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Monographic Section

## Managing Knowledge Standards at the Periphery of Professional Knowledge Development: The Case of the Philippine Accountancy Profession and International Accounting Standards Harmonisation

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**Abstract.** This article is a case study of how a peripheral professional group, the Philippine accountancy profession, managed its knowledge standards to strengthen its occupational authority despite lack of control on standards development. It focuses on explaining the decision to harmonise the Philippine Generally Accepted Accounting Principles (GAAP) with the International Accounting Standards (IAS), which overturned postcolonial dependence on the US GAAP as a model for standards development. The harmonisation of the Philippine GAAP with the IAS is the outcome of a complex mix of structural changes in the core of the accounting standards development field, resource constraints on domestic accounting standard-setters, and the local professional group's efforts to advance its professional project. Local conditions that favour adoption of a model and the active pursuit of occupational authority by local actors are just as crucial as pressures from the external global environment in decisions leading to harmonisation with international standards.

**Keywords.** Peripheral professions; knowledge standards; standards harmonisation; occupational authority.

### INTRODUCTION

Control of the cognitive base is often theorised as an essential component of professionalisation (Sarfatti Larson 1977; Abbott 1988; Eraut 1994; Freidson 2001). Gaining occupational authority for a profession entails not just gaining an exclusive right to perform specific tasks but also an exclusive right to define the nature of these tasks (West 2003). Knowledge standards play a key role in a profession's management of its cognitive

base, serving as the intellectual foundation for claims of cognitive superiority over laymen in interpreting esoteric bodies of knowledge (Sarfatti Larson 1977). By promulgating «rule systems designed in the broader social interest which only the professionals understand» (Suddaby, Viale 2011: 432), professions define the boundaries of their power and expertise.

Most sociological studies of professionalisation focus on the experience of professionals in Western Europe and North America (Kuhlmann 2013; Svensson, Evetts 2010). In these regions, many professional groups engage in active standards development due to intense inter-professional jurisdictional competition (Abbott 1988) and the efforts of practitioners to exert professional autonomy from actors outside the profession (Burrage *et alii* 1990). The experience of professional groups at the core of professional knowledge development largely informed the theorising of the linkage between professionalisation and knowledge standards. However, this model of active standards development is inadequate in capturing the experience of peripheral professional groups, most of which depend on standards developed at the core when making their own local knowledge standards.

How is the relationship between knowledge standards and occupational authority managed by professional groups that are in a peripheral position of knowledge dependence? Are peripheral professional groups mere passive recipients of standards developed at the core? This article offers insights to these questions through a case study of one such peripheral professional group, the Philippine accountancy profession, and how it managed its knowledge standards, the Philippine Generally Accepted Accounting Principles (GAAP).

I argue that, while constrained by structural dependencies brought about by its peripheral position, the Philippine accountancy profession's decisions concerning knowledge standards were not just driven by developments at the core of the accounting standards development field, but also by practical and strategic considerations aimed at strengthening the occupational authority of Filipino accountants. To bring out this argument more clearly, I focus on explaining how the Philippine Accounting Standards Council (ASC or the Council), in 1995, ended up deciding to harmonise the Philippine GAAP with the International Accounting Standards (IAS, later renamed the International Financial Reporting Standards or IFRS), a turnaround from the Philippine accountancy profession's post-colonial dependence on the United States of America (US) GAAP for standards development. The harmonisation of the Philippine GAAP with the IAS is the outcome of a complex mix of structural changes in the core of the accounting standards development field, resource constraints on the ASC as a peripheral organisation, and the local professional group's pursuit of its professional project.

This article aims to enrich the discussion on the management of knowledge standards by professionals with a view from the periphery, responding to Kuhlmann's (2013) call for more international context-sensitive approaches to the sociology of professions. It is imperative to give cognizance to peripheral professional organisations not just because of the growing number of professionals outside Western Europe and North America but also because their position in the field translates to a different set of experiences with respect to contemporary issues faced by professions in an globalised world, including the growing influence of supra- and transnational actors on professional practice (Faulconbridge, Muzio 2011), the standardisation of professional knowledge across national borders (Botzem 2014), and the increasing cross-border mobility of practitioners (Bourgeault *et alii* 2016).

## ANALYTICAL FRAMEWORK

Professions are distinct occupational groups that have institutionalised their occupational authority over specific knowledge-based services, earning them social and economic rewards in the process (Rafael 2014). Occupational authority refers to the exclusive right of a group to perform and to define the nature of specific tasks (West 2003). Knowledge standards play a key role in institutionalising and enhancing a profession's occupational authority, particularly in defining the body of esoteric knowledge which the group is claiming expertise on. Standards help professions carve out clear jurisdictional boundaries (MacDonald 1995; Abbott 1988) to marginalise competing occupational groups from making similar claims of monopoly expertise (Rafael 2014) and to assert cognitive superiority over laymen, particularly its clientele, on technical matters (Sarfatti Larson 1977).

