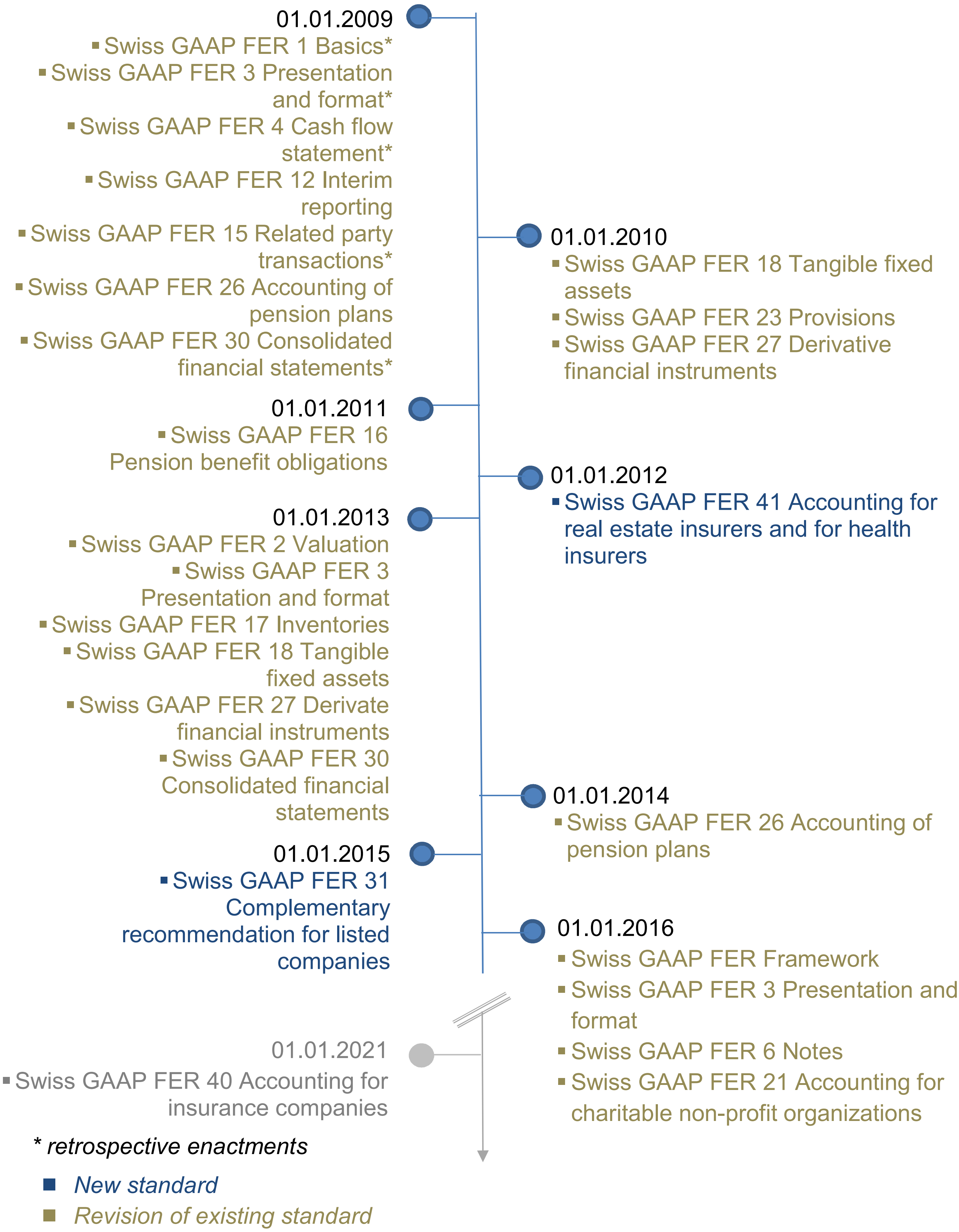

Figure 11: Enactment of new and revised accounting standards from 2009 to 2018

Actors and actions

- **Constructing identities: Redirecting attention to quality**

During the first years of this phase, hardly any activities with respect to legitimacy work on identity could be noted. This is also not surprising because the developments in the institutional environment favored rather than threatened the acceptance of Swiss GAAP FER and thus did not make such efforts necessary. Moreover, the standard-setter presumably could not have maintained the high pace of work on a militia-based system as during the restructuring phase. Members of the Commission and different stakeholders continuously emphasized the success story that the Swiss GAAP FER represented and thereby intentionally or not lobbied for the standards. As diffusion rates increased and the Federal Council listed Swiss GAAP FER as an accepted accounting standard, members within Swiss GAAP FER as a standard-setting organization slowly realized that success comes at a price. And the price was the increased responsibility, as the standard-setter was increasingly grouped into a category of institutions of public interest.

> "At the same time, it is evident that the increasing diffusion of Swiss GAAP FER today results in other requirements for the standard-setter than was the case a few years ago."
>
> Leibfried (2016, p. 120)

Upon his appointment as president of the Commission, Prof. Dr. Peter Leibfried launched a strategy process with the objective to define a vision for Swiss GAAP FER in the coming years and to thereupon develop a longer-term work plan. After a year and a half of internal consultations and development, the Commission eventually agreed on the following wording for its desired new positioning as part of its "Vision 2020". Thereby, FER shall be positioned

> "as standard-setter for high-quality Swiss accounting according to the true and fair view principle, around which an active community of users has grown. FER fosters the imparting and diffusion of an accounting that takes into consideration Swiss peculiarities and practical feasibility. It encourages the exchange between preparers, auditors, users, consultants, politics, administration, standard-setters, oversight bodies and other interested parties. It supports the qualitatively high implementation of Swiss GAAP FER standards in practice and helps to develop an own interpretation of the true and fair view principle. It is explicitly not aspired to enact a regulatory minefield, excessive theoretical discussions or the setup of an administration that pursues its own interests." Leibfried (2016, p. 122)

The new president of the Commission did not use Art. 3 of the Deed of Foundation (see chapter 6.3) as in the previous phase to determine a new target group but to emphasize the increased attention to quality of implementation, and thereby he used the article for increasing the public awareness of the role of FER as a standard-setting organization. Thus, it is not a change in identity but more an emphasis of an important nuance that had been (partly) neglected in the past:

> "Also, the presently partly recognizable discrepancy between the high importance of Swiss GAAP FER as a standard and the only weakly perceivable positioning of the standard-setter would hereby probably decrease." Leibfried (2016, p. 122)

> "Although a standard-setter may only very indirectly influence practice — particularly, if it wants to remain true to its principle-based orientation. However, it must make every possible effort to try it."
>
> Leibfried (2016, p. 122)

The conceptual ideas behind the creation of an active community were borrowed from science:

> "The model hereby is the concept of communities of practice described by the social scientist Etienne Wenger." Leibfried (2018, p. 346)

As part of its joint effort to improve the quality of the implementation of Swiss GAAP FER and to create a vivid community of practice, it launched a number of measures (source: 67th Meeting of the Commission dated 16 June 2015) targeting at different dimensions:

Swiss GAAP FER as standard-setter	**The standard-setting process**	**Its community**
▪ Update of Organizational Regulation ▪ Introduction of Code of Conduct (including disclosure of interests and other activities) ▪ Broadening of sponsor base ▪ Relocating to St. Gallen	▪ Restructuring of the project process and introducing post-implementation reviews (earlier involvement of stakeholders) ▪ Publishing of the annual Activity Report ▪ Improving communication (website, work plan, etc.)	▪ Relaunching the annual conference in the name of Swiss GAAP FER ▪ Hosting of onsite events in cooperation with professional associations ▪ Direct sales of brochure ▪ Institutionalizing regular exchanges with major stakeholders
🡇	🡇	🡇
To strengthen its governance and independence	To improve rigor, transparency and increase participation	To increase visibility and foster the exchange of practices

Table 8: Resulting measures from the Vision 2020
(own illustration, source: 67th Meeting of the Commission dated 16 June 2015)

Creating awareness for quality takes a great deal of time and effort (if it ever can be achieved and maintained). Thus, it is fair to conclude that this phase is unfinished, and Swiss GAAP FER is still on its way to living up to its defined vision:

> “Despite these achievements, much remains to be done. The events need to be organized and designed in an attractive manner. The post-implementation reviews tie up capacity and will result in a reconsideration of the proceeding. The circle of sponsors needs to be further broadened. And, last but not least, the Vision 2020 will have to be updated.” Leibfried (2018, p. 346)

One aspect that remained neglected in the public debate (and the standard-setter itself could also not make up for) was Swiss GAAP FER’s focus on smaller companies. Smaller companies feared potential implications, such as a growing complexity of accounting rules, because the number of listed companies applying the standards increased.

> “Because FER does this split with listed companies and as a result people read in the newspaper that another company adopted Swiss GAAP FER, etc. Then, that is too far off for a CFO of an SME. However, if I explain and tell him what it is all about and if I do not start with the notes but primarily emphasize that it is a management tool and that he will obtain business data, then I will convince him very quickly to adopt it. The positioning with the different scopes of application, Core FER or all, is a great upside.” External stakeholder

- **Advocacy: Wide-ranging activities**

As in the previous period, advocacy played an important role in gaining and maintaining legitimacy of Swiss GAAP FER as accounting standards and as a standard-setting organization. In this period, there is evidence of a broad range of advocacy work including both hard and soft approaches.

Although Swiss GAAP FER hardly employed tactics that could be classified as hard advocacy, it did so when it came to the revision of Swiss GAAP FER 14 Consolidated financial statements of insurance companies. The cumbersome and failed revision efforts of in 2007-2009 and the resulting failure to issue a combined insurance standard integrating health and real estate insurers continued to linger in the minds of the involved members. Unsurprisingly, Swiss GAAP FER was reluctant to launch a new project to update Swiss GAAP FER 14, which, apart from a minor revision effective 1 January 2002, remained basically unchanged from its first enactment as of 1 January 1996. The topic was complex with diverging interests of different stakeholder groups and the number of preparers was very limited so that it was also not attractive from a standard-setter side to invest scarce resources. Eventually, Swiss GAAP FER decided that such an outdated standard was not consistent with their increased pursuit of excellence and quality and thus voted for an alternative approach:

> “As outlined in the press release of 16 December 2014, the Commission decided to withdraw the current version of Swiss GAAP FER 14 Consolidated financial statements of insurance companies. The Executive Committee was assigned to,

> with the affected preparers and FINMA, agree on a suitable withdrawal date and to host a public roundtable discussion." Swiss GAAP FER (2015)

The roundtable meeting that took place on 21 April 2015 in Zurich was well attended by numerous preparers, auditors and other interested parties. The preparers pointed to the fact that, according to the revised Code of Obligation Art. 962.1 (2), cooperatives with more than 2,000 members had to newly prepare financial statements in line with accepted accounting standards. This new rule affected a few small cooperatives with a limited number of employees and, if Swiss GAAP FER 14 was withdrawn, they would be forced to apply IFRS. The current preparers unanimously agreed that a potential adoption of IFRS 17 Insurance contracts (previously IFRS 4) was not a viable option to them and promised to support a revision project of the existing Swiss GAAP FER 14:

> "Since the Foundation for Accounting and Reporting Recommendations sees itself as a service provider for practice and its concern is to offer local insurance companies a reasonable and practicable solution, the Commission decided to launch a revision project on 15 June 2015."
>
> Swiss GAAP FER (2015)

Although the number of affected preparers was small, the requirements were quite diverse due to large differences in company size and business models. Thus, the working group was broadly composed to include a variety of interests and involved 13 members including users of different company sizes, regulators, association representatives, science representatives, auditors, an analyst and an actuary. Major discussion points were the valuation of insurance provisions and related disclosures. To cater for the requirements of small preparers, the draft stayed close to statutory reporting requirements in terms of valuation questions. By significantly expanding disclosure requirements, it addressed transparency needs of investors and other interested stakeholder groups. Despite the complexity of the topic, the working group elaborated and finalized the draft in 16 meetings. The consultation was conducted in early 2018, and eight opinions were received. Due to the broad composition of the working group, regular informal discussions with stakeholders and public information, the consultation did not result in major objections. Finally, the Commission decided on 15 June 2018 to enact the revised standard as of 1 January 2021 (with possible earlier adoption) and to renumber it as Swiss GAAP FER 40 Accounting for insurance companies.

In terms of issues raised by preparers or users regarding Swiss GAAP FER, an external stakeholder said:

> "Actually, you do not hear much. But if you do not hear anything, it is a good sign. I have never heard a user complaining about Swiss GAAP FER. And those who must apply it are presumably very happy that they do not have to apply IFRS or US GAAP but Swiss GAAP FER instead." External Stakeholder

In a wholly different vein, Swiss GAAP FER had to ensure the continued support of its accounting standards by legislators. As of 1 January 2012, the Federal Social Insurance Office (BSV) enacted a revised version of BVV2 following a structural reform of occupational pension plans. Additional transparency requirements as well as new rules for public sector pension institutions made amendments to Swiss GAAP FER 26 necessary so that legislators could include an updated static link to an accounting standard consistent with legal requirements. Although the law was already enacted in 2012 and a group of external technical specialists had already established a draft of an updated Swiss GAAP FER 26, which was also discussed in the Commission at the end of 2011 (source: 59th Meeting of the Commission dated 12 December 2011), the Commission decided to wait until the draft was also agreed on by the Federal Social Insurance Office and until related legal elements were finalized.

> "We concluded that it was not worth issuing a new version. Of course, we also had the problem that the law said: Swiss GAAP FER 26 in the version as of 1 January 2004 has to be applied. Why? Because the Federal Council did not want to lose control. We could have issued a new version in 2007, 2010, etc., but if the reference is not updated in the directive, then the version of 2004 is always applicable. That is the emergency brake of the Federal Council. They found that if they take over the standard of Swiss GAAP FER, they want to retain control. And in the course of the revision in 2014 mainly transparency requirements on asset management cost from the law/ directive have been integrated and of course we had to mandatorily reflect them in Swiss GAAP FER 26." External Stakeholder

Thereby, it proved to be very valuable that the Federal Social Insurance Office and the Occupational Pension Supervisory Commission (OPSC) acted as observers in the Commission. However, a critical issue was the presentation of asset management cost, and Swiss GAAP FER waited until the OPSC finalized a directive[170] on this topic.

Initially, the legal requirement to calculate and disclose hidden asset management costs using the Total-Expense Ratio concept was seen controversial.

> "It was the right thing that we did it. And there I changed from Saul to Paul. At that time, it was a big issue: the asset management cost. Besides, we also took the opportunity to close regulatory gaps." External Stakeholder

Eventually, the Commission approved Swiss GAAP FER 26, and the Federal Social Insurance Office updated its reference in BVV2 to the updated version of Swiss GAAP FER 26 as of 1 January 2014.