The relationship between knowledge standards and occupational authority is very acute in the profession of accountancy. A series of high-profile financial reporting scandals in the 1930s and 1940s in the US and the United Kingdom (UK) led to the formalisation of accounting standards, which were packaged by accounting professionals as technical solutions to financial market failures (Birkett, Walker 1971). Since the post-World War II era, formal accounting standards have proliferated worldwide, with the practices of rule-making and rule-compliance being used and promoted by the profession of accountancy to bolster its claim of occupational authority on financial reporting (West 2003).

A core-periphery distinction formed in the global accounting standards development field after widespread standards formalisation. I use here the core-periphery concept to describe relations of dependence between professional groups in the development and propagation of professional knowledge. Core professional accounting organisations in the global accounting standards development field were situated in countries like the US, Canada, UK, Australia, France, Germany, and Japan, which had relatively large and active capital markets that extensively utilised financial reporting services. The core produced standards that served as models for local standards developed by peripheral professional accounting organisations. Core-periphery relations of dependence in accounting standards development were especially pronounced between professional groups from countries with colonial histories. Zeff (2012: 808) noted that in the first few decades after World War II, in many former colonies, «financial disclosure was minimal and there was little that could be called GAAP beyond what they might have inherited from former colonial masters».

The growth in operations of multinational enterprises and the increased international mobility of capital in the 1960s led to efforts within the accountancy profession to harmonise standards across different financial reporting jurisdictions. The core took the lead in the harmonisation initiative, as evinced by the history of the body that eventually became the focal organisation for accounting standards harmonisation, the International Accounting Standards Committee (IASC, later dissolved and reconstituted as the International Accounting Standards Board or IASB). The dominance of the core in standards harmonisation was challenged in the 1980s by peripheral associations through the International Federation of Accountants (Camfferman, Zeff 2006), which tried to take the IASC under its wing. The impact of the challenge made by the periphery was minimal, as the standards issued by the IASC and later the IASB, still substantively followed the direction and content of the accounting standards produced by the core.

The diffusion of accounting standards from the core to the periphery, particularly the IAS/IFRS, has been explained in many cases as a process of institutional isomorphism (Dufour *et alii* 2014; Albu *et alii* 2011; Lasmin 2011; Judge *et alii* 2010; Hassan 2008; Irvine 2008; Mir, Rahaman 2005). A consistent finding is that the desire to gain legitimacy in the globalised economy, particularly in the global capital market, underlay standards harmonisation decisions. Coercive isomorphic forces were particularly found significant in driving accounting standards harmonisation after the financialisation of capitalist economies (Krippner 2005) and the neoliberal turn in economic governance at the end of the 20th century. Harmonisation of national accounting standards with the IAS/IFRS gained momentum globally in the wake of the 1997 East Asian financial crisis, which triggered a widespread restructuring of capital market governance systems into privatised modes of market discipline in which accounting standards served as a technical foundation (Wade 2007). Supranational governance organisations like the World Bank and Asian Development Bank were key influencers in pushing IAS/IFRS adoption through the leveraging of loans (Albu *et alii* 2011), development aid (Mir, Rahaman 2005), and the issuance of favourable assessments of a country's regulatory environment that serve as endorsements to investors in the international capital market (Irvine 2008).

The Philippine accountancy profession's harmonisation of the Philippine GAAP with the IAS in 1995 stood out as a curious case of early adoption as it preceded by a couple of years the East Asian financial crisis, the key event that triggered global accounting standards harmonisation. At the time that the ASC made its decision, the IASC was barely making inroads in making countries adopt the IAS (Alfredson *et alii* 2005). Efforts to gain the endorsement of the International Organization of Securities Commissions (IOSCO) for the IAS had not progressed as expected despite almost a decade of standards improvement and lobbying by the IASC (Camfferman,

Zeff 2006). Further confounding the puzzle of the Philippine shift to the IAS as primary model was the favourable assessment of the US GAAP-based Philippine GAAP in the mid-1990s by the World Bank (Saudagaran, Diga 1997) and the Asian Development Bank (1995), two organisations which were found in many other cases as key actors in the push for IAS/IFRS adoption (Arnold 2012).

With no obvious impetus from the global external institutional environment, I referred to the theorised relationship between knowledge standards and occupational authority to explain the harmonisation of the Philippine GAAP with the IAS in 1995. I explored the idea that standards modelling in the periphery, just like active standards development in the core, form part of the repertoire of actions available to professional groups to advance their professional projects. Standards-setting decisions, including choices of models, have strategic value in strengthening occupational authority in peripheral settings. Domestic conditions that favour external model adoption and the active advancement of the professional project by the local profession are just as crucial as pressures from the global institutional environment in explaining decisions leading to the adoption of international standards.

## METHODS

In reconstructing the events that led to Philippine IAS harmonisation, I had to reckon with a major challenge: the lack of surviving official documentation of the activities of the ASC. When the ASC was dissolved in 2006 and succeeded by the Philippine Financial Reporting Standards Council (FRSC) as the Philippines' official accounting standards-setter, the organisation's archived documents including minutes of meetings and official communication were disposed upon the instruction of its lone Chair for more than two decades, Carlos Alindada. I had to rely extensively on key informants to generate accounts of the discussions that led to the decision to harmonise the Philippine GAAP with the IAS in 1995. In the interviews, I explored the dynamics of the ASC's operations and the shared understandings between the members of the Council, the differing perspectives, the interests pursued, and the points of contention on accounting standards harmonisation. I managed to interview three of the five surviving members of the ASC that made the harmonisation decision: Carlos Alindada, the Council's long-time Chair, Alfredo Parungao who was the representative of the financial executives, and another member who did not wish to be named and shall be referred to as Louise in this article. In addition to the ASC members, I also interviewed David Balangue, former chair of the FRSC, Benjamin Punongbayan, an influential figure in the Philippine accounting industry and known critic of the ASC during the 1990s, and Romulfo Villamayor, Alindada's former staff in SGV & Co. who did research and standards-writing work for the ASC. All interviewees, except for one former ASC member, gave their permission to be publicly identified for this research. The interviews were conducted from August to September 2015.

Data generated through interviews about events that happened more than twenty years ago are exposed to the risk of misremembering by key informants. Past events may also be reframed by informants using the lens of their present context and to reflect an image that supports their own interests. To address these reliability issues, I validated claims made by key informants by comparing the interview accounts with each other and cross-checking with publicly-available records about similar subjects that were published around the time of the IAS harmonisation decision. I acknowledge the epistemological disadvantages of information generated from interviews compared to written documentation but contend that such limitations should be squarely faced in peripheral conditions of under-resourced professional standards-setting organisations such as the ASC. The interviews proved to be important in piercing the veil of the positive image of Philippine accounting standards development painted in officially-sanctioned pronouncements (e.g. Fajardo 2009; Vicente 2002), thus bringing out the internal dynamics of ASC operations and a more plausible explanation of how the harmonisation decision was arrived at.

For the archival research, I examined Philippine laws and official documents relevant to financial reporting and professional regulation, bound volumes of the officially approved Philippine GAAP, and the publications of the Philippine Institute of Certified Public Accountants (PICPA), the umbrella organisation of professional accountants in the Philippines. Particularly useful in reconstructing the events that led to IAS harmonisation

was the Accountants' Journal, the quarterly magazine of PICPA, which contained research articles, published versions of speeches made by key personalities in the Philippine accountancy profession, and annotated reprints of standards released by standard-setting bodies, including the ASC and the IASC. I also examined documents from the World Bank, the Asian Development Bank, and the IOSCO to see if there were any policy recommendations for the Philippines to adopt the IAS leading to the harmonisation decision in 1995 but found no significant pronouncements to that effect.

## SETTING THE CONTEXT: PHILIPPINE ACCOUNTANCY'S HISTORICAL TIES WITH US PRACTICE

Like many countries that experienced Western colonisation (Baydoun *et alii* 1997; Annisette 2000; Zeff 2012), the profession of accountancy in the Philippines initially bore the imprint of the professional practice of its former coloniser. The financial reporting needs of US businesses, which accounted for much of the demand for the Philippine accountancy profession's services in its early years (Dyball *et alii* 2007), shaped the contours of local professional accounting knowledge (Asian Development Bank 2002). The US influence was reinforced in the system of formal accounting education through the extensive use of US-sourced teaching materials and the employment of US-trained accounting professionals as teachers (Diga 1997).

After US colonisation, the Philippine accountancy profession flourished and aimed for leadership in the Southeast Asian region. Many large Philippine accounting firms established international linkages by networking with transnational accounting firms (Tullao *et alii* 2001). Sycip, Gorres, Velayo and Co. (SGV & Co.), the undisputed leading firm of the Philippine accountancy profession to this day (Borja 2015), built its own international practice by establishing the SGV Group, a technical cooperation network of accounting firms in East Asia (SGV & Co. n.d.), before it became part of the Andersen and later the Ernst & Young transnational network. The Philippine accountancy profession also sought regional leadership through active involvement in international professional associations. The success of Filipino accountants after World War II nationally and internationally is partly attributable to the strong technical foundations laid early during the US colonial era in terms of professional training, practice, and knowledge (Diga 1997).

PICPA was one of the first accounting organisations in Asia to codify its knowledge standards, issuing recommendatory bulletins as early as 1949 (Asian Development Bank 2002). The development of a codified Philippine GAAP was formally institutionalised and systematised with the creation of the PICPA Committee on Accounting Principles in 1968. While PICPA was not mandated by Philippine law at the time to issue GAAP, it chose to issue the bulletins to fulfil its organisational objective of promoting high standards for the Philippine accountancy profession (Committee on Accounting Principles 1978) and, more importantly, to support the Philippine profession's claim of being the industry leader in the Southeast Asian region (Punongbayan 1996).