> "Although the new Swiss GAAP FER 26 only becomes effective for the annual statements of 2014, an earlier adoption is explicitly permitted. It is recommended

[170] Directives OPSC D-02/03 Reporting Asset Management Costs dated 23 April 2013, effective as of 1 January 2013; see: http://www.oak-bv.admin.ch/fileadmin/dateien/Regulierung/Weisungen/en/02_2013_Directives_Reporting_Asset_Management_Costs_English.pdf

> to preparers to base the preparation of the annual financial statements for 2013 already on the new Swiss GAAP FER 26 because of the related assurance that all already applicable legal transparency requirements are met. The implementation of the additional — and for 2013 still voluntary — requirements appears to require little effort and represents for sure a best practice solution." Sauter (2014, p. 158)

However, Swiss GAAP FER also attracted positive public attention in more classical ways. For example, it celebrated the 25th anniversary in 2009 with top-class representatives and published a review on its development (Behr, 2010). It implemented a newsletter service in 2010 to inform stakeholders by email of the latest developments and decisions. Furthermore, it launched a redesigned logo in 2010. And finally, members continued to publish articles on different current accounting topics and thereby ensured media presence with its stakeholders (Bachofen, 2017; Leibfried, 2017; Soland & Baumgartner, 2016; Suter, 2014).

- **Convening: Does not always convey desired results**

Entering into joint collaborations with external parties does not always fulfill its original intention. The case of a failed revision effort of Swiss GAAP FER 14 is a good example for it:

After having enacted the restructured Swiss GAAP FER Consolidated financial statements of insurance companies, the Commission discussed the need to revise Swiss GAAP FER 14 in 2006, which had been enacted as of 1 January 1996 and revised as of 1 January 2002. Not only that a current preparer submitted a draft for a possible revised standard to the Executive Committee, but the Commission also took note of the interest various real estate and estimated health insurers as well as of the Federal Office of Private Insurance had in a (revised) accounting standard (source: 50th Meeting of the Commission dated 16 November 2006). In 2007, the decision was made to form a working group on this topic, and the working group jointly led by a technical insurance expert and a member of the Commission developed a draft.

> "Swiss GAAP FER 14 Consolidated financial statements of insurance companies effective from 1 January 1996 was revised from 2007 until 2010. Thereby larger nationally oriented insurance companies (non-life and life insurers, health and cantonal real estate insurers including re-insurance) were involved. Also, regulatory oversight bodies (the Federal Office of Private Insurance, which was merged into FINMA[171] in the course of a reorganization, and the Federal Office of Public Health) accompanied the working group as observers." Suter (2010, p. 552)

After intense discussions on valuation rules in the Commission, it decided to release the draft into consultation in June 2008 (source: 52nd Meeting of the Commission dated 19 June 2008). Also, the Swiss GAAP FER brochure for 2009 already

[171] FINMA = Swiss Financial Market Supervisory Authority

contained a draft of the revised Swiss GAAP FER 14. At the end of 2008, the Commission was hesitant to enact the revised Swiss GAAP FER 14, since the responsible actors at FINMA had not signaled acceptance of the draft and such acceptance of the draft was considered crucial in such a highly regulated environment as the insurance industry (source: 53rd Meeting of the Commission dated 12 November 2008). The Commission considered it unreasonable for preparers to need to adopt the new standard if it was unclear how FINMA wanted to proceed and if they wished to issue their own separate standard in the field. The Commission waited in vain for positive signals. To avoid a complete failure, it eventually decided to take the current revised draft and transform it into a separate accounting standard for real estate and health insurers, which majorly supported the draft (source: 54th Meeting of the Commission dated 26 June 2009).

However, despite the broad involvement of stakeholders in the revision of the standard, also parties represented within the revision project surprisingly raised major objections against the jointly developed draft:

> "In the year 2008, the correspondent consultation took place and revealed considerable differing conceptions in two respects. On the one hand, it was criticized that the individual as well as the consolidated financial statements shall be regulated in one single Swiss GAAP FER. Moreover, it was noted that the comprehensive International Financial Reporting Standard (IFRS) insurance contracts has not yet been completed (the enactment in the so-called phase II is expected in 2012) and that the valuation concept of capital/financial assets does not correspond to the recent IFRS. Fundamental differences between the IFRS currently developed and Swiss GAAP FER were feared, which eventually could result in repeated revision of the Swiss GAAP FER. These arguments mainly affect non-life and life insurers under the surveillance of FINMA but to a lesser extent real estate and health insurers." Suter (2010, p. 552)

After the approval of the revised draft, where any references to life and non-life insurers were removed (source: 55th Meeting of the Commission dated 24 November 2009), the responsible project group conducted a consultation among health insurers and subsequently updated the draft. After discussing the changes made, the Commission approved Swiss GAAP FER 41 Accounting for real estate insurers and for health insurers and enacted it as of 1 January 2012. Swiss GAAP FER 14 was left unchanged.

A more successful example for convening efforts was the update of Swiss GAAP FER 21. Five years of effort in convening, negotiation and advocacy of Swiss GAAP FER during the development of Swiss GAAP FER 21 (effective from 1 January 2003) paid off. Swiss GAAP FER 21 Accounting for charitable, social non-profit organizations became widely accepted not only among charitable organizations, but also clubs and other non-profit-oriented organizations took them as orientation for preparing their financial statements, although they did not fall into scope of the standard:

> "That Swiss GAAP FER 21 was accepted is also evidenced by the fact that Swiss GAAP FER and in particular Swiss GAAP FER 21 have been integrated into the 'Swiss NPO Code' as an integral and mandatory part of the corporate governance. The 'Swiss NPO Code' primarily targets charitable, fund-raising organizations. Also, the Association of Swiss Grantmaking Foundations recommends for its members within the 'Swiss Foundation Code' that in principle, the annual financial statements are to be oriented to the specific standard Swiss GAAP FER 21 or where appropriate to corresponding foreign standards." Müller (2009, p. 202)

However, Swiss GAAP FER 21 was not revised as part of the restructuring that became effective from 1 January 2007 onward but was left unchanged. Thus, it did not conceptually fully fit into the modular setup of the Swiss GAAP FER (Core FER and further FER). Moreover, the revised accounting law also affected non-profit organizations since the provisions applied independent of an organization's legal structure. Unsurprisingly, an external research project acknowledged the wide acceptance of the standard but at the same time pointed to potential improvements (see also: Eberle & Zöbeli, 2014). Thus, the Commission agreed to revise Swiss GAAP FER 21 for non-profit organizations at the end of 2012 (source: 61st Meeting of the Commission dated 13 December 2012). The working group comprised six experts in the field of accounting of non-profit organizations and involved three members of the Commission and observers as well as two external specialists, of which one was the project leader of the above-mentioned research project. Thereby, the Commission did not envisage a complete revision. The most discussed issues related to the classification of restricted funds, where Swiss GAAP FER eventually decided to classify them as liabilities[172], and to the identification of a potential solution to avoid the necessity of dual closings for small organizations as a result of changes in the accounting law:

> "Because of the solution outlined by FER concerning restricted funds (Art. 34), small NPOs will be enabled to continue preparing only one annual financial statements — on the conditions that FER accounting options are implemented in accordance with the new accounting law and the consultation does not bring new insights in this respect." Eberle and Zöbeli (2014, p. 629)

The revised Swiss GAAP FER 21 was also embedded into the modular setup of Swiss GAAP FER. While basically adopters of Swiss GAAP FER 21 had to consider all Swiss GAAP FER in the case of regulatory gaps within the standard, smaller organizations[173] were given the possibility to apply only Core FER in addition to

[172] The alternative would have been to classify restricted funds as equity (Teitler-Feinberg & Zöbeli, 2014).

[173] In the introduction, Swiss GAAP FER 21 defines size criteria: If a small organization does not exceed the following size criteria in two consecutive years, it may apply Core FER: a) balance sheet of

Swiss GAAP FER 21 (plus Swiss GAAP FER 30 in the case of groups). The consultation took place in the third quarter of 2014 and resulted in 20 opinions, of which 14 were not confidential and published on the website. Finally, after discussing the results of the consultation that did not lead to major changes of the proposed draft, the Commission approved the revised Swiss GAAP FER 21 (source: 65th Meeting of the Commission dated 10 December 2014), which was enacted as of 1 January 2016 (new name: Swiss GAAP FER 21 Accounting for charitable non-profit organizations).

- **Educating: Few new initiatives**

As in the prior phase, Swiss GAAP FER kept up its past activities and launched only few new education initiatives.

Despite few changes in the Swiss GAAP FER standards, participant numbers at its annual conference on latest accounting developments in Zurich (as well as those in Lausanne) remained remarkable. To increase the awareness of Swiss GAAP FER as a standard-setting organization and to emphasize its independence, it decided to relaunch the conference in Zurich in its own name and to cooperate with three professional association instead of the one that had hosted the event in the past. The relaunch was well received in general.

> "It is great to see that the annual event is done in cooperation with all three professional associations. This is certainly a good thing." External Stakeholder

In terms of education, Swiss GAAP FER as a standard-setter did not engage itself any further, which has been presumably a good idea to avoid getting into interest conflicts with professional associations and to circumvent potential discussions on interpretations.

> "To ensure the success of Swiss GAAP FER, the extended network is important. Veb.ch trains the people, and that audit firms actively participate is also great. If they did not support and promote it, then it would also not be applied."
> Former Technical Secretary

However, particularly members of the Commission continued to support the training offerings on Swiss GAAP FER by the professional associations such as EXPERTsuisse and veb.ch on a private basis.

> "I think we are the market leader. We have also greatly benefited from Swiss GAAP FER. We trained the most people on Swiss GAAP FER. We offer training courses, which have been going very well for years, and we have trained hundreds of persons." External Stakeholder

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CHF 10 million, b) annual return of CHF 20 million and c) 50 full-time employees on yearly average (Swiss GAAP FER, 2014b).

Upon the release of its first textbook in 2009, the Commission was satisfied with the sales figures and concluded that the textbook was well-received. To strengthen the recognition of Swiss GAAP FER in Western Switzerland, it decided to also have the textbook translated into French, which was completed by 2010. As time passed by and various Swiss GAAP FER became subject to change, the Commission voted for an update of the book to reflect all changes up to 31 December 2013. A revised version of the textbook was published in 2014 (source: 62nd Meeting of the Commission dated 17 June 2013). However, several stakeholders were disappointed that the textbook did not address industry-specific Swiss GAAP FER such as, e.g., on non-profit organizations. As a result, former members of the responsible working group on non-profit organizations decided to issue a separate textbook on Swiss GAAP FER 21, which was originally issued by the end of 2011 in the name of the standard-setter and updated in 2017.

With the launch of the new homepage, Swiss GAAP FER increased transparency on its ongoing activities and improved the overall accessibility of information to different stakeholder groups. At the same time, it launched an integrated web shop for exclusively distributing its brochure in cooperation with its previous publishing company, which remained in charge of handling logistics and billing aspects of the sales process.

> "Another novelty is that the publication including the standards may only be obtained through this website. Thereby, the Foundation Swiss GAAP FER may gradually become aware of its users." Leibfried (2018, p. 346)

The data on buyers of the brochure should enable Swiss GAAP FER to provide more targeted information[174], conduct research studies and assess user requirements. In this respect, it remains to be seen how stakeholders will benefit from these insights.

- **Negotiating: The art of finding compromises**

Negotiations often take place behind closed doors and positions, discussions etc., remain confidential. Nevertheless, the development of Swiss GAAP FER 31 Complementary recommendation for listed companies provided good evidence for a difficult and cumbersome negotiation process. Already in 2010, a representative from the SIX Swiss Exchange approached the Commission with the request to issue a separate accounting standard for listed companies (source: 57th Meeting of the Commission dated 1 December 2010). Along with the increasing complexity of IFRS, more and more listed companies started to adopt Swiss GAAP FER, which was primarily targeted at SMEs and not at listed companies. In the context of listed companies, Swiss GAAP FER had considerable regulatory gaps in areas important to investors and other stakeholders of listed companies. SIX Swiss Exchange

[174] In the past, the activities of Swiss GAAP FER have been limited, and the number of newsletters sent to subscribers per year was low. With its current organizational setup, no significant increases in activity in this regard are to be expected.

emphasized its intention to further strengthen the positioning of Swiss GAAP FER at the stock exchange but also reminded the Commission of the obligation by the SIX Swiss Exchange to follow international developments in accounting. The message was clear: If Swiss GAAP FER did not want to risk losing its eligibility in the domestic segment, it had to react. The Commission enlisted a working group consisting of a representative of the SIX Swiss Exchange, a preparer, an auditor (all members of the Commission) and an external analyst to proceed with the development of a draft on a potential accounting standard for listed companies. It was agreed that the draft should mainly increase disclosure requirements. At the inception of the project, the working group already outlined major topics it intended to address: first-time adoption, share-based payment, earnings per ownership right, discontinued operations, income taxes, financial liabilities, segment reporting and interim reporting. Members of the Commission also debated over the question of if a separate standard for listed companies should be created or if additional rules shall be integrated into the existing standards. Finally, the argument prevailed that rules for listed companies were to be separated to avoid threatening SME preparers.

> “There also was a certain pressure from the stock exchange. SIX Swiss Exchange is represented within the FER bodies. Because of the adoption of Swiss GAAP FER by companies such as Swatch, Georg Fischer, Hügli and other listed FER preparers, they of course developed an interest in improving the quality of Swiss GAAP FER to have gaps closed. And that was felt by many other stakeholders as well. We responded that we do not want to go in this direction. Therefore, we developed Swiss GAAP 31 and clarified that we have only created one special standard for listed companies and that this standard exclusively applies to them. And I always responded to journalists, in interviews or seminars, that we will leave the rest in the interest of our core target group, which is medium-sized entities. The threat is there. However, the modular setup is a good response to it. We do not only target medium-sized entities, but we also have small entities in our core target group, and we want to keep them. We want to take care of all different levels.” Former Member of the Commission

In 2011, the Executive Committee conducted a hearing with four listed companies, of which two recently switched to Swiss GAAP FER from IFRS. It became evident that preparers had major objections to the potential new standard. Many of them feared the gradual introduction of the IFRS complexity into Swiss GAAP FER and did not see the need for any further regulations for listed companies. According to them, segment reporting could have adverse impacts on their business activities because trade secrets might be revealed and the planned rules on the average applied taxes based on the operating profit were regarded as too complex (source: 59th Meeting of the Commission dated 12 December 2011). A separate hearing with financial analysts took place in early 2012, with the analysts taking an opposite standpoint and emphasizing the importance of segment reporting figures but also recommending to define net revenues more precisely.

In 2012, the Commission approved the draft for consultation (source: 60th Meeting of the Commission dated 25 June 2012). During the consultation phase, the Commission obtained 34 opinions and again disclosed the divergent positions of preparers and analysts. Swiss GAAP FER faced the rare situation where the involved stakeholders could not agree on a compromise regarding segment reporting (Swiss GAAP FER 31 § 8) despite intense discussions and negotiations.