The PICPA Committee on Accounting Principles used the US GAAP as a model for its standards not just due to the embeddedness of US practices in the Philippine accountancy profession (Diga 1997) but also because the US GAAP, then the most comprehensive among the standards developed in the core (Pereira *et alii* 1994), proved to be a rich and immediately available resource that allowed for the quick development of Philippine GAAP. From the time of its founding in 1968 to its dissolution in 1981, the PICPA Committee on Accounting Principles was able to issue 24 regular bulletins, and three special bulletins, all except one of which was based on the US GAAP (Committee on Accounting Principles 1978; Diga 1997).

Because of the productivity of the PICPA Committee on Accounting Principles in terms of the number of standards issued, the Philippine GAAP at the time of the committee's dissolution in 1981 was relatively more robust compared to the GAAP of similar peripheral groups in the accounting standards development field, particularly those in other Southeast Asian countries (Baydoun *et alii* 1997). The topic coverage of the Philippine GAAP in 1981 was more comprehensive even compared to the IAS (Committee on Accounting Principles 1978; Diga 1997; Accounting Standards Council 1999; Camfferman, Zeff 2006). The use of the US GAAP as mod-

el accelerated the development of Philippine GAAP and reinforced the Philippine accountancy profession's drive to be considered the industry leader in Southeast Asia (Punongbayan 1996; Balangue, personal communication, August 19, 2015).

#### BUILDING UP AUTHORITY OVER THE CLIENT BASE: THE FOUNDING THE ACCOUNTING STANDARDS COUNCIL

Even though the Philippine GAAP was relatively well-developed by the end of the 1970s, which helped the Philippine accountancy profession claim regional leadership, it did not translate into strong occupational authority with respect to the profession's main clientele: the Philippine businesses required by law to submit audited financial statements. PICPA, as a private organisation, did not have official authority to require financial statement preparers to comply with the PICPA Accounting Principles Bulletins. The legal mandate at the time to issue standards for financial reporting practices rested with the Philippine Securities and Exchange Commission. Because of the lack of statutory authority behind the Philippine GAAP, professional advice that referred to the PICPA standards were treated by many audit clients as mere recommendations (Banaria 1983; Carlos Alindada, personal communication, August 23, 2015).

In 1979, PICPA commissioned its Committee on Accounting Research and Special Studies to conduct a study on the accounting standards-setting situation in the Philippines in order to address the problem of standards enforceability (Banaria 1983). The committee was headed by Alindada, who at the time was also the head of SGV & Co.'s Accounting and Auditing Standards Group and, in the said position, experienced first-hand the difficulty of enforcing the Philippine GAAP on audit clients (Alindada, personal communication, August 23, 2015). The committee found that the key to making Philippine GAAP enforceable was ensuring the support and participation of government regulators in the standards-setting process and recommended the formation of an inclusive standards-setting organisation. As Alindada (personal communication, August 23, 2015) put it, «we [the PICPA members] had the knowledge but do not have the authority. They [the regulators] had the authority but do not have the knowledge. It was a perfect match».

The recommendations made by the PICPA Committee on Accounting Research and Special Studies led to the founding of the ASC, an independent non-profit private organisation tasked to establish and improve the Philippine GAAP, which would be called the Philippine Statements of Financial Accounting Standards (Accounting Standards Council 1999). The decision by PICPA to create a standards-setting organization that had the statutory backing of relevant regulatory authorities was primarily motivated by professionalization concerns, particularly the Philippine accountancy profession's goal of making its standards enforceable and thereby strengthening its authority over its client base (Banaria 1983; Carlos Alindada, personal communication, August 23, 2015). This reflected in the ASC's organizational structure, with the Council being composed of senior officers from organizations with a stake in financial reporting, namely PICPA, the Philippine Board of Accountancy, the Philippine Securities and Exchange Commission, the Philippine Central Bank, and the Financial Executives Institute of the Philippines (Accounting Standards Council 1999). The Philippine Securities and Exchange Commission and the Philippine Central Bank further legitimated the ASC's mandate by coming up with policy pronouncements requiring compliance with the Philippine Statements of Financial Accounting Standards for financial reports submitted to their offices.

The ASC's official rules specified a relatively wide base of references for developing standards (Accounting Standards Council 1999). However, the ASC in its first decade of operations remained primarily reliant on the US GAAP as a model just like its predecessor standard-setting body, the PICPA Committee on Accounting Principles. The continuing US GAAP dependence by the ASC was largely brought about by its decision to jumpstart standards development work by revising first the old PICPA Accounting Principles Bulletins (Banaria 1983). Of the first 11 standards issued by the ASC between 1983 and 1984, only one was not a revision of an existing PICPA Accounting Principles Bulletin. All were modelled after the US GAAP (Accounting Standards Council 1999; Asian Development Bank 2002).

The decision to use the PICPA Accounting Principles Bulletin as a basis for the Philippine Statements of Financial Accounting Standards was fruitful at the start, resulting to 19 standards promulgated in a span of just five years (Accounting Standards Council 1999). The quick pace of standards issuance built up the reputation of the ASC as a credible official accounting standards-setter, the issuances of which helped a great deal in improving financial reporting in the Philippines (Punongbayan 1994). The ASC's initial productivity along with the new-found statutory enforceability of the standards bolstered the Philippine accountancy profession's claim of occupational authority in financial reporting matters in the early 1980s.

### QUICK DECLINE IN THE ASC'S STANDARDS PRODUCTIVITY

The ASC's enthusiastic start to standards development was not sustained. Succeeding years saw a substantial reduction in the number of new Philippine Statements of Financial Accounting Standards issued (see Figure 1). Alindada (personal communication, August 23, 2015) maintained that the ASC managed to issue standards as the need arises. However, Benjamin Punongbayan (1996; 1994; personal communication, September 9, 2015), a former PICPA president and vocal critic of the ASC, disagreed with Alindada's positive representation, and argued that the Philippines did not have a comprehensive, all-inclusive Philippine GAAP in the first decade of ASC operations because standards formulation became slow and selective. The sharp deterioration in the ASC's standards-writing productivity as shown in Figure 1 supports Punongbayan's claim.

The steep decline in the number of new standards issued was indicative of the ASC's lack of capacity to carry out independent standards development work. The ASC did not have resources to employ full-time staff to do research and standards-writing work, as the regular financial support from PICPA of around 2,000 USD annually (Fajardo 2009) was enough to fund only monthly meeting expenses (Alindada, personal communication, August 23, 2015; Balangue, personal communication, August 19, 2015). The prioritisation of ensuring standards enforceability over building up standards development capacity in the ASC's organisational design also adversely affected its productivity, as the ASC was composed of individual part-time members who occupied high-ranking positions in other organisations. Belying the image of an active standards-setting organisation as described in official documents (Accounting Standards Council 1999), the ASC's members did not do much standards development work themselves because of the limited time they could devote to Council activities (Louise, personal communication, August 3, 2015).

Faced with part-time membership and the lack of funds to hire dedicated personnel, the ASC relied heavily on Alindada's staff from the Accounting and Auditing Standards Group of SGV & Co. for research and standards-writing work (Louise, personal communication, August 3, 1995; Villamayor, personal communication, August 27, 2015). Punongbayan (personal communication, September 9, 2015) described the ASC's strong dependence on SGV & Co. for administrative support as a form of "regulatory capture", which was par for the course for the firm's long dominance of key leadership positions that were crucial to the Philippine accountancy profession (Dyball, Valcarcel 1999; Louise, personal communication, August 3, 1995).

The informal research team of the ASC within SGV & Co. did their standards development work on company time on top of their obligations as full-time employees of the Philippines' largest accounting firm. Labour time that could be devoted to



**Figure 1.** Number of approved Philippine Statements of Financial Accounting Standards per year, 1983 to 1995. Source: Accounting Standards Council 1999.

developing standards was limited, making it particularly difficult for the research team to exert the necessary effort to produce new standards that were not mere improvements of the Philippine GAAP previously issued by PICPA. Thus, the pace of standards issuance by the ASC considerably slowed down after most of the Philippine Statements of Financial Accounting Standards that were based on the old PICPA Accounting Principles Bulletins were issued<sup>1</sup> (Asian Development Bank 2002; Accounting Standards Council 1999; Committee on Accounting Principles 1978).

The ASC's sharp decline in standards productivity threatened not just its legitimacy as a standards-setting body but the Philippine accountancy profession's occupational authority on financial reporting matters. It is important to note that the pressure to address the productivity problem in the mid-1990s did not come from external parties, which looked favourably on the Philippine GAAP (Saudagaran, Diga 1997), but from influential personalities within the Philippine accountancy profession who were concerned with the impact of the ASC's poor performance on the local profession's credibility and reputation. Punongbayan (1994: 9) criticised the ASC openly in a public speech during a PICPA event and lamented that «years ago, we [Filipino accountants] were considered to be the vanguard of development in the accounting profession in this part of the world. I believe this is no longer so». Motivating Punongbayan's criticisms at the time was the ASC's failure to address the need for accounting standards to guide financial reporting in the pre-need industry that sold educational, memorial and life plans which hit its peak economic activity in the early 1990s (Punongbayan, personal communication, September 9, 2015). Another notable public criticism of the ASC was made by Conchita Manabat (1995), a former head of the Philippine Board of Accountancy and member of the ASC, who, in a lead article for an issue of the *Accountants' Journal*, called for a rethinking of the resource support of the organisation to enable it to achieve its objectives.

#### UNSUSTAINABLE RELIANCE ON THE US GAAP

While the ASC was dealing with internal capacity problems, the US GAAP which served as the Philippine GAAP's traditional model was undergoing significant changes. The financialisation of the US economy (Krippner 2005), combined with the shift to neoliberal modes of capital market governance (Wade 2007), led to both quantitative and qualitative changes in the complexity of US standards. In terms of number of standards, the US GAAP was already fairly complex when the ASC drafted its initial set of standards in 1982. By 1994, it became even more complex as the number of pronouncements constituting the US GAAP more than doubled in just over a decade (Financial Accounting Standards Board 1982; Delaney *et alii* 1995). The «standards overload» (Alindada, personal communication, August 23, 2015) in the US GAAP was largely brought about by a qualitative change in complexity of economic transactions in the US capital markets with the increasing sophistication of financial instruments, lease financing, the reporting of fair values, and financial risks (Delaney *et alii* 1995).