> "In this long period of time, I did not face any more difficult topic than segment reporting. None. When it came to segment reporting, opinions differed entirely. I did not experience this with any other standard, where analysts and maybe banks clearly argued that segment reporting is of relevance and that we shall base regulations on IFRS. It meant that they wanted it to be compulsory. On the other hand, we had companies and other stakeholders saying do not make a fuss. You do not need to come in with the rigidity of IFRS but rather do as little as possible. It is incredible. We held several hearings. We asked all players to sit around a table and discussed with them, and then we had to find a credible solution, a modus vivendi. What did we end up doing? We introduced segment reporting and kept the regulation, in a FER style, relatively generic. But at least it stipulates, similarly to IFRS, that [segment] results need to be disclosed. But if reasons can be brought forward a disclosure can be avoided. OK. That was a compromise. However, to those who argue in favor of stricter rules on segment reporting, I need to respond clearly: Do you think IFRS are stricter? They will say yes — a lot stricter. Then, I tell them to look at the financial statements of Kühne + Nagel, of Hilti … and I have around five examples. We made the compromise and put an end to it. Nevertheless, I need to add something now: If segment reporting was that important, then investors and analysts need to speak up, if someone does not disclose segment information." Former Member of the Commission

Finally, the Commission approved and enacted the new Swiss GAAP FER 31 at the end of 2012 with a qualified majority vote (source: 61st Meeting of the Commission dated 13 December 2012). In an article, the Commission summarized the most controversial points raised in the consultation and justified its decisions:

> "The Commission enacted a regulation that adequately considers the arguments of both sides." Meyer and Suter (2013, p. 106)

To the argument that segment reporting caused additional cost, the Commission responded:

> "The Commission does not consider the argument as valid because companies need to have for their management such an internal reporting to the highest steering level (Board of Directors, group management or the management team)."
> Meyer and Suter (2013, pp. 106 - 107)

From an internal organizational perspective, the Commission agreed on a new agenda-setting process in 2016 as a result of the updated Organizational Regulations. Thereby, the Executive Committee was commissioned to establish a proposal for a work plan for the coming year, which had to be discussed and approved by the Commission and subsequently had also to be published (source: 69th Meeting of the Commission dated 5 December 2016). For 2017, the Commission decided to launch post-implementation reviews on Swiss GAAP FER 30 Consolidated financial statements and on the topic of subsidies in addition to the completion of its ongoing projects.

- **Mimicking: Competition as source of motivation**

> "It was not considered until now that choices between accounting standards also bear advantages, which are basically related to competition in a market economy. Thus, it also can be expected that, from the perspective of companies, it could be seen as welcome if a competitive situation arises between Swiss GAAP FER and the new IFRS for SMEs." Boemle (2009, p. 827)

Although IFRS for SMEs had difficulties gaining a foothold in Switzerland, articles still compared IFRS for SMEs to Swiss GAAP FER (Teitler-Feinberg, 2009). Following the slogan "competition is good for business", the Executive Committee eventually decided to systematically review the existing accounting options within Swiss GAAP FER with regard to their relevance and to compare them to those within IFRS for SMEs (source: 109th Meeting of the Executive Committee dated 12 March 2010).

> "The president welcomes the effort and outlines that disadvantages of Swiss GAAP FER compared to IFRS for SMEs shall be eliminated while advantages shall be maintained." 31st Meeting of the Board of Foundation dated 20 May 2010

Before even an in-depth analysis was available, the members of the Commission agreed to a suspension of the accounting option outlined in Swiss GAAP FER 16.4[175] and the related explanation in 16.13 referring to an international accounting standard. They feared potential inconsistencies arising from the absence of the concept of "other comprehensive income" within Swiss GAAP FER (source: 56th Meeting of the Commission dated 29 June 2010). The suspension became effective as of 1 January 2011 followed by a transition period of three years. Asked about the connection of this project with the launch of IFRS of SMEs, a member responded:

> "A project was launched — as is usual. However, there was no reason why Swiss GAAP FER had to be reinvented or entirely changed. It could continue in its way, because Swiss GAAP FER had a favorable positioning. To a certain degree, the

[175] Swiss GAAP FER 16 Pension benefit obligations, Article 4: "The presentation of the economical impact of pension obligations on organizations can — with respective justification in the notes — also be performed fully according to a dynamic method. In order to do so, an international accounting standard, applicable at the balance sheet date, has to be used" (Swiss GAAP FER Accounting and Reporting Recommendations, 2009).

focus on Swiss peculiarities was intentionally sought, and we tried to emphasize them in a more pointedly manner." Member of the Commission

Based on a list of accounting options within Swiss GAAP FER, the Commission reviewed them and assessed their validity. With many accounting options, it did not identify any need for action (source: 57th Meeting of the Commission dated 1 December 2010). In few instances, it was decided to repeal or even to newly grant an option. The main topics were the applicability of the POC method for Core FER preparers, FX conversion, disclosures on derivatives and the limiting of accounting options on the valuation of inventories and tangible fixed assets. In autumn 2011, a consultation on the changes was conducted, which resulted in 11 opinions. After a discussion, the Commission enacted the related changes as of 1 January 2013 (source: 59th Meeting of the Commission dated 12 December 2011).

"I find it for example important that no fixation on IFRS takes place. If something gets changed in IFRS or is regulated, this should not result in a rush all of a sudden. From a public policy perspective, I would say that attention must be paid that the French-speaking and Italian-speaking parts of Switzerland are sufficiently considered." Observer

Although it was frowned upon within Swiss GAAP FER to overtly mimic IFRS, IFRS developments still served as a source of inspiration for further activities. For example, the development of a joint revenue recognition standard was on the agenda of the IASB for completing the convergence with US GAAP and thus the topic of revenue recognition attracted more and more attention also in a national environment like Switzerland. In light of the growing diversity of business models and difficult economic conditions, questions arose concerning the definition and recognition of earnings and how revenues were to be represented.

"Comprehensive case-by-case regulations according to US GAAP stand opposite to a mixture of detailed- and principle-based rules within International Financial Reporting Standards (IFRS). Both standard-setters have already worked together on a joint new version for a longer period of time, which presently is due in the first quarter of 2014. However, for the purposes of Swiss GAAP FER, taking them as orientation will be far too much effort. Nevertheless, both Swiss GAAP FER and the Code of Obligations contain hardly any rules on revenue recognition. As a result, the opposite problem of underregulating and lacking comparability might exist." Leibfried (2014, p. 148)

In 2012, the Commission decided to install a new working group whose responsibilities included the assessment of potential regulatory gaps and the need for action in the development of a principles-based proposals for solutions (source: 61st Meeting of the Commission dated 13 December 2012).

"An enactment of a separate standard shall be avoided: On the one hand, current Core FER users would remain on the present level while some questions also are of relevance for them. Furthermore, the question of revenue recognition is a fundamental issue. On the other hand, the proposed amendments are luckily also not comprehensive enough to justify a separate standard."

Leibfried (2014, p. 148)

The proposed amendments affected brokerage transactions and so-called multi-component transactions[176]. They also provided further details on the definition of net revenues and defined how rebates and discounts were to be treated and cautiously extended disclosure requirements[177]. A public consultation was carried out in spring 2014 and 8 opinions were published on the website. To avoid any obvious contradictions to IFRS regulations, FER decided not to address impairments of accounts receivables in the context of revenue recognition (source: 124th Meeting of the Executive Committee dated 8 May 2014). Eventually, the results of the consultation on new regulations for revenue recognition were discussed and the Commission agreed on certain adjustments on 17 June 2014. The adjusted standards (Swiss GAAP FER Framework, FER 3 and FER 6) were enacted as of 1 January 2016.

- **Monitoring: Having a closer look at external developments**

The Commission considerably expanded its efforts in monitoring developments in its environment and with its stakeholders both in a systematic way and on an ad-hoc basis:

With reference to systematic monitoring activities, a major effort was the carrying out of two empirical studies. The first was done in 2009 and subsequently was repeated in 2014[178]. The studies provided Swiss GAAP FER with valuable insights on diffusion rates of different accounting standards with companies of varying sizes, the perceived strengths and weaknesses of different sets of accounting standards and other factors influencing the role of accounting (Swiss GAAP FER, 2014a). In 2014, 66 percent of the companies exclusively applied the accounting rules stipulated by the Code of Obligations, 18 percent applied Swiss GAAP FER and 13 % IFRS (of which 70% were subsidiaries of foreign groups), 2 percent followed US GAAP, and the rest applied a different standard. The empirical study also revealed that Swiss GAAP FER diffusion rates increased from 14 percent in 2009 to 18 percent. This increase took place at the expense of pure statutory reporters, whose number decreased by 5% compared to 2009. Particularly, Swiss GAAP FER gained momentum with medium-sized companies with 50 to 249 employees (2009: 16% vs 2014: 21%).

176 Please refer to Swiss GAAP FER 3.19 and the Swiss GAAP FER Framework article 12 (Swiss GAAP FER, 2014b).

177 See also Swiss GAAP FER 6.8, Swiss GAAP FER 3.17 and 3.18 (Swiss GAAP FER, 2014b).

178 For the study in 2014, Swiss GAAP FER sent a questionnaire to 5'136 to mainly small and medium-sized companies. Thereby, 773 companies participated in the study, which corresponded to a response rate of 15.1%.

Moreover, Swiss GAAP FER launched a series of on-site events (known as «Fer vor-Ort Anlässe") in 2016 to strengthen the Swiss GAAP FER network of stakeholders and to foster the exchange between organizational and more peripheral actors. In close cooperation with the three professional associations (EXPERTsuisse, TreuhandSuisse and veb.ch) it hosted short evening events across Switzerland. After a brief introduction of a representative of a professional association, a member of Swiss GAAP FER outlined the structure and processes of the standard-setter as well as current topics being addressed. Subsequently, a presentation by a preparer on selected Swiss GAAP FER issues followed and the participants obtained the possibility to raise questions and get into a discussion with all speakers. Afterwards, the participants were given the opportunity to exchange experiences, network and raise issues in a more informal environment that also provided members of the Commission with valuable insights on pressing issues.

> "The launch of the new event series brought new momentum. It is good to see that Swiss GAAP FER opens up and goes outside." External Stakeholder

Furthermore, the introduction of the post-implementation reviews provided Swiss GAAP FER with a further means to outreach to stakeholders already in a project pre-stage and get into discussions on potential existing issues, regulatory gaps or superfluous regulation. In 2017, two such post-implementation reviews were scheduled for 2018. One referred to Swiss GAAP FER 30 Consolidated financial statements and another was on the topic of "subsidies", which had not been addressed so far.

> "The post-implementation review is a review, in which either an existing standard is assessed in terms of its actuality, relevance and completeness and/or an analysis of a current topic or of an important issue is carried out."Annen (2018, p. 350)

Stakeholders and interested parties were offered with the opportunity to submit questions and comments on the review of subsidies directly to the Member of the Executive Committee responsible for the project.

However, ongoing monitoring activities are always of high importance when dependencies to other influential stakeholders such as e.g. regulators exist. While issuing industry specific accounting standards in highly regulated areas extends the field of potential preparers and users for a standard-setter, the downside is that specialists need to continuously stay in close connection to responsible regulators to ensure consistency in the case of regulatory changes affecting the standards. In this context, a good example is Swiss GAAP FER 26 that had to be revised in 2012/2013 following changes in pension legislation. To systematically institutionalize an exchange with important stakeholder groups and organizations and to avoid frictions in case of personnel changes, Swiss GAAP FER identified a list of stakeholders, with whom meetings on a regular basis were planned (source: 69th Meeting of the Commission dated 5 December 2016).

Finally, there is also evidence in the data that members of Swiss GAAP FER carried out monitoring activities on an ad-hoc basis. For example, a review of the financial statements of early adopters of Swiss GAAP FER 31 Complementary recommendation for listed companies was done. These companies already applied the new standard for the financial year 2013, although the standard was enacted as of 1st January 2015. Suter and Balkanyi (2014) particularly investigated segment reporting, the disclosure of the average applied tax rate, earnings per ownership right and financial liabilities. Out of the eight companies only one reported and argued for one single segment. They also identified some confusions with the average reported tax rate. Nevertheless, they could not identify any major issues in the sample taken and thus concluded:

> "Since all early adopters – with the exception of one – came from applying International Financial Reporting Standards, disclosure questions such as segment reporting and the influence of tax losses apparently play a minor role."
>
> Suter and Balkanyi (2014, p. 893)

Also, in 2011 the Commission noted that H+ Swiss Hospitals had issued an accounting manual specifically for hospitals based on Swiss GAAP FER standards and appreciated an application of the standards in the new sector (59th Meeting of the Commission dated 12 December 2011). Three years later, the organization became an observer.

On a national and transnational level, Swiss GAAP FER continued with its existing engagements at the Swiss Public Sector Financial Reporting Advisory, the Consultative Forum of Standard Setters of EFRAG, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) of the United Nations Conference on Trade and Development. However, the developments in the transnational realm had only little impact on Swiss accounting activities.

In 2012, Swiss GAAP FER also hosted a conference of IFASS with around 90 participants from 35 countries with the support of SIX Swiss Exchange. Discussed topics comprised unit of account, limits of financial reporting, goodwill accounting, a disclosure framework as well as revolutionary ides on financial reporting (source: 118th Meeting of the Executive Committee dated 29 November 2012).

- **Protecting: Emphasizing governance**

  "The biggest risk for a standard-setter or regulator in general is reputational risk. Swiss GAAP FER is also exposed to that risk. And this risk of course increases with the number of adopters. The more adopters you find the higher the exposure is that someone misuses the standards." Observer

Particularly from 2014 onwards, Swiss GAAP FER considerable increased its efforts to improve its governance, promote rigor and foster transparency. The first step towards more transparency in its due process was done earlier and was the decision to publish consultation opinions on its website in 2011. During the project on accounting options, the Commission debated over this question, because some members were afraid that stakeholders would be more restrictive with revealing their true positions, if they were to be disclosed. Transparency arguments prevailed, and opinion providers were granted the option to treat their opinion to in a confidential way, if they explicitly desired it (source: 59th Meeting of the Commission dated 12 December 2011).

As part of the vision 2020 discussions, the Commission also agreed on an updated project process integrating a project pre-phase stage (post-implementation-reviews) in preparation of a potential later project. In parallel, Swiss GAAP FER reviewed its governance more comprehensively and updated its Organizational Regulations, which mainly defined the responsibilities of the different bodies of the standard-setter as well as decision rules, which remained unchanged. Besides, the project group reviewing Swiss GAAP FER's governance drafted a code of conduct applicable to all members of the Commission, the Technical Secretary and partly to observers and external members of subcommittees. Main areas comprised the disclosure and managing of conflict of interests, data confidentiality and external communication.

> "You cannot say as standard-setter that you are in favor of more transparency and then you yourself do not live up to it." Member of the Commission

The Commission enacted the code of conduct as of June 2017 (source: 70th Meeting of the Commission dated 13 June 2017). During the discussions, the Commission decided to increase the transparency of its bodies by publishing a short profile on every member and observer with the current representative. Thereby, members of the Commission were obliged to publicly disclose interests as part of their profile.

> "We do a lot of things already and now the whole issue is to put it onto the website so that it is public. That is the additional element. If something happened at some point, I would have the impression that otherwise someone could have come up and said: You have not been transparent enough. Actually, the whole process was not transparent etc." Member of the Commission

In 2017, Swiss GAAP FER also launched a new sponsoring concept broadening its sponsoring base. Companies and private individuals were invited to financially contribute to Swiss GAAP FER in defined levels[179] and their names have been published on the website if desired.

[179] Guidance values for contributions of companies were CHF 1,000.00 and CHF 100.00 from individuals.

Moreover, Swiss GAAP FER completed various internal housekeeping exercises from 2014 onwards. The technical advancement on data storage (i-cloud solutions) offered the opportunity to improve its own internal organization and way of cooperation. The militia-based organization had downsides in terms of coordination of work. Usually, members of the Commission including observers met in person at the bi-annual meetings of the Commission, while members of Executive Committee met each other once every quarter in addition. Mostly, communication throughout the year took place through E-mail. Also, the subcommittees on revising accounting standards or reviewing existing ones, comprised experts from different external organizations across several parts of Switzerland making cooperation organizationally cumbersome.

> "From an organizational perspective, we completed our duties on how we wanted to work together – or put differently how we wanted to work together in a modern way. Lose project groups are formed and then are dissolved later. A network of experts forms itself, then jointly completes projects and eventually moves on. Nevertheless, everything remains stored in a clear structure and therefore the knowledge is preserved and does not get lost on the way."
>
> Former Technical Secretary

As the term of a Technical Secretary ended after four years and another big audit firm appointed a new Technical Secretary and as fluctuation rates of technical assistance from universities were high, a smooth handover was important to ensure the frictionless continuance of work including day-to-day tasks.

> "Upon my start, I obtained four large boxes of paper documents and a memory stick. And it was always the question, who possessed the latest version of a document. Most of the things were done by E-Mail. I thought this was not timely any longer."
>
> Former Technical Secretary

After the redomiciling to St. Gallen accompanied by the insourcing of all administrative tasks from EXPERTsuisse in early 2015, Swiss GAAP FER modernized its data storage, its website appearance as well as its corporate governance.

> "We had a good documentation on our work and the projects. On the one hand, we had the minutes, on the other hand we also had our central electronic data storage, to which every member had access. The central data storage was my first project and the basis for restructuring the workflows within the standard-setting organization. Thereby, we asked ourselves, what else we had to internally modernize. We took the identified issues and changed our internal organization, but we also amended our regulations that we imposed on ourselves. The amended Organizational Regulation is the result thereof. The discussions that have taken place led to a common understanding, in which direction the foundation needed to develop."
>
> Former Technical Secretary

Thereby, the decision on the new website triggered a much broader discussion on the standard-setting process itself and the desired level of transparency.

> "The project on the website turned out to be way more complex than we all initially thought – including myself. Initially, I thought we will only modernize a couple of things and that is it. However, also in this project the process on jointly agreeing turned out to be of utmost importance: which elements and pieces we wanted to show and which content we needed to develop as a result."
>
> Former Technical Secretary

However, inside and outside perceptions do not always match. Despite the outlined efforts, interviewees from outside the organization still pointed to the continued lack of transparency on how the Commission exactly responded to opinions on published drafts. They desired to have an explanation why certain decisions were taken and how opinions influenced the decision. And despite all the organizational governance measures on transparency, they continued to perceive Swiss GAAP FER as standard-setting organization as quite non-transparent, when it came to responsibilities of the different bodies and how the appointment process worked as well as what the selection criteria for new members were:

> "The Foundation FER appears to me to be quite non-transparent. I think I know more or less how members get elected and what they do. But in essence, it is hardly perceived. What is perceivable are the operating actors such as Prof. Leibfried. And also Prof. Meyer was well known. But that there is a foundation behind it, is not generally known. How the appointment process of members functions is also not transparent." External Stakeholder

As the above outlined issues show, there is still a lot of work to be done to provide stakeholders and other interested parties with more transparency and assurance on the accounting standard-setting process and to convince them that Swiss GAAP FER members get appointed according to objective selection criteria and adequate processes.

Summary of impacts on legitimacy

- **Input legitimacy**

Preparers: Swiss GAAP FER slightly broadened its potential target group of preparers. With the introduction of Swiss GAAP FER 41, the standard-setter also offered an individual solution for real estate and health insurers. Furthermore, it slightly increased the scope of potential applicants in the non-profit sector. Externally established manuals e.g. for the health care sector increased the attractiveness of Swiss GAAP FER in further sectors and by introducing Swiss GAAP FER 31 it maintained its attractiveness for small and medium-sized listed companies.

Observers: Overall, the number of observers increased by four organizations. Particularly, with the introduction and amendments of industry specific Swiss GAAP FER the involvement and support of observers proved to be important. But also, during the revision of other standards the positions of observers played a vital role. Actions were not only enabled but also constrained at the same time.

“This aspect must be well kept in view. In fact, it shall not result into a German-speaking standard but into a truly national wide Swiss GAAP FER. I also attach importance to the proximity to federal law such as the Code of Obligations for example or to regulatory requirements particularly in the area of pension funds, health insurers and financial institutions. So far, it did not work out badly. Discussions with federal authorities are being sought.” Observer

All stakeholders: With the onsite events throughout Switzerland, Swiss GAAP FER increasingly outreached to more peripheral stakeholders strengthening the perception of Swiss GAAP FER both as set of accounting standards and as standard-setting organization committed to qualitative accounting. At the same time, post-implementation reviews provided the standard-setter with an additional possibility to reach more peripheral stakeholders and obtain their views already in a project pre-phase stage. All these new initiatives contributed to further bolstering input legitimacy. However, an unanswered question in this context is how the standard-setter collects and systematically processes the feedback it obtained within the organization.

Besides the outlined new initiatives, Swiss GAAP FER continued engaging leading technical experts external to its organization in almost all completed projects in this phase. It always paid attention to compose working groups in such a way that all affected stakeholder groups were represented. Thereby, it minimized the risk that projects were rejected in the consultation phase.

- **Throughput legitimacy**

All stakeholders: Lacking democratic underpinning, private standard-setters such as Swiss GAAP FER need to compensate for it by ensuring an adequate governance, due process and transparency. These requirements were well recognized by the Commission and it adopted several measures to improve internal processes, communication and transparency. Observers are witnesses of broad-based decision-making processes.

“For me the composition is balanced. I do not have the impression that I am overpowered by large audit firms. Clearly, their involvement is significant, since they appoint the Technical Secretaries etc. – in other words man power. Nevertheless, I never had the impression that it was a prearranged affair.”

Member of the Commission

During the period, Swiss GAAP FER also implemented a couple of measures to ensure its independence and appearance in this respect. Related examples are the insourcing administrative tasks from EXPERTsuisse, the broadening the sponsoring base, the enactment of a Code of Conduct and more transparency on its processes and agenda e.g. on its website, its media releases and at the hosted events.

However, Swiss GAAP FER also faced difficulties with balancing interests in certain projects despite broad representation and involvement of stakeholder groups. With

Swiss GAAP FER 31, the standard-setter had to define a compromise decision on segment reporting itself due to overly diverging standpoints. In the case of the revision of Swiss GAAP FER 14, it used elements of hard advocacy work to convince the stakeholders to jointly work and agree on an update (by revoking the standard), after the revision in 2007-2009 failed to deliver the desired result.

- **Output legitimacy**

Preparers: Overall, the accounting standards remained quite stable throughout the period. Mainly small groups of preparers were punctually affected by new rules (e.g. listed companies with Swiss GAAP FER 31). Various other amendments were necessary to preserve the validity and consistency of accounting standards with changes in regulatory requirements, which eventually is in line with the interests of preparers (e.g. changes in the accounting rules in the OR, changes in BVV2, establishing a bridge to OR requirements for small non-profit organizations to avoid potential dual reporting etc.). Thus, Swiss GAAP FER preserved one of its core strengths compared to transnational alternatives by maintaining a favorable cost-benefit ratio while offering principle-oriented guidance for a true and fair view-oriented financial reporting.

Users: For users the most important stakeholder group presumably are listed companies. Swiss GAAP FER enacted a separate standard resulting in more transparency of relevant key information such as first-time adoption, share-based payment, earnings per ownership right, discontinued operations, income taxes, financial liabilities, interim reporting and finally segment reporting (if disclosed). In the context of small listed companies mainly doing business in Switzerland the regulations are widely considered as comprehensive enough.

Legislators/Regulators/auditors/SIX Swiss Exchange: Throughout the period, Swiss GAAP FER paid attention to the consistency of accounting standards with national legislation and timely aligned rules when necessary. Moreover, representatives of the most relevant regulatory authorities could accompany all decision-making processes (without the right to vote) and raise potential issues. The standard-setter was open to requirements of this group and proved to be a reliable partner that monitored changes in the national environment and timely responded to them.

7. Discussion

This dissertation explores the question of how private national accounting standard-setters manage legitimacy over time. In this chapter, I will provide answers and discuss findings according to the legitimacy process model outlined in Figure 3. Building on the discussion of the model, I will provide both implications for theory as well as for practice.

Case discussion

As becomes evident from the findings, private national accounting standard-setting requires legitimacy management on an ongoing basis. Due to the lack of democratic underpinning, private standard-setters need to establish legitimacy differently than democratically legitimized actors such as legislators, which are legitimized by elections. At the same time, private national accounting standard-setters have more flexibility in processes and thus may quicker respond to changes in the institutional environment. This is supported by their more flexible ability to mobilize technical experts. They may convene the main stakeholders and negotiate a broad-based solution that is acceptable to all involved parties, provided that they can successfully apply mechanisms of social learning and persuasion, consonance between decision-makers and decision-takers and transparency as well as good corporate governance. Furthermore, they can pay attention to national peculiarities and consider these in the standard-setting process as well as in the standards themselves. In addition, national legislators may save cost and time in an area that is of little interest to political actors because of the technicality of issues. Briefly summarized, despite the existence of transnational accounting standards and accounting legislation, private national accounting standards have a “raison d’être” and may create added value for a national accounting environment by defining accounting standards tailored to local requirements.

In the discussion of the case, I will focus on four main areas. First, I will discuss the influence of the institutional environment. Second, the case study provides rich evidence of the different legitimacy work forms to gain and maintain legitimacy that organizational actors applied over time and in response to changes and uncertainty in the institutional environment. I will compare and discuss the different legitimacy work forms identified in the different phases. Third, the case also illustrates the embeddedness of actions into organizational structure and processes. Thereby, I will emphasize the importance of structure both in terms of facilitating and constraining actions. Fourth, the case also shows how changes in the institutional environment may affect legitimacy judgments by external stakeholders in both favorable and adverse ways without any interference of organizational actors. Thus, maintaining legitimacy is an ongoing, dynamic and never-finished undertaking.

- **The influence of the institutional environment**

As outlined in the case narrative for each of the four phases, upheavals in the institutional environment of Swiss GAAP FER both on a transnational and a national level impacted the actions and legitimacy judgments of Swiss GAAP FER's stakeholders. At the same time, they also affected Swiss GAAP FER's actions, the organizational setup, its processes and the accounting standards issued. At the same time, the standards and actions had repercussions on the institutional environment of major stakeholder groups.

In the first period from 1984 to 1991, the regulatory gaps in terms of accounting in the Code of Obligations, considering the developing accounting standards in US, the EU and other countries, facilitated the setup of a private accounting standard-setter and creation of separate accounting standards. At the same time, the non-transparent accounting practices of the time, which relied heavily on prudence, restrained the activities of the standard-setter. A new phase started for Swiss GAAP FER in 1992, when the revised Code of Obligations was enacted, and it became clear that the accounting standards would be considered as minimum standards within the listing rules of the Swiss Stock Exchange. By 2002, which marked the start of the third phase, Swiss GAAP FER faced considerable headwind from the institutional environment. The EU decision to require listed companies to adopt IFRS for their consolidated financial statements from 2005 onward and the decision of the Swiss Stock Exchange to limit the application of Swiss GAAP FER represented the most important external jolts. Also, the looming introduction of IFRS for SMEs caused uncertainty among stakeholders and actors within Swiss GAAP FER. After the launch of the revised Swiss GAAP FER and its successful implementation in the market, the last period eventually started with more favorable institutional circumstances. The growing complexity of transnational accounting standards made Swiss GAAP FER an increasingly attractive alternative for smaller listed companies as well as for smaller non-listed organizations that sought more transparency in their financial reporting.

- **Managing legitimacy from an institutional work theory perspective**

To gain and maintain legitimacy and influence legitimacy judgments of stakeholders in a positive way, the actors working on behalf of Swiss GAAP FER applied a wide range of active and passive institutional work forms, subsequently referred as legitimacy work. While active work forms sought to positively influence and induce legitimacy judgments and (re)actions by external stakeholders in this respect, passive legitimacy work forms aimed more at maintaining, protecting and leveraging already existing (positive) legitimacy judgments. In different degrees and variations, all eight legitimacy work types occurred during the different phases, often simultaneously. They exerted a reciprocal influence on each other. Nevertheless, I will discuss them in the following paragraphs one after another for reasons of clarity and outline existing interrelations.

As private national accounting standard-setting represented a new undertaking in Switzerland, *constructing identities* was a central work form to establish legitimacy for FER as a standard-setter and for its activities in the founding period of the 1980s. According to Lawrence and Suddaby (2006), this work form is mainly associated with the development of professions and highly relies on collective action. Traditionally, accounting standard-setting in Switzerland was a domain restricted to legislators, who mainly came from a legal background. Thus, during the founding years, members of the Commission consistently emphasized the broad composition of the Commission, comprising different renowned actors in the field of accounting and its international orientation both in terms of structural setup and the content of accounting standards. Thereby, they "borrowed" and relied on the existing legitimacy of the actors in the field.

It is to be noted that constructing identities requires a great deal of time, persistence and proactive communication on behalf of organizational actors until an organizational identity can become "taken for granted" and thus no longer subject to further questioning. Constructing identities is closely connected with advocacy work because the former benefits from the latter. In the initial phase, FER also relied on mimicking for constructing its own identity by referring to international standards and standard-setters. An idea behind the reference to "superior best practices" elsewhere was to reduce the novelty factor and emphasize the established approach and make it more acceptable to the involved stakeholders. In the context of the 1980s and '90s, an emphasis on "Swissness" in the field of accounting did not represent a viable option to FER. At that time, accounting in Switzerland was preponderantly (perceived as) not transparent and often was classified as inferior compared to the accounting standards in the Anglo-Saxon world or in other European countries. Thus, the relative weak accounting legislation facilitated the establishment of a private national accounting standard-setter.