The change in complexity of the US GAAP brought out a significant disconnect between US and Philippine financial reporting needs. Diga (1997) noted that the relatively underdeveloped state of the capital market, the lack of sophistication in financing arrangements, and the dominance of family-held instead of publicly-traded enterprises in the Philippines accounted for substantive differences in the environment underlying financial accounting practice in the US and the Philippines in the mid-1990s. Complex financing arrangements were not prevalent in Philippine capital markets. There was also a lack of demand in the Philippines for many types of information required to be publicly disclosed in the US GAAP, such as information on the operations of business segments, compensation of employees, and detailed earnings-per-share, because the dominance of family-held enterprises over publicly-traded firms in the Philippines «does not necessarily encourage widespread disclosure of internal business affairs» (Diga 1997: 212).

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<sup>1</sup> Of the eleven Philippine Statements of Financial Accounting Standards issued between 1983 to 1984, ten were based on the PICPA Accounting Principles Bulletins. In contrast, only five of the twelve standards issued from 1985 to 1995 used the old PICPA standards as reference.

As the pronouncements comprising the US GAAP significantly increased in number and became more specific to the US context, modifying the US GAAP to develop standards that fit the Philippine context increasingly required more research effort from the ASC. Sifting through the literature and weeding out inapplicable provisions became quite tedious for the part-time research team of the ASC who squeezed in research and standards development work for the Council in between performing full-time responsibilities as employees of SGV & Co. By the mid-1990s, in terms of sophistication and topic coverage, the US GAAP was still the most technically superior model for accounting standards development (Camfferman, Zeff 2006), but the question for the members of the ASC was the practicality of always having to modify the increasingly complex US GAAP to make the standards applicable to the Philippine setting (Alindada, personal communication, August 23, 2015).

By the mid-1990s, reliance on the US GAAP for standards development was becoming unsustainable. However, the US GAAP cannot just be dropped as a model because the Philippine GAAP was assessed favourably by supranational organisations influential in financial reporting matters, particularly the World Bank and the Asian Development Bank (Saudagaran, Diga 1997; Asian Development Bank 1995). To keep the stature of the Philippine GAAP, a replacement model should be perceived to be of comparable internationally accepted legitimacy to the US GAAP (Alindada, personal communication, August 23, 2015). It is at this point that the IAS emerged as a viable option to become the primary model for the Philippine GAAP.

#### HARMONISATION OF THE PHILIPPINE GAAP WITH THE INTERNATIONAL ACCOUNTING STANDARDS

By the early 1990s, the IAS had considerably improved topic coverage and quality compared to its state when the ASC started developing the Philippine Statements of Financial Accounting Standards in 1982. The marked improvement in the IAS was brought about by the IASC's active bid to become the leader in the field of global accounting standards development. Recognising the growing importance of capital market regulators as legitimators of financial reporting standards in a financialised neoliberal global economy, the IASC in the latter half of the 1980s actively pursued the endorsement of the IOSCO for the IAS to be used for cross-border listings (Camfferman, Zeff 2006). The IOSCO was then a fledgling association of securities market regulators positioning itself to become the world's «genuine international securities watchdog» (ibid.: 294). The IASC and the IOSCO entered into a strategic partnership in 1987, leading to the IASC Comparability and Improvements project that resulted in a set of substantially revised IAS in 1993.

Despite the improvements in the IAS, the IASC failed to gain IOSCO's endorsement during the original target year of 1994 (Camfferman, Zeff 2006). However, this did not stop the partnership between the IASC and IOSCO. On July 11, 1995, the IASC and IOSCO announced that they have come up with a work plan that «will result, upon successful completion, in IAS comprising a comprehensive core set of standards» by 1999, which «will allow the [IOSCO] Technical Committee to recommend endorsements of IAS for cross-border capital raising and listing purposes in all global markets» (IOSCO Technical Committee 2000: 106).

Early significant support for the Core Standards Project came from Europe through the European Commission. After the IASC-IOSCO joint press release, the European Union's financial services commissioner, Mario Monti, expressed support for the initiative (Camfferman, Zeff 2006). This was later formalised in a November 1995 official communication where the European Commission committed that it is «putting the [European] Union's weight behind the international harmonisation process which is already well underway in the International Accounting Standards Committee» (European Commission 1995: 2). The European Commission was motivated by its desire to reduce the financial reporting costs of European companies listing in US capital markets that had to report under different financial reporting regimes, and to ensure that the European voice would be felt in the formulation of the IAS given the ubiquity of the US Securities and Exchange Commission in the activities of the IASC (Camfferman, Zeff 2006; European Commission 1995).

The growing interest by European companies to be listed in US capital markets shaped the US Securities and Exchange Commission's response to the Core Standards Project. Key to the response was the New York Stock Exchange, which has long held the view that the US Securities and Exchange Commission's strict US GAAP financial reporting requirement was an obstacle in its bid to become the world's leading capital market for foreign companies (Cochrane 1993-1994). With increasing pressure from the New York Stock Exchange and faced with the prospect of dealing with a wide variety of national accounting standards from foreign companies seeking listing in US capital markets, the US Securities and Exchange Commission publicly declared its support for the IASC Core Standards Project and even encouraged the IASC to accelerate the project's pace, offering to help raise the additional funds needed to ensure the release of the complete IAS before the original target date of June 1999 (Camfferman, Zeff 2006).

Alindada broached to the ASC in 1995 the idea to shift from the US GAAP to the IAS as the primary model for all subsequent Philippine GAAP issuances and received no opposition (Alindada, personal communication, August 23, 2015; Parungao, personal communication, August 11, 2015). While the IAS had been a practical low-cost option (Saudagaran, Diga 1997) that had relatively comprehensive topic coverage since the completion of the IASC Comparability and Improvements project in 1993, the ASC was concerned with its legitimacy as a suitable replacement model for the well-established US GAAP given the lack of endorsements from major capital market regulators. The positive responses to the IASC Core Standards project by the US Securities and Exchange Commission and the European Commission were taken by the ASC as legitimization of the IAS as a global standard and strong indicators of the inevitability of IOSCO endorsement by the turn of the 21<sup>st</sup> century (Alindada 1995; Parungao, personal communication, August 11, 2015).

Modelling local standards to the IAS was viewed by the ASC members as a pragmatic decision considering developments in the global economy which were creating conditions that would make widespread accounting standards harmonisation an eventual reality (Alindada 1995; Parungao, personal communication, August 11, 2015; Louise, personal communication, August 3, 2015). For the ASC members, not harmonising with the IAS meant losing opportunities for the Philippine accountancy profession in a globalising world. «If you look at the globe, the Philippines is just a dot. So, we cannot, I mean, pragmatically, we do not make a difference. This will be driven by the big and the powerful...We cannot be different, we are just a small country, so we would have lost opportunities»<sup>2</sup> (Louise, personal communication, August 3, 2015).

Despite the largely positive response to the IASC Core Standards project, no country other than the Philippines decided to immediately harmonise their standards with the IAS within the first couple of years of the project's announcement (Camfferman and Zeff 2006; Alfredson *et alii* 2005). Explaining the ASC's decision to harmonise before the completion of the Core Standards Project, Balangue (personal communication, August 19, 2015) laughingly recalled that «we were showing off a bit»<sup>3</sup>. Reflecting the long-standing belief within the profession of the country's status as the industry leader in the region, the members of the ASC viewed the Philippine GAAP at the time as being advanced compared to the standards of other accountancy bodies in Southeast Asia<sup>4</sup>. Harmonising immediately with the IAS after the announcement of the Core Standards Project was seen by the ASC as necessary to maintain the Philippine accountancy profession's regional leadership (Alindada, personal communication, August 23, 2015; Balangue, personal communication, August 19, 2015).

Finally, harmonisation with the IAS was viewed as a practical solution to address the ASC's lack of independent standards development capacity. As Alindada (1995:30) succinctly put it in a speech before the ASEAN Federation of Accountants explaining Philippine IAS harmonisation, «Why reinvent the wheel when the research and

<sup>2</sup> Translated from Filipino.

<sup>3</sup> Translated from Filipino.

<sup>4</sup> This is not to discount the accounting standard-setters of Singapore and Malaysia, both of which used the IAS as a model before the Philippines did (Baydoun *et alii* 1997). Alindada (personal communication, August 23, 2015), however, distinguished them as different cases, as they modelled their standards after the IAS since the start of their formal accounting standards development, unlike other Southeast Asian countries like the Philippines which had to transition from an old model.

development has been already undertaken by the IASB». The informal research team of the ASC in SGV & Co. was relieved of the considerable burden of weeding out provisions not applicable to the Philippine setting with the shift from US GAAP to the relatively less complex IAS. The IAS harmonisation decision had an immediate positive effect on the productivity of the ASC. From 1996 to 2000, seven new Statements of Financial Accounting Standards that were based on the IAS were issued, which was almost double the ASC's output during the similar five-year period of 1991 to 1995. Because of the improved performance, even Punongbayan, the ASC's vocal critic, lauded in public the IAS harmonisation decision, as «earlier concerns about the organization and related issues of ASC had become unimportant and did not pose a threat anymore» (Punongbayan, personal communication, September 9, 2015). The threat to the profession's occupational authority on financial reporting matters because of the ASC's capacity problems has been deemed resolved.