However, the case also shows that it can become necessary to reconstruct and alter the identity. As the institutional environment changed at the turn of the millennium, Swiss GAAP FER found itself sitting between the chairs: The growing complexity of IFRS and adverse implications for smaller listed preparers made an international orientation problematic while the decision of the Swiss Stock Exchange to limit the applicability of Swiss GAAP FER for listed companies in 2005 seriously impaired the legitimacy of the standard-setting organization and its standards. In pursuit of transparency and best practices in financial reporting caused by the rising significance of capital markets and international trade, large listed companies had adopted IFRS during the 1990s. Thus, one of its original core stakeholder groups had vanished in the meantime. Therefore, it appears comprehensible that Swiss GAAP FER reverted to its Swiss roots and to SMEs as its core target group (beside some specific industries such as non-profit organizations, insurance companies and pension funds) in phase 3. It also conceptually adopted the standards to fit this reorientation. Instead of mimicking, it sought to differentiate itself from IFRS and the IASB by highlighting its compared favorable cost-benefit ratio, pragmatism and "Swissness", because the image of Switzerland as an island of non-transparent accounting standards in the corporate world had faded. In their analysis of identity and legitimacy of venture life cycles, Fisher et al. (2016) outline the necessity to adjust legitimacy management strategies in different stages of the life cycle due to altered expectations of the audience. They also point to potential adverse effects of venture-identity embeddedness and the difficulty of dealing with institutional pluralism, which Swiss GAAP FER also had to deal with. After the restructuring of the standards in 2004-2006, Swiss GAAP FER reviewed its composition and aligned it to better fit its target group. Some members of the Commission no longer felt aligned with the new identity and setup and eventually left Swiss GAAP FER.

> "It became self-perpetuating. You did not have to do much. Earlier you had to fight, not with swords but with flying the flag against Industrie-Holding."
>
> Former Member of the Commission

Swiss GAAP FER also is an excellent case to illustrate the importance and long-term effects of *advocacy* work. Suchman (1995) emphasized the opportunities that lobbying activities, such as advertising, offer to even marginalized actors to address the institutional environment and gain legitimacy. However, advocacy work was important to Swiss GAAP FER in all periods and particularly its enduring (Tost, 2011) or buffering effect (Fisher et al., 2016) may not be neglected. Thereby, the standard-setter relied on a broad definition of stakeholders that conferred legitimacy on the standard-setter and the set of standards. Legislators and regulators were included as a separate important stakeholder group. This understanding contrasts with authors who classify users as the main source of legitimacy for accounting standard-setters, such as Durocher and Fortin (2010). Beside its strong focus on preparers, banks, auditors and users, Swiss GAAP FER continuously expanded its list of observer organizations and paid attention to maintain good relationships with regulators, professional associations and, more generally, with state actors such as representatives from various departments within the government. Also, the relationship with the Swiss Stock Exchange proved to be critical in strengthening Swiss GAAP FER's legitimacy and fostering the diffusion of accounting standards. Actors on behalf of Swiss GAAP FER had a good understanding in the different time periods of who had a say in the context of accounting standard-setting and early on sought cooperation with these parties. The preferred repertoire of cooperation included ongoing communication, mutual involvements in projects or even cooptation into FER bodies.

Canning and O'Dwyer (2016) differentiate between soft and hard nuances of advocacy work. For most of the time, Swiss GAAP FER relied on a soft type of advocacy work. On an ongoing basis, members of the Commission published articles on current accounting issues and projects. They provided detailed background information on the rationale behind why certain standards were enacted and explained complex concepts. Of course, they also outlined related benefits and lobbied actively for support of the standards and the decisions made. However, Swiss GAAP FER also applied hard advocacy strategies when it, for example, suspended Swiss GAAP FER 14 without outlining an exact suspension date to force reluctant stakeholders to quickly work on a revision of the standard and to agree to compromises.

Interestingly, Swiss GAAP FER benefited a great deal from more indirect and subtler advocacy work by its actors. In most cases, these activities took place on a private basis independent of Swiss GAAP FER and were not deliberately conceptualized as advocacy work for the standard-setter. Nevertheless, they had positive repercussions on Swiss GAAP FER as a standard-setter and on the accounting standards. With the involvement of FER members in legislative projects or other expert groups, FER obtained information first-hand on ongoing developments. Also, the members of FER could ensure that the positions of the standard-setter were communicated and its interests preserved. The amendments of the Swiss Code of Obligations regarding accounting legislation in 2013 appear well aligned with the concept of Swiss GAAP FER. In a different vein and much earlier, the involvement of members of FER in the development of an accounting concept for listed companies for the Swiss Stock Exchange in the early 1990s is another example of important indirect advocacy work that was mutually beneficial to all parties. The close cooperation with the Swiss Stock Exchange in the 1990s presumably also contributed to the reluctance of the exchange to too quickly mirror the steps taken by the EU to require the preparation of consolidated accounts of listed companies in accordance to IFRS.

Beside advocacy, *convening* was another important legitimacy work form, especially in the context of establishing and maintaining input legitimacy throughout all periods. From its inception, Swiss GAAP FER sought legitimacy by ensuring broad participation (including different stakeholder groups and representatives from different language regions in Switzerland), the involvement of technical experts and the cooptation of important stakeholders. It is important to note that these activities and principles applied to different organizational levels including the bodies of Swiss GAAP FER such as the Commission and the project teams, which were flexibly constituted and dissolved on an ad-hoc basis and in most cases involved external stakeholders and experts.

The necessity of broad representation was already outlined in the Deed of Foundation of Swiss GAAP FER (as of 12 June 2015). Article 3 stipulated that the Commission consisting of up to 30 individuals had to be reasonably composed and had to involve personalities from the economy, auditing and accounting, from employers' and employee organizations, from science and academics, from public authorities and from other interested parties. Literature on the legitimacy of accounting standard-setting widely acknowledges that broad and balanced representation of stakeholders contributes to positive judgments of legitimacy (Botzem, 2014). However, the meaning of proper balance is ambiguous and what exactly a balanced setup looks like is subject to ongoing debate. It cannot be expected that all stakeholder representatives will ever have an objective view on it.

> "I cannot say that it [the Commission] is balanced. There are relatively few representatives of users, if I compare the number of auditors, preparers and banks. If the lender perspective is also considered, then it is surely more balanced." Member of the Commission

In the case of Swiss GAAP FER, the Board of Foundation annually reviewed the composition of the Commission and sought measures to ensure a balanced and representative composition of different stakeholder groups and integration of the different language regions. In the context of broad and balanced representation, Tamm Hallstrom and Boström (2010) also outline the requirement to ensure equal participation of stakeholders beyond the formal opportunity to do so and discuss the necessity for standard-setters to empower and assist weaker stakeholder groups to participate equally in the standard-setting process by, e.g., providing financial, cognitive, symbolic and social resources. In the past, little evidence can be found that Swiss GAAP FER made considerations in this direction, although it faced difficulties with appointing members representing the French and Italian language regions and small organizations.

Coming back to Article 3 of the Deed of Foundation, it is interesting to note that Swiss GAAP FER referred to involving personalities (rather than individuals or experts). To establish legitimacy for FER as a standard-setting organization and to construct identity as outlined earlier, the founder and his team relied on the involvement of high-profile actors from different areas in the economy, who also had to preferably be technical experts in their field. The list of the involved persons in the founding period and later read like a Who's Who of accounting experts in Switzerland at the time. Also, the growing number of observers has represented well-known and highly legitimate institutions. Tamm Hallstrom (2004) discusses the legitimizing effects of cooperating with so-called reference organizations. Standard-setters borrow legitimacy from these actors, who are perceived as highly legitimate by a broad audience. Swiss GAAP FER applied this strategy both for recruiting members for the Commission and for appointing organizations as observers. The choice of appropriate and authoritative actors is not always simple and of course bears certain risks, such as if high-profile actors become subject to criticism or if they misbehave. In its history, Swiss GAAP FER has escaped from adverse repercussions of scandals involving members of the Commission because of careful selection of members and because of fortunate coincidences related with the residual risk.

As already stated, Swiss GAAP FER always paid attention to engage actors in its organization and in the projects who represented relevant technical expertise. By technical expertise, I do not necessarily mean that a person has a specific certification but that he/she enjoys the status of being considered an expert in a professional field. Standardization literature discusses the benefits of employing technical experts and its positive effect on input legitimacy (Botzem & Quack, 2006; Timmermans & Epstein, 2010). The integration of technical experts is sought due to their modus operandi, which involves a methodical approach, judgments on technical grounds and the identification of the best technical solution (Tamm Hallstrom, 2004). Technical experts can provide advice from a scientific perspective without vested interests and without being politically tinged.

In numerous projects, Swiss GAAP FER engaged technical experts on a temporary and honorary basis. Projects such as Swiss GAAP FER 26 Accounting of pension plans (2004), Swiss GAAP FER 12 Interim reporting (1996) and Swiss GAAP FER 27 Derivative financial instruments (2007) were even entirely managed by external experts. Despite the broad setup of the Commission, Swiss GAAP FER lacked available resources internally at certain points in time to address specific questions. An example would be pension funds. Often, technical experts do not only possess required in-depth knowhow but also have a good personal network that includes important stakeholders of the project. In the case of Swiss GAAP FER 26, the project manager was familiar with the most important players in the pension fund environment and could engage in discussions with actors on an informal basis, facilitating the acceptance of the newly created standard.

However, Tamm Hallstrom and Boström (2010) also highlight the conflict between achieving broad representation of stakeholder interests and the reliance on technical expertise. They outline the incompatibility of technical expertise that strives to reach consensus on the optimal technical solution and stakeholder representation linked to interests of organizations. Also, Swiss GAAP FER has faced such conflicts of different interests again and again. A good example was the issue of segment reporting in the development of Swiss GAAP FER 31 Complementary recommendation for listed companies, where different stakeholder interests dominated the discussion. However, this inherent conflict has been partially mitigated by the organizational structure involving a presidency of the Commission by representatives from universities and ad personam nominations (see next section: enabling and constraining factors of organizational structure and processes).

A further way to establish and maintain legitimacy is *educating.* Educating is a legitimacy work form not to be underestimated. Evidence from the case of Swiss GAAP FER suggests that the significance of educating goes beyond theoretical conceptions outlined by Lawrence and Suddaby (2006) and Slager et al. (2012). Educating was not only important in the initial founding period but also proved to be an important legitimacy work strategy during maintenance phases. Lawrence and Suddaby (2006) depict educating as an important institutional work form to create an institution by improving actors' skills and knowledge and classify it as cognitive work to support the development of new practices and connecting these with control mechanisms. Slager et al. (2012) highlight the notion of providing standard adopters with the knowledge required to comply with standards. The involvement of university professors across Switzerland within the bodies of Swiss GAAP FER provided Swiss GAAP FER with strong leverage because the content of the accounting standards and recent developments were discussed and taught at universities, whose graduates eventually assumed influential positions in the economy. Furthermore, offering training courses on Swiss GAAP FER represented an attractive business opportunity for professional associations such as veb.ch and EXPERTsuisse. Both associations have ensured the training of a great number of experts over the years and contributed to the legitimation and diffusion of the standards. Swiss GAAP FER deliberately did not undermine these external efforts by offering separate training courses apart from its annual seminar. The issuance of textbooks on Swiss GAAP FER and on Swiss GAAP FER 21 supported educating activities.

Also, the annual seminar has offered a good opportunity to present current accounting issues and to determine solutions to complex accounting problems in the understanding of Swiss GAAP FER, although the standard-setter always has refrained from issuing interpretations. At the same time, the event also improved the recognition of Swiss GAAP FER as a standard-setting organization, even though it was hosted by EXPERTsuisse until recently. Moreover, the leveraging of the notion of communities of practice in the recent past (Leibfried, 2018) represents a promising way to increase educating work activities that result in a higher-quality application of Swiss GAAP FER in the financial reporting of organizations.

To initiate institutional change and agree on mutually acceptable solutions, actors have engaged in *negotiating* work both on an inter-organizational and an intra-organizational level. Timmermans and Epstein (2010) classify standards as often formally or legally negotiated outcomes and hence recognize the importance of negotiations in standard-setting. Negotiation work is enabled and constrained at the same time by institutional context and logics. Drawing on insights from strategic negotiation literature, Helfen and Sydow (2013) defined negotiating as a separate institutional work form as outlined in Chapter 3. The institutional environment influences actors' objectives, priorities and focus. Nevertheless, actors retain a considerable scope of agency and take different approaches in varying contexts. The case of Swiss GAAP FER includes both evidence for distributive and integrative bargaining modes and for adversarial as well as collaborative shaping attitudes. For example, the relationship of FER to Industrie-Holding in the mid-1980s can be classified as adversarial, although FER had representatives from Industrie-Holding on the Commission. The open questioning of the legitimacy of FER as a standard-setting organization did not contribute to a participative and collaborative environment that facilitated the enactment of mutually agreeable high-quality accounting standards. Rather, the standard-setting process was perceived by actors as cumbersome and slow. It took numerous (formal and informal) discussions, mainly behind closed doors, to establish a constructive basis for interaction and cooperation. After the conflict was resolved in the late 1980s, the bargaining mode became more integrative and the attitude collaborative. Eventually, FER could quickly proceed with the development of new accounting standards that took the interests of different stakeholder groups into consideration. An example of more integrative and collaborative negotiations from inception was Swiss GAAP FER 21, where the working group debated for a long time over accounting rules that balanced the interests of beneficiaries, donors, founders, members, staff, etc. Nevertheless, the working group managed to define several new accounting concepts in the context of charitable non-profit organizations, such as for example, requirements on the performance report. The long negotiations between the different stakeholder groups paid off, as the standard was diffused quickly upon its enactment. Balancing different interests of stakeholder groups is an important but often time-consuming undertaking.

In terms of internal conflicts and agenda-setting, the organizational setup influenced how internal differences were managed and which topics were discussed. By requiring qualified majority votes for changes and new accounting standards and ensuring a balanced representation of stakeholder groups in the Commission as well as in the project working groups, the adoption of broad-based solutions was fostered. The same is true in the agenda-setting process, which prioritized issues that were deemed critical for most stakeholders. By the end of 2017, the Commission for example agreed to execute a post-implementation review on Swiss GAAP FER 30 Consolidated financial statements, because several preparers, auditors and users had raised doubts about the validity and completeness of the existing rules. Regarding enabling and constraining factors of organizational structure and processes, please refer to the next section.

Mimicking was a further important legitimacy work form that the actors applied to influence legitimacy judgments in a positive way. Mimicking affected both the standard-setting organization, including its processes, and the set of accounting standards. In the first two periods, FER emphasized its international orientation and its reliance on other accounting standards and their setup. The founder of FER took the organizational structure and the processes of the FASB as inspiration to establish a private accounting standard-setter in Switzerland that would pay specific attention to local circumstances (Zünd, 1985). A few years later, as EC directives and IAS became more popular, FER standards took these as guidance for determining its own rules. For most of the time in the first two periods, FER implemented rules and principles that were already in place somewhere else and were often considered as best practices in the transnational realm. Sometimes, such as in the case of FER 16, FER even included direct references to International Accounting Standards. Lawrence and Suddaby (2006, p. 225) discuss mimicking as an institutional work form that enables actors “to leverage existing sets of taken-for-granted practices, technologies and rules, if they are able to associate the new with the old in some way that eases adoption.” To facilitate the adoption of new institutions, similarities are highlighted while gaps are minimized. Referring to existing institutions makes new practices, structures, etc., more understandable and accessible. From a different theoretical angle, institutional theorists have outlined the sources of cognitive legitimacy which rest on taken-for-granted understandings (Scott, 2014). According to Scott (2014), legitimacy comes from conforming to a structural template for organizations, a common definition of a situation, a frame of reference or a recognizable role. By permitting cognitive classification of organizations into an existing category and making them understandable and taken for granted, cognitive legitimacy spares organizations from scrutiny and distrust of external societal actors (Bitektine, 2011).