Influential figures within the Philippine accountancy profession immediately put their weight behind the ASC's decision. The Philippine Professional Regulation Commission, which oversaw the Board of Accountancy, committed to extending the necessary institutional support to update the Philippine GAAP in relation to the IAS (Pobre 1996). Distinguished figures in the profession also publicly expressed their support for the ASC's decision (Acyatan 1996). The Philippine accountancy profession closed ranks on the issue of IAS harmonisation, which was viewed as an important update in the practice of Filipino accountants that would enable them to compete in a globalising world (Acyatan 1996).

## CONCLUSIONS

In the ensuing years, more than the resumption of regular standards issuance, the significance of the IAS harmonisation decision to the professional project of Filipino accountants was its prefiguring of the global pivot towards the IAS/IFRS by the turn of the 21<sup>st</sup> century. The IASB substantially completed its set of core standards by the end of 1998 and gained IOSCO endorsement for the IAS in May 2000 (Camfermann, Zeff 2006). The Philippines achieved full convergence of the Philippine GAAP with the IAS/IFRS by the year 2005, the same year set by the European Commission for full European Union adoption. Full harmonisation with the IAS/IFRS opened new professional spaces for Filipino accountants, most crucially jobs in other countries that adopted the IAS/IFRS (Philippine Overseas Employment Administration). To what extent these opportunities for Filipino accountants were anticipated by the ASC members who made the harmonisation decision is up for debate. What was undeniable, though, was that the IAS harmonisation decision was made with advancing the professional project in mind, cognizant of developments in both the local and global institutional environment.

Philippine accounting standards development started out during the post-World War II era unmistakably bearing the imprint of its former colonial master just like other formerly colonised countries. However, unlike Zeff's (2012) passive characterisation of GAAP development in the periphery, the Philippine accountancy profession actively turned the relatively sophisticated cognitive base left behind by the US colonisers into an advantage, using it as a springboard to gain industry leadership in the Southeast Asian region. Philippine GAAP was codified as a national standard much earlier than its counterpart standards in neighbouring countries (Baydoun *et alii* 1997). Regional leadership was pursued not by developing knowledge standards with original content but rather through strategic utilisation of a foreign model to bolster the profession's status. Major standards-setting decisions, like the founding of the ASC, were made with the intention of bolstering the profession's occupational authority.

The lack of resources to independently develop local knowledge standards was a condition shared by the ASC with many other peripheral professional organisations that harmonised their national GAAP with the IAS/IFRS (Albu *et alii* 2011; Hassan 2008; Mir, Rahman 2005; Saudagaran, Diga 1997). Just like these other organisations, practical considerations played a big part in the decision to transition to the IAS. However, the Philippine case showed that aside from practicality, legitimacy was also a major consideration in the ASC's decision. While the IAS has long been indicated as a possible reference for developing the Philippine GAAP in the ASC's by-laws and despite practical problems faced by the ASC in producing new standards based on the US GAAP, the IAS was

seriously considered as a primary model only after the announcement of the IASC Core Standards project and the expression of support by the US Securities and Exchange Commission and the European Commission. In the pre-1997 East Asian financial crisis economic environment, the desire to gain both legitimacy and efficiency through modelling best explains the strategic decision of the peripheral ASC to harmonise its standards with the newly-legitimated standards of the IASC.

The widespread adoption of IAS/IFRS is theorised in many cases as standards diffusion primarily driven by coercive institutional isomorphic processes (Dufour *et alii* 2014) initiated by supranational organisations like the World Bank and the International Monetary Fund (Arnold 2012). Arnold (2009) suggests that the tie between financial reporting practice and the process of financialisation of capitalist economies explains the rapid harmonisation of accounting standards starting in the last decade of the Twentieth century. Power (2009) offers an even more intriguing proposition that financial accounting practice had already been a highly rationalised practice at the world level as part of the global expansion of a universalistic and commercial culture even before the so-called internationalisation of standards. Without denying the importance of these macro-processes highlighted by institutionalist explanations of global accounting standards diffusion, the intentionality of the actors on the ground, specifically peripheral professional accounting organisations that had to make harmonisation decisions, should not be overlooked. Despite the widespread standardisation of the knowledge base and the transnationalisation of professional organisations in the accountancy profession, GAAP enforcement and jurisdictional issues for public accountancy practice outside the European Union are still largely parochial affairs determined within national boundaries. Decisions concerning knowledge standards should be explained not just considering pressures from the external institutional environment but also the effects of the local profession's internal dynamics and how such decisions serve the collective interest of the local professional group. In the case of the peripheral Philippine accountancy profession, choices on primary models were made by the ASC based on a strategic and pragmatic reading of the institutional environment, both internal and external, taking note of the prospects for collective advancement and the risks of lost opportunities for the profession.

In conclusion, the management by a professional group of its cognitive base need not equate to the full control of the standards development process. For a peripheral professional organisation such as the Philippine accountancy profession, modelling local knowledge standards with those developed and legitimated at the core may prove to be an effective pragmatic strategy to strengthen occupational authority. In globalised professional fields with defined core-periphery distinctions in knowledge standards development, position in the field matters in determining which types of action concerning knowledge standards are effective in advancing the local professional project.

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