Legitimacy work aimed at maintaining legitimacy does not only take place in times of institutional stability but also in difficult periods. Because of expected and unexpected changes of different magnitude in the environment or in the organizations, actors need to make considerable efforts to maintain or restore legitimacy. In the third period, when IAS became mandatory for the consolidated financial statements of companies in the EU and SIX Swiss Exchange limited the applicability of FER, FER ceased to emphasize its orientation on IAS. This external jolt resulted in a significant updrift for IAS/IFRS in Switzerland. With IFRS for SMEs, the IASB even launched a competing set of accounting standards to Swiss GAAP FER. For Swiss GAAP FER, it was no longer viable to refer to competing international accounting standards, particularly as more and more preparers became unsatisfied with the growing density and complexity of these standards. Nevertheless, this did not result in a complete stop in mimicking other accounting standards. Members of the Commission continued to monitor the developments in the transnational realm but responded to changes in the environment in a more deliberate way. For example, revenue recognition was a current topic due to ongoing developments with IFRS and, related to these ongoing discussions among accounting experts, it became difficult to justify the obvious regulatory gaps within Swiss GAAP FER in this regard. Swiss GAAP FER responded to these discussions by developing a pragmatic “FER-style” solution. Several working groups tasked to issue a new or a revised accounting standard reviewed existing IFRS on the topic as inspiration for potential solutions. Nevertheless, decisions were made that took into consideration the Swiss specific context and were independent of the related IFRS. However, in the case of major deviations from IFRS, Swiss GAAP FER faced the need to justify its own deviant rules, such as for example those on goodwill accounting. Briefly summarized, while mimicking was a successful overall strategy to gain and maintain legitimacy in the first two periods, its significance was reduced over time and it became a more viable strategy for resolving individual matters.

Due to the magnitude of monitoring activities identified during the case analysis, I decided to include *monitoring* as a separate institutional work form[180]. Suchman (1995) notes that perceiving changes is an important strategy for maintaining legitimacy. It deals with increasing the ability to recognize important changes, to anticipate stakeholders' reactions and foresee emerging challenges. So, monitoring goes beyond purely perceiving changes and includes a judgment of potential impacts on the organization. Monitoring has an advanced warning function that subsequently enables actors of an organization to respond in a timely manner. Any number of company failures were caused by decision-makers who lost sight of external developments or neglected them for too long and struggled later to cope with them. A close alignment between the institutional environment, the organization and its actors is also important for standard-setting organizations such as Swiss GAAP FER. Thus, monitoring on an ongoing basis is fundamental to maintain legitimacy.

In the case of Swiss GAAP FER, monitoring comprised a variety of different bridging activities to track changes, such as in the transnational environment involving other accounting standard-setters, in national legislation, in stakeholder expectations, beliefs and values, etc. In the context of new or amended accounting standards, Swiss GAAP FER regularly conducted public consultations and directly invited important stakeholders to participate. With controversial projects, it also hosted hearings as, for example, with the development of Swiss GAAP FER 31 or Swiss GAAP FER 40. It quite carefully analyzed received feedback and potential implications. On a more strategic level, it conducted comprehensive empirical studies on the diffusion of Swiss GAAP FER as well as on other accounted standards in 2009 and 2014[181]. Thereby, it also collected data on assessments of strengths and weaknesses and, thus, the empirical studies provided it with information on how stakeholders judged its overall legitimacy. In the fourth period, it increased its boundary-spanning activities by institutionalizing discussions with important stakeholders and hosting on-site events, which not only increased the recognition of Swiss GAAP FER as a standard-setting organization and as a set of accounting standards but also established a communication platform to reach more peripheral stakeholders and obtain their views. Also, the growing list of observers, including representatives of influential public authorities, ensured that external developments and insights became integrated into discussions, projects and decision-making

[180] Lawrence and Suddaby (2006, p. 231) refer to policing as an institutional work form that includes ensuring compliance through enforcement, auditing and monitoring. According to the authors, it can include both sanctions and inducements. In the context of assessing legitimacy strategies of private national accounting standard-setters and the limited scope for sanctions and inducements, I did not consider it as a suitable categorization.

[181] The study is expected to be repeated in 2019.

processes. At the same time, organizational structure limitations as restricting factors are to be considered such as the half-yearly meeting rhythm, the limited time for discussions and the rather large number of involved persons. The integration of members from large auditing firms and large preparers enabled the standard-setter to stay close to developments with IFRS and other relevant regulations. In principle, members of the Commission sought cooperation and tried to maintain good relationships with other accounting standard-setters such as the SRS, EFRAG, IASB, etc., although they had to be carefully to establish a distinct profile in phase 3. However, it is also clear that, due to its scarce resources and limited influence as national standard-setting organization, the activities of members of Swiss GAAP FER have been rather limited, especially in the transnational realm.

Work aimed at *protecting* legitimacy comprises a variety of activities, of which many focus on establishing and maintaining throughput legitimacy. A major emphasis is placed on procedural rigor and transparency in the accounting standard-setting process. New and amended accounting standards are subject to public consultation, which lasts for at least 60 days and usually involves publication of the draft regulation in the magazine, on the homepage and, in various cases, direct informing of affected stakeholders. Afterward, received opinions wearere analyzed and discussed within the working groups, the Executive Committee and eventually the Commission. The decisions, the reasoning and related discussions have been documented in detail for internal purposes.

Tamm Hallstrom and Boström (2010) highlight the significance of transparency in two aspects: as a key principle for standard-setters to consider in their efforts to be socially responsible and as a democratic value critical in the process. However, they also pointed to the fact that transparency is a concept with a great deal of interpretative flexibility. The governance discussions in the aftermath of the financial crisis altered the understanding of what constituted transparency in a standard-setting context. Hence, transparency is a dynamic concept that requires reconsideration on an ongoing basis. As the case of Swiss GAAP FER shows, not only individual perceptions influence the meaning of transparency but also the changing institutional environment alters the implications of transparency over time. For example, during the refurbishment of its homepage in 2016, members of the Commissions held discussions on what constituted public information to be published on the website and what was private information not to be shared beyond organizational borders. As a result of these discussions, the Commission decided to disclose further details on the standard-setting processes and on the profiles as well as other interests of the members of the Commission.

Finally, activities to protect legitimacy also directly concern the quality of standards. If new standards are issued or existing standards are revised, a consistency check is necessary to ensure that rules do not contradict principles stipulated elsewhere (and, if they do so, the scope of application needs to be outlined) and that concepts and terms are applied and used across all standards in a consistent way. For example, in the development of Swiss GAAP FER 40 Accounting for insurance companies (previously Swiss GAAP FER 14), attention was paid that the revised standard was properly embedded in the structure of Swiss GAAP FER, differentiating between standards for individual accounts and for consolidated accounts (Swiss GAAP FER 30) and that the terms used corresponded to other standards. Moreover, it was ensured that formulations were precise and legally diligent. Various interviewees stressed the importance of the alignment of standards with rules stipulated in the Swiss Code of Obligations. Hence, accounting standards need to ensure that they are aligned with more general legal requirements and if necessary are updated in a timely manner. A more specific example represents pension legislation. Changes in pension legislation triggered several revisions of Swiss GAAP FER 26 and 16 to preserve the validity of the standards. To ensure the validity and actuality of standards in a more systematic way, FER introduced in 2017 so-called post-implementation reviews.

In parallel to the need to keep standards up-to-date, Swiss GAAP FER has also been conscious of one of its core strengths: to promote regulatory stability over time. Various studies on the success factors of Swiss GAAP FER highlight the relative stability of the accounting standards compared to, e.g., IFRS (Bucher & Zemp, 2018; Pfaff & Hermann, 2012). Since the restructuring of Swiss GAAP FER in 2007, the interviewees appreciated the deliberate responses of the Commission to developments in the transnational realm and the avoidance of actions in a precipitative way. Changes in standards often result in additional cost and need to be monitored by affected stakeholders, which is especially problematic for SMEs with scarce resources to do so. From a more general perspective, there is a discussion on the appropriate level of detail of standards (principle-based versus rule-based). The looser standards are, the less they will tend to require updates. For Timmermans and Epstein (2010), it is crucial to find the right balance between flexibility and rigidity in standardization. Users shall be trusted with an appropriate level of agency to keep a standard sufficiently uniform to serve its purpose. Loose standards leaving room for interpretation may work better than rigidly defined standards. Yet, too much flexibility makes standards useless[182]. What often sounds good in theory, however, is not so easy to implement in practice and is dependent on the broader institutional environment, including the cultural context. In contrast to the US, the environment in Switzerland is less litigious and has a long tradition of principle-based accounting. What also needs to be considered are the restrictions on Swiss GAAP FER's actions due to its organizational setup (which of course could be changed by actors). Considerations on the organizational set-up are outlined in more detail in the next section.

[182] Nevertheless, standards may have an important signaling function (Timmermans & Epstein, 2010).

- **Enabling and constraining factors of organizational structure and processes**

What is striking about the case of Swiss GAAP FER is the relative stability of the organizational structure and decision-making processes throughout the different time periods analyzed. More than three decades ago, Prof. Dr. André Zünd and the founding team determined the purpose of the foundation, the basic organizational setup and decision-making processes and rules that largely have been in place ever since. With strategic foresight, they formalized the broad representation of stakeholder interests, a strict due process and decision-making process including decision-making rules. The setup forced actors, particularly in difficult times and with complex topics, to reconcile diverging interests and develop and negotiate sustainable solutions and compromises to which most members and external stakeholders could agree. The broad composition of the Commission and of the working groups already anticipated many critical issues in their work and fostered the pursuit of consensus-oriented solutions.

With reference to the conflict between achieving broad representation of stakeholder interests and the reliance on technical expertise, the organizational setup fostered the balancing of interests but could not entirely resolve it. Particularly in a militia-based organizational setup, actors often assume different roles in parallel, and conflicts of interests are in the nature of things. Moreover, the position and the organizational affiliation favoring senior roles and renowned players represent influencing factors in the selection process of Commission members. To mitigate this conflict of interests, members of the Commission have been elected on an ad-personam basis independent of organizational affiliation. The Code of Conduct enacted in 2017 reminded members of the implications of an ad-personam nomination. Accordingly, members always had to ensure the preservation of trust and reputation of Swiss GAAP FER both as a standard-setting organization and as a set of accounting standards and had to represent personal opinions independently of their organizational and professional affiliation. The implementation of such guiding principles is complex, difficult to enforce and conditional on different interpretations and the discretion of actors that are subject to bounded rationality. This is particularly true for issues, where interests of the represented stakeholder group or affiliated organizations are at stake. A mitigating factor in the decision-making processes was the fact that the presidency of the Commission has always been assumed by relatively neutral persons with high assertiveness and charisma. In the past, Swiss GAAP FER's presidents of the Commission mainly had an accounting science background and benefited from the legitimacy attributed with technical expertise and science. As representatives from science, the presidents of the Commission could ensure in a credible way that mutually agreeable solutions were adopted that were not maximized in the interest of one party but considered the interests more broadly.

From a different perspective, the organizational setup inhibited the creation of a regulatory minefield. The militia-based organizational setup of Swiss GAAP FER that has gone hand in hand with a limited availability of personnel and financial resources, imposed restrictions on the scope of activities and projects as well as the pace of implementation. It constantly forced actors to prioritize and concentrate on core activities and to carry out projects in an efficient and resource-saving way. At the same time, it is to be noted that Swiss GAAP FER succeeded in mobilizing resources in the past, when faster action was required because, e.g., legitimacy was at stake. The enduring effect of past legitimacy judgments provided the actors with an increased scope for action but did not dispense them with taking actions. Swiss GAAP FER was able to adjust temporality and increased the frequency of meetings and the involvement of different actors for a limited period of time. Examples involve the first two years after foundation (1984-1986) or the restructuring between 2004 and 2006, when almost all standards were revised and some new ones were introduced. In this context, interviewees pointed out that, if such high workloads prevailed longer, they would have run into conflict with their affiliated organizations. The lean organization kept the necessity of sponsoring on a low level and thus also positively affected independence considerations. Although the financial situation during the first two periods was rather strained, Swiss GAAP FER did not rely on significant sponsoring contributions due to its lean cost structure. Also, later in phase 3, when it attracted more significant contributions from different organizations, no evidence can be found that interests were linked to it. Swiss GAAP FER published the names of sponsors and ranges of contributions on its homepage. For governance reasons and to stabilize sponsoring inflows, Swiss GAAP FER decided to launch a new broader-based sponsoring concept in 2017 and defined levels of financial contributions. This will eventually enable the standard-setter in future periods to pursue and professionalize activities beyond given restrictions of a purely militia-based organization and to react to major changes in a timelier manner.

- **Legitimacy judgments and impacts on input, throughput and output legitimacy**

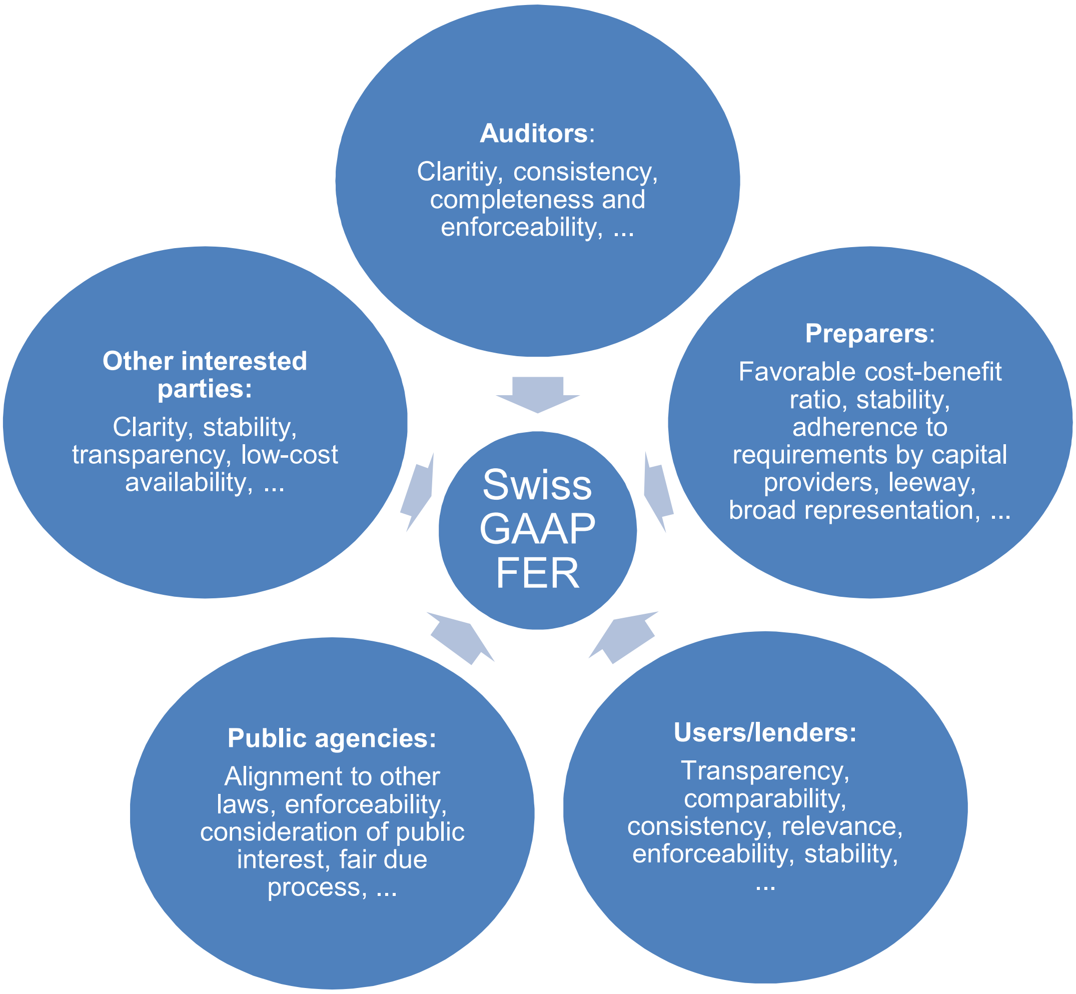

Figure 12: Major requirements by important stakeholder groups
(source: interview data)

As the institutional environment changes and standard-setters also experience conflicting interests by different stakeholder groups, it is commonly agreed that legitimacy needs to be managed (and re-created) on an ongoing basis. Due to the fragile nature of non-state legitimacy, private standard-setters need to aim for a broad support of their activities (Botzem, 2014; Tamm Hallstrom & Boström, 2010) and thus also need to be aware of who confers legitimacy to direct their activities appropriately. Figure 12 provides an overview of potential different requirements of stakeholder groups[183] on Swiss GAAP FER based on interview data. It represents a

[183] Swiss GAAP FER lists the following stakeholder groups on its homepage: producers, auditors, addressees, consultants, policymakers, administrators, standard-setters, supervisory authorities and other interested parties (Swiss GAAP FER, 2018). Based on the data gathered, I decided to consider

snapshot and it is to be noted that interests may differ within stakeholder groups and change over time. For example, the stakeholder group “preparers” comprises different companies of varying size, sectors, language regions and business models, etc., and thus there are multiple viewpoints on requirements even within a stakeholder group. To achieve effective and legitimate standard-setting, Tamm Hallstrom and Boström (2010) outline the need to pay attention to an appropriate definition of stakeholder categories that classify participants in the standard-setting activities and allocate tasks, responsibilities and power in a balanced way. What constitutes stakeholder groups, makes them distinct and what balanced representation means is also subject to negotiation and debate, as outlined in different standard-setting contexts (Tamm Hallstrom & Boström, 2010).

Swiss GAAP FER has performed a categorization of stakeholder groups, although there are minor differences between the ones outlined in the Deed of Foundation and those listed on the homepage (Swiss GAAP FER, 2018). Nevertheless, it remains unclear to an external reader, which significance and implications the stakeholder categories outlined by Swiss GAAP FER exactly have had on the composition of the Commission and on processes. Much of it has been left to the discretion of the Board of Foundation without a written stipulation of rules and guidelines. However, it is obvious that the standard-setter identified the risks of involving public agencies as voting members into the Commission due to their potential power and thus threat to the notion of a balanced multi-stakeholder approach and congruency between rule-setters and rule-takers.

Despite the vagueness regarding the criteria and meaning of balanced and broad representation of stakeholder interests, it remains clear that Swiss GAAP FER in all periods paid attention to ensure a favorable stakeholder judgment on input legitimacy. For this purpose, it relied heavily on convening, advocacy and monitoring work. Monitoring activities such as hosting events, consultations, hearings, etc., enabled actors to interact with the periphery and to collect information required for the structural alignment with the changing institutional environment. Through activities such as engaging renowned technical experts, involving stakeholders from different stakeholder groups and language regions and by lobbying for support, it actively sought to influence these legitimacy judgments. At the same time, it was less concerned with providing potentially weaker stakeholder groups with equal opportunities to participate. Apparently, the list of observers became ever longer over the course of the years, as Swiss GAAP FER also issued industry-specific standards and sought to integrate major players in the related fields.

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consultants as other interested parties and summarize policymakers, administrators and supervisory authorities into one category due to the similarities in requirements.

In terms of throughput legitimacy, Beisheim and Dingwerth (2008) note that it is related to procedural fairness, deliberation, transparency and accountability. The value of transparency has already been discussed in the context of protecting activities that are important to establish and maintain throughput legitimacy. In the analyzed case, Swiss GAAP FER paid increased attention to strengthening throughput legitimacy particularly in phase 1 (1984-1991) and phase 4 (2009>). During the founding years, when governance topics did not have the same priority and significance as decades later, FER as a standard-setter actively paid attention to transparency by publishing the composition of working groups, disclosing its financial situation and reporting on its activities. In the subsequent two periods, it cut back slightly on transparency and only increased it in the most recent period by outlining the standard-setting process and decision-making rules, making information more accessible on the homepage, etc. Negotiating activities both on an interorganizational and intra-organizational level (within Swiss GAAP FER) supported deliberation and decision-making processes on agenda-setting and the amendment and creation of accounting standards. Sometimes, it took backbone to defend the immanent interests of the standard-setting organization, such as in questions of goodwill accounting and segment reporting, and to impose compromises. In these instances, the balanced structural setup played a critical role. In a more practical vein, it became increasingly challenging to maintain throughput legitimacy on an intra-organizational level. As outlined earlier, the list of observers grew and thus also the number of persons involved in the discussions of the Commission. Given the restricted time, the initiation and moderation of a broad-based discussion within the Commission, where stakeholders may actively express their views, positions and interests, etc., in a balanced way gradually became more complex. Only recently, the Executive Committee brainstormed on ideas to interact with its members and representatives of observer organizations on a more active basis and seek to obtain their viewpoints. In the early years, before electronic means of communications were in place, members of the Commission were asked to submit their viewpoints on draft standards in writing prior to scheduled Commission meetings so that the Technical Secretary could process and consider them in the preparation of the meeting.

Output legitimacy is concerned with the problem-solving capacity of standards, their effectiveness and impact (Botzem & Dobusch, 2012; Tamm Hallstrom & Boström, 2010). For Swiss GAAP FER, it played a vital role in the different time periods, because Swiss GAAP FER always pictured itself as a service provider to practice. In my view, Swiss GAAP FER's persistent focus on output legitimacy has been one of its core competitive advantages compared to, e.g., the IASB and IFRS in the last two decades. The output focus was supported by the broad-based organizational structure that, in parallel, restrained the scope of activities due to the limited availability of resources and thus fostered stability. However, compared to IFRS, it is to be noted that the activities of Swiss GAAP FER concentrated on a national level and thus were easier to manage due to less diversity in accounting practices, fewer stakeholder groups and risks.

Nevertheless, Swiss GAAP FER always emphasized pragmatism and reasonability of solutions identified and thus sought to balance, for example, differing requirements between preparers and users/lenders. In the first two periods, mimicking activities dominated the standard-setting, as FER filled regulatory gaps and integrated concepts from international accounting standards. Later, in phases 3 and 4, it applied mimicking in a subtler way. Swiss GAAP FER rather sought differentiation from other standard-setters and concentrated on aligning the standards to the requirements of SMEs and protecting activities such as emphasizing and propagating stability, ensuring alignment to other legislative requirements, etc. Negotiation between stakeholder groups supported the balancing of different interests regarding the standards and created comprehension for different views and requirements (see also the mechanisms on social learning and persuasion outlined by Beisheim and Dingwerth (2008)). To bolster output legitimacy, Swiss GAAP FER also applied advocacy work and educating. Educating offered the opportunity to increase the recognition of the standards, improve the quality of applications and to develop the next generation of adopters. The recognition of Swiss GAAP FER as accepted accounting standard by legislation and by the Swiss Stock Exchange contributed to the diffusion and institutionalization of Swiss GAAP FER as taken-for-granted set of accounting standards in the Swiss context.

Implications for theory

This dissertation advances the theorization of legitimacy management in the context of private national accounting standard-setting. Prior research largely neglected the role of private national accounting standard-setters' activities to establish and maintain legitimacy. It has predominantly focused on legitimacy questions of transnational accounting standard-setters (such as, e.g., the IASB or the FASB) and other close topics such as lobbying or governance (Botzem, 2014; Botzem & Quack, 2006; Jorissen et al., 2013; Zeff, 2005). The few existing studies on the legitimacy of national accounting standard-setters mainly concentrated on Anglo-Saxon players with a long tradition in accounting standard-setting (Durocher & Fortin, 2010; Howieson, 2017) and hardly involved standard-setters from smaller countries with little influence in the transnational realm. This is particularly true for Europe from 2005 onward, where attention was directed more to value relevance questions and the influence of IFRS on national legislation. Despite the ever-growing body of international accounting standards, national accounting standard-setters continue to play a significant role, for example, in shaping and maintaining accounting practices in a national environment, in training the next generation of accounting experts and in preserving the local constituents' requirements. Thus, it is worth revisiting the actions of national accounting standard-setters to gain and maintain legitimacy in an increasingly globalized world.

In my dissertation, I examine micro-activities aimed at (re)gaining and maintaining legitimacy of a private national accounting standard-setter and depict how these activities sustain input, throughput and output legitimacy of an accounting standard-setting organization and the issued standards. Thereby, this dissertation makes contributions in three areas. First, it specifically adds to literature debating legitimacy in accounting standard-setting. Second, it offers insights in more general terms into general legitimacy research and, third, it adds an application example relying on institutional work theory, which validates prior findings and adds new aspects.

- **Contributions to the legitimacy debate in accounting standard-setting**

This dissertation contributes to the legitimacy debate in accounting standard-setting in two different ways.

First, it takes a *novel action-based perspective on legitimacy management and advances its understanding in accounting standard-setting on a private basis by synthesizing insights from institutional work theory and from legitimacy research*. It analyzes actions of a private national accounting standard-setter, including the standard-setting process and the development of standards over a period of 34 years. Hence, it elucidates how and with what effect organizational actors direct their actions to influence legitimacy judgments of external stakeholders in terms of input, throughput and output legitimacy in different time periods and in response to developments within the institutional environment. So, the research period includes times where legitimacy had to be established or regained and where it had to be maintained. Standard-setting is a social act, and standards have a stabilizing effect at certain points in time (Timmermans & Epstein, 2010). However, as soon as there are relevant changes in the institutional environment, standards quickly become outdated and need to be altered to avoid losing legitimacy.

The longitudinal approach of this work has allowed for placing and arranging activities and events in the context of time and space. Due the dynamic nature of legitimacy, the consideration of time is an important factor to be taken into account in the analysis of practices that become legitimate over time or cease to be so (Foucault, 1977; Suddaby et al., 2017). Timmermans and Epstein (2010) note that standards sink below a level of social visibility over time and eventually become part of a taken-for-granted infrastructure of modern life both in technical and in moral terms. This dissertation reveals also how the common understanding of terms and concepts such as true and fair view principle or transparency have been refined and substantiated with increasingly specific requirements. The findings also show the sometimes long-term nature of required efforts by actors to gain and maintain legitimacy, particularly with some critical stakeholder groups. To eventually obtain the status of an accepted accounting standard recognized by legislators, decades of direct and indirect advocacy work and convening preceded to establish legitimacy and mutual trust. According to Botzem (2014), output legitimacy particularly concerns the adoption and diffusion of standards by preparers, auditors and regulators and is strengthened by contractual recognition by third parties and legal recognition through law. Standards represent a substitute for various forms of authoritative rule (Timmermans & Epstein, 2010).

Moreover, this dissertation highlights the considerable scope of agency by actors and proposes a classification of legitimacy work forms aimed at gaining or maintaining legitimacy into active and passive, depending on their aim: either to influence and induce positive legitimacy judgments and (re)actions by external stakeholders or to maintain, protect or leverage already favorable existing legitimacy judgments. It relies on the view that actors are culturally competent and have strong practical skills and sensibility (Lawrence & Suddaby, 2006). At the same time, it shows the impact of jolts, favorable events and more incremental gradual changes in the institutional environment on legitimacy judgments and the activities by organizational actors. It outlines interdependencies and repercussions between the institutional environment and the organization, including its processes, structure and activities. Hence, it also depicts the embeddedness of actions on behalf of the private national accounting standard-setter in the institutional environment, reflecting major assumptions on institutional work theory (Battilana & D'Aunno, 2009).

The findings support standardization research that outlines the need to take a multi-stakeholder approach and seek favorable legitimacy judgements on a broad stakeholder basis in a fragile non-state authority context (Tamm Hallstrom & Boström, 2010; Timmermans & Epstein, 2010) by providing a rich example. As a private standard-setter without a legal mandate to issue accounting standards and without democratic underpinning, Swiss GAAP FER has shared many characteristics of transnational accounting standard-setters except for its limited geographical focus of activities. Hence, this work contrasts literature that focuses on single stakeholder groups such as, for example, users as a main source for conferring legitimacy (Durocher & Fortin, 2010).

Second, this dissertation contributes to the *discussion of legitimacy of transnational accounting standard-setters and the standardization trend in accounting by depicting a counter-intuitive case*. Despite marginalization pressures, Swiss GAAP FER as a small national accounting standard-setter with limited influence in the transnational realm has managed to successfully maintain legitimacy over time and even increase diffusion rates in the last decade. Gillis et al. (2014) outline the need for research on the transnational regulation of accounting that aims at explaining what is happening and why. They also point to the need to understand interactions between national and international actors in a more comprehensive way, because they compete for positions that confer legitimacy on them as they strive for maintaining relevance and survival. The case of Swiss GAAP FER provides interesting insights in this debate because it depicts the legitimacy strategies of a peripheral actor in transnational regulation and explains organizational action in response to developments in its institutional environment over time.

Other national accounting standard-setters have put a great deal of effort into preserving their national and transnational relevance, considering the development of transnational accounting standards and acting as facilitator between, e.g., the IASB and local constituents, etc. In contrast, Swiss GAAP FER increasingly focused on local requirements and managed to strengthen its positioning in the local context, while not giving up issuing own voluntary-based accounting standards. Due to resource limitations and its limited influence in the transnational accounting standard-setting process, a more proactive role internationally as for example assumed by the AASB and the reliance on such activities as a source of legitimacy would have been a nearly hopeless enterprise. After the turn of the millennium, the introduction of IFRS for SMEs as well as the EU's decision to require IFRS for the preparation of consolidated accounts of listed companies seriously threatened the legitimacy of Swiss GAAP FER both as a private national accounting standard-setter and as a voluntarily applicable set of accounting standards. An international orientation was part of its identity in the first nearly two decades of its existence after the foundation in 1984. Mimicking international accounting standards and standard-setters represented a viable way to establish and maintain legitimacy. To re-establish and preserve its own legitimacy, Swiss GAAP FER had to decouple from its previous international orientation and its (limited) transnational activities. Instead, it emphasized its local orientation, relative stability and favorable cost-benefit ratio compared to, e.g., IFRS from 2004 onward. Thus, Swiss GAAP FER represents a case of a peripheral actor in the transnational accounting standard-setting, who managed to strengthen its legitimacy by decoupling from transnational standard-setting activities in its outward appearance and emphasizing its local orientation. This dissertation provides rich descriptions of the threats and opportunities imposed by developments in the transnational realm over the last 34 years and depicts the actions taken by actors on behalf of Swiss GAAP FER in response to upheavals and to more incremental changes beyond their sphere of influence. These findings are of relevance also to researchers examining the legitimacy of IFRS and the IASB, because they outline limitations on global standard-setting and obstacles regarding a more active participation of smaller stakeholders in the accounting standard-setting process.

- **Contribution to legitimacy research**

Research has significantly enhanced the conceptual understanding of legitimacy in the last two decades (Bitektine, 2011; Deephouse & Suchman, 2008; Scott, 2014; Suddaby et al., 2017) after Suchman's pioneering paper on managing legitimacy including the frequently cited definition on legitimacy. It also, among other things, provided deep insights into legitimacy judgment processes and their effects (Bitektine & Haack, 2015; Tost, 2011). However, research on an activities level as proposed by Suchman (1995) to gain, maintain and repair legitimacy remained relatively underrepresented[184]. Thus, this dissertation contributes to the understanding of legitimacy from an activities-based perspective by outlining how and with what effects actors influence legitimacy judgments. By applying insights from institutional work theory, it refines and advances Suchman's work on legitimation strategies.

Furthermore, this dissertation supports findings from research that examine the link between identity and legitimacy over time, which involves new ventures, professional firms and organizations (Fisher et al., 2016; Gill, 2014). It shows when, how and why organizational actors change their identity claims to preserve legitimacy, taking the example of a private national accounting standard-setter.

[184] In other research fields, such as institutional theory, researchers have investigated, for example, the institutionalization process (Tolbert & Zucker, 1996). Deephouse and Suchman (2008) outline the close relation between legitimation to diffusion and institutionalization. They assume that the dynamics of legitimation parallel those of institutionalization. Nevertheless, research in this direction has remained rather limited. Also, in standardization literature, Tamm Hallstrom and Boström (2010) outline several activities to influence input, throughput and output legitimacy. However, the focus of this dissertation on activities in the context of legitimacy management is deeper and builds on insights from institutional work theory.

- **Contribution to institutional work theory**

As Hampel et al. (2017) ascertain, only few institutional work studies investigate the efforts of actors to affect standards and standard-setting processes (Helfen & Sydow, 2013; Slager et al., 2012). Therefore, this dissertation contributes to the understanding of institutional work in standard-setting — more specifically in accounting standard-setting. By linking institutional work to legitimacy, it provides detailed evidence on the work forms identified, their effect and interdependency with the institutional environment. It shows how actors may apply active and passive legitimacy work forms to gain and maintain legitimacy and it also depicts their long-term effects. Furthermore, it refines the understanding of single work forms already identified in different contexts by listing detailed activities that highlight some new aspects that constitute the work form. For example, with educating, it shows the long-term effects of engaging with the scientific world by ensuring the training and socialization of the next generation of technical experts. With advocacy, it outlines the effects of indirect approaches to it by contributing technical expertise to prestigious external projects or, with convening, it integrates aspects and findings of standardization literature.

Furthermore, this dissertation supports critical findings from researchers pointing to the dynamic and recursive nature of institutional work (Canning & O'Dwyer, 2016; Empson et al., 2013; Slager et al., 2012). In a continuously changing institutional environment, actors adjust the application of different institutional work forms. Thus, due to the eclectic nature of empirical reality, work forms do not necessarily appear in the different life cycle stages as proposed by Lawrence and Suddaby (2006). Certain activities appear viable in one period but cease to be in a different one. Multiple actors with varying backgrounds apply different institutional work forms at the same time, and they affect each other.

Implications for practice

The case also has practical implications, which are of relevance to standard-setters (not limited to the field of accounting) and other interested persons in standard-setting both in a national and transnational environment.

First, the case shows the advantages of private standard-setting in a national context. Compared to transnational accounting standard-setters, national standard-setters are more aware of local peculiarities in legislation, economy, institutions, practices, norms, culture, etc. They may account for these peculiarities, align standards correspondingly and identify reasonable solutions for local constituents without having to seek compromises with further, often more influential, stakeholder representatives in the transnational realm. National standard-setters may establish closer ties to different national stakeholder groups and engage them more proactively in the standard-setting process because of lower thresholds in terms of language barriers and improved chances for a successful consideration of the stakeholders' positions. Private standard-setters can establish legitimacy by ensuring a broad participation of stakeholders. Thus, solutions can be identified that are also broadly supported[185]. The broad convening of stakeholders and negotiations can facilitate the legitimacy of standards by conveying ownership and fostering social learning and persuasion. Furthermore, private national accounting standard-setters have a positive effect on the local accounting community. To issue and diffuse own standards (to be adopted on a voluntary basis), they need to establish and maintain a lively local community of practice and ensure the availability of technical expertise also on a broader national level. Private national accounting standard-setters need to maintain own standard-setting expertise in the field and cannot rely on technical expertise available elsewhere. They are also well-positioned to engage in the training of the different stakeholder groups and of the next generation. How private national accounting standard-setting can be achieved, even with little financial means, is depicted in the findings.

From the perspective of legislators, militia-based organizations offer the opportunity to get broad access to knowhow that is difficult and expensive to acquire and maintain in a national environment, where technical experts are scarcely available. This is particularly true for small countries and small communities of experts. For legislators, it allows for outsourcing overly technical and detailed questions that are not attractive to deal with from a political standpoint. Furthermore, such private standard-setters can more quickly respond to changes in the institutional environment, because they are not subject to the often-lengthy legislative process. At the same time, private standard-setters can induce changes and alter what is

[185] Actors of Swiss GAAP FER even considered the standards as a regulatory competitive advantage for Swiss companies (Leibfried, 2017).

acceptable and what is not. Over time, new concepts may sink below visibility and become integrated into the taken-for-granted assumptions of stakeholders. Thereby, they can pave the way for later political processes.

Having outlined main benefits of private standard-setting in a national context, it is to be noted that, for global actors such as large multinational corporations that generate most revenues abroad, the application of national standards (such as national accounting standards) is often not a viable option due to their loose connection to local peculiarities and their more diverse stakeholder composition (e.g., involving actors in global capital markets, etc.), broader requirements and risks. Nevertheless, the case of Swiss GAAP FER outlines the mutually beneficial co-existence of national and transnational accounting standards.

Second, the case also outlines various prerequisites and success factors for private national standard-setting. To establish legitimacy is all but a simple undertaking. The dynamic nature of legitimacy and the fragility of non-state authority requires ongoing work on behalf of organizational actors. Private national standard-setters need to be aware of the implications of input, throughput and output legitimacy and the need to always have all three of them in view, given changes in the institutional environment. Actors need to be sensitive to both upheavals and gradual, hardly noticeable changes. The outlined process model and data structure (see Figure 3 on page 77 and Table 6 on page 84) provide several ways that actors may proceed.

To establish and maintain input legitimacy, private standard-setters need to be aware of their stakeholders and apply different convening activities. They shall seek broad-based, balanced participation. Private standard-setters can follow a multi-stakeholder approach (Tamm Hallstrom & Boström, 2010) and also engage renowned technical experts, legitimate organizations, etc., to bolster their own legitimacy. What broad participation implies is actor and context dependent. For Swiss GAAP FER, not only the consideration of different professions and organizational types has been important to determine the composition of its bodies but also a broad geographical representation involving representatives from the different Swiss language regions. Actors will have to continue to strive for an integration of representatives from the Italian- and French-speaking regions in the FER bodies in future. Following the discussion and implications of public interests, standard-setters also need to increasingly pay attention to stakeholders that are not represented or that have difficulties participating in a meaningful way. Anyway, participation needs to go beyond formal convening aspects and allow for discussions and negotiations on potential solutions. As participation becomes broader, organizational limitations become more obvious. At Commission meetings, it takes a great deal of leadership skills to ensure a broad-based discussion on important topics due to an ever-growing number of participants and the limited time available:

"In a fast-moving time, where one also has the need to respond quickly to changes, the half-yearly meeting rhythm indeed appears inert. And observers only have certain punctual contact with the FER Commission twice a year." Observer

Certainly, there are numerous organizational alternatives available to engage in more detailed discussions with members and, in the recent past, Swiss GAAP FER has started exploring some of them.

Throughput legitimacy is concerned with procedural fairness of the process by which input is transformed into output (Dingwerth, 2007). It particularly involves protecting and negotiating work to ensure good governance (see also (Esty, 2006)), transparency, rigor, a fair negotiation and deliberation process, etc. Given the absence of accountability mechanisms and the fragility of legitimacy, private standard-setters may not neglect to establish and maintain throughput legitimacy. Swiss GAAP FER has managed throughput legitimacy with varying emphasis in different time periods with increased focus in the first period (1984-1991) and in the last analyzed period (2009-2017). That legitimacy management is a never-finished exercise becomes evident when looking into the recent past. After the financial crisis, the criteria of what constitutes good governance became more detailed in various ways. Thus, standard-setters need to deal with it on an ongoing basis. Also in the case of Swiss GAAP FER, various internal and external processes should potentially be reviewed in the nearer future with regard to transparency, fairness, accountability, etc. Examples involve the appointment process of members in the different bodies, their responsibilities, the oversight of vested interests and the clarification of the decision-making processes to external stakeholders (involving justifications and transparency on underlying thoughts and considerations).

Independent thereof, convening and advocacy work also need to be applied to ensure throughput legitimacy. Proactive communication with stakeholder groups and the integration of respective voices and viewpoints in the decision-making processes bolster it. Liaising with peripheral actors is not only important for monitoring purposes but also to ensure broad support. Furthermore, mimicking other legitimate standard-setters in terms of managing throughput legitimacy, with some adaptations to local peculiarities, also represents a viable alternative for private standard-setters in a national context. The due process of the IASB has served as a showcase and good reference for several non-profit organizations (Richardson & Eberlein, 2011).

Output legitimacy depends on the problem-solving capacity of standards (Botzem, 2014). As outlined earlier, it has been a core strength of Swiss GAAP FER to establish and maintain it. The balancing of interests should not only be evident in a broad participation but also in the output. Swiss GAAP FER always paid attention to finding pragmatic and simple solutions that also considered the interests of preparers and users in terms of manageability and favorable cost-benefit ratios. Output legitimacy does not simply follow input and throughput legitimacy but needs significant additional efforts. The case of Swiss GAAP FER provides evidence that actors applied all work forms: to increase diffusion rates of standards, to lobby for support of the standards, to ensure the identification of broadly supported and pragmatic solutions, to integrate Swiss peculiarities and ensure alignment to legal requirements, etc.

However, also a few words of caution regarding a maximization of output legitimacy are to be considered. Increased diffusion rates are closely connected to higher visibility and increased responsibility for the standard-setter and the standards. In the future, it will certainly be decisive how standard-setters such as Swiss GAAP FER will manage potential risks of misinterpretations of standards and gaps therein related with the higher number of adopters, of which particularly listed companies enjoy increased public visibility. Standard-setters may not take as an excuse the argument that they may not prevent preparers from adopting standards and interpreting them in their own interests but will have to protect their legitimacy in a more proactive way.

8. Conclusion

This dissertation has attempted to outline the way in which private NASS manage legitimacy over time by integrating insights from literature on institutional work theory and legitimacy. It has rested on the assumption that legitimacy is dynamic in nature (Botzem & Dobusch, 2012) and cannot be taken for granted, but instead requires ongoing efforts to avoid being lost (Scott, 2014). The dissertation has assessed the impact of actions of a private NASS and has also considered internal and external influencing factors while taking a long-term perspective. Actors have been found to have been successful in engaging in legitimacy work aimed at gaining and maintaining legitimacy of the private NASS because of their sensitivity to changes in the institutional environment and their cultural and practical competence. Thus, it has established that organizational actors maintain and change organizational structures, processes and standards through active and passive legitimacy work and may impact legitimacy judgments (Tost, 2011) by external stakeholders in different dimensions. Active legitimacy work may involve constructing identities, advocacy, convening, educating and negotiating, while passive legitimacy work can comprise mimicking, monitoring and protecting work. All these individual work forms may be applied simultaneously and occur across time in diverse forms of action. Moreover, they facilitate changes in accounting practices and may strengthen local accounting communities. To capture often significant long-term and recursive effects of legitimacy work, a long-term and broad research perspective is required. The proposed process model of legitimacy management has also depicted the impacts of the institutional environment on legitimacy judgments beyond the sphere of influence of private NASS and thereby has underlined the necessity and significance of engaging in legitimacy work on an ongoing basis.

Private NASS continue to play a vital role in preserving the interests of their local constituents despite increasing standardization in accounting standards, which has been reflected in the growing diffusion of IFRS. Because of their lack of democratic underpinning and because of pressure from standardization, private NASS also are confronted with legitimacy-related questions and thus need to take actions to gain and maintain legitimacy. However, relatively little is known about legitimacy management of private standard-setters on a national level. Thus, this dissertation has taken an in-depth look at the legitimacy management of a peripheral actor in the transnational accounting standard-setting process without aspirations to increase its influence in the transnational realm. Counterintuitively to the increasing diffusion of IFRS, it has found that Swiss GAAP FER has learned well to co-exist with transnational players and continues to maintain its rather pragmatic soft-law-based set of accounting standards with remarkable success despite significant upheavals. As a result, especially smaller and medium-sized preparers are provided with a viable and well-recognized alternative that may consider their needs more strongly than transnational sets of accounting standards have been able to do in Switzerland. This result is the fruit of lengthy and intense efforts of organizational actors, whose activities have been depicted in the findings. However, it must not be forgotten that managing legitimacy, due to its fragile nature in the context of private standard-setting, is a never-finished exercise and will not allow for resting on laurels.

The present dissertation represents a single case study analysis and examines in detail actions and effects, heavily relying on the Swiss context. The understanding of legitimacy management by NASS might also benefit from further longitudinal empirical research studies taking an actions-based perspective on other private (and non-private) NASS. Not only success stories should be examined, but also of particular interest are cases of accounting standard-setters that have struggled to maintain legitimacy in response to upheavals in their environment and the reasons for their difficulties. It largely remains unclear how other NASS, particularly from less influential countries in the transnational realm, manage their legitimacy, respond to the growing diffusion and importance of IFRS and preserve the varied interests of their diverse local constituents. Thereby, a closer comprehensive look at the impacts of these transformations on local accounting communities that looks beyond pure harmonization and standardization aspects in accounting legislation would be of interest.

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