IFRS AND IPSAS CONVERGENCE IN INDIA -TRANSNATIONAL PERSPECTIVES

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

University of Manchester
Sarada R. Krishnan
PhD Accounting and Finance
IFRS and IPSAS Convergence in India - Transnational Perspectives

ABSTRACT

In common with other countries India has been drawn into a global trend of standardising national accounting practices with international norms to enhance its ability to attract inward foreign investment and gain increased access to global capital markets. In 2004, India committed itself to achieving convergence with International Public Sector Accounting Standards (IPSAS) in the public sector and in 2007 to International Financial Reporting Standards (IFRS) in the private sector. Both sectors have taken the route to convergence with clear cut roadmaps being designed by the national accounting standard setters and the state.

However, there has been a striking contrast in the decision-making processes and preparations for convergence in the two sectors. While the public sector made relatively good progress in terms of following the scheduled roadmap, the first roadmap issued for the private sector was scrapped, new deadlines were set and the roadmap was replaced in 2013 due to severe delays in the process which as of August 2016 have not yet been fully resolved. This cross-sector comparison is interesting because the contrasting decision-making scenarios in India exist despite the state being the central decision-maker in both sectors. Hence, while much existing literature on standardisation takes the decision to converge as a given and focuses on the implementation of IFRS or IPSAS, the purpose of this thesis is to examine the processes that led to the convergence decisions.

Using a transnational governance theoretical lens, this thesis investigates the chaotic routes through which the idea of convergence travels before being finalised as an implementation decision, in both the public and private sectors in India. The research questions focus on unravelling the development of the convergence decision-making process in India, tracing the networks of national and transnational actors driving the process, analysing the two-way interactive dynamics between actors that shaped the process and examining the role of the state as the central decision-maker in the public and private sectors.

The research methods utilised included documentary analysis and in-depth interviews with key individuals in India, with substantial knowledge about the decision-making with regards to convergence. The data analysis was conducted in two phasesDuring the first phase empirical evidence was chronologically classified to make sense of the time-sequence of events and communications that constituted the decision-making process. The information gathered from interviews was validated by reference to documentary evidence. Analysis of empirical evidence helped identify the key stages in the decision-making process in both private and public sectors together with actors that played major roles in

shaping the debate in the two sectors. During the second phase, a range of analytical themes was developed by reference to the study's research objectives and the chosen theoretical frame, such as with regards to the nature of communications between actors, the arguments put forward by the proponents and opponents of convergence and the tactics used by the local actors to resist convergence. Such a categorisation helped provide structure to the subsequent discussion of empirical findings in relation to each convergence stage.

Key empirical findings are as follows. Firstly, while in the early phases of decision-making, transnational influences, in the form of international financial institutions and standard setting agencies, were equally apparent in both sectors, in subsequent phases the transnational influences were greater and arguably more significant in the public than the private sector. Secondly, local resistance formed and was successful in delaying the project of IFRS convergence in the private sector. Local actors were successful in raising their concerns about, for example, fair value accounting and the impacts of IFRS accounting on taxation, and in the context of a turbulent political environment, their influence was powerful enough to cause delays. Thirdly, the empirics show the significance of foreign governments and inter-governmental regional networks as an important source of influence on the decision to delay IFRS convergence. Specifically, the study demonstrates how India's position was also affected by the decision of the US, a major trading partner, to delay its convergence with IFRS, and by the informal links with countries such as Japan, another significant economic counterpart.

This thesis has three important areas of contributions. Firstly, it makes a significant methodological contribution by studying convergence as a process rather than an event by tracing the dynamics preceding the actual implementation of international accounting standards. Conducting a study in such a manner entails identifying the multiplicity of actors involved in the convergence project, their concerns and opinions with regards to convergence, the means through which they voice these concerns, and the ultimate drivers of the decision-making behind convergence. Therefore, this study draws attention to the significance of understanding and fully accounting for the pre-implementation phase of convergence as such an understanding has a potential to provide a deeper insight into the primary sources of the difficulties with standards implementation observed in many countries.

Secondly, this thesis contributes substantially to the existing standardisation literature. In most prior studies the discussion on accounting standardisation broadly revolves around the advantages and disadvantages of convergence, drivers of convergence and issues of compliance with international accounting standards. While this study finds the significant presence of transnational actors, a deeper analysis into the reasons for convergence delays in India was traced to a variety of legislative, political and economic concerns of stakeholders, especially local actors including potential users of these standards.

Thirdly, this study contributes to the literature on global governance by highlighting the importance of not losing sight of the nation state as an important player in the transnational governance arena. Specifically, literature on global (accounting) regulation devotes a great deal of attention to the roles of organisations and agencies with transnational remits (such as global standard setters and donor agencies) while often downplaying the significant impacts of the more traditional cross-country links forged through economic relationships and resource dependencies. The aforementioned influences of India's links with countries such as US and Japan on the decision-making process as well as India's regional alliances with neighbouring Malaysia and China provide a vivid indication of the important roles of cross-governmental relationships in the global governance arena and also questions the position of transnational organizations as pervasive powers in such governance. The study's findings clearly demonstrate that the pursuit of full IFRS convergence strongly favoured by the transnational forces was invariably challenged in the Indian context by the influences of powerful nation states advocating a more cautious approach.

DECLARATION

No portion of the work referred to in this thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

COPYRIGHT STATEMENT

DEDICATION

I dedicate this thesis to my dear parents Dr. A.K. Krishna Kumar and Mrs. Rajeswari Meenattoor for their invaluable support throughout the course of this research. I also dedicate this thesis to my dear twin brother Sabarinath Krishnan for his unstiinting support and encouragement.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFS	Annual Financial Statements
AGAOA	Association of Government Accountants of Asia
AOSSG	Asian Oceanian Standard Setters Group
AOSSG WG	Asian-Oceanian Standard Setters Group Working Group
ASB	Accounting Standards Board
Big 4	Big Four Audit Firms
BJP	Bharatiya Janata Party
CAG	Comptroller and Auditor General
CAR	Cumulative Abnormal Returns
CAS	Country Assistance Strategy
CBDT	Central Board of Direct Taxes
CEO	Chief Executive Officer
CESR	Committee of European Securities Regulators
CFO	Chief Financial Officer
CII	Confederation of Indian Industry
CTC	Chamber of Tax Consultants
DDO	Drawing and Disbursing Officer
DFID	Department for International Development
EC	European Commission
ESMA	European Securities and Market Authority
ESOP	Employees Stock Option
EU	European Union
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce and Industry
FS	Financial Statements
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Principles

GAR	Government Accounting Rules
GASAB	Government Accounting Standards Advisory Board
GDP	Gross Domestic Product
GOI	Government of India
GOO	Government of Orissa
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IBEF	Indian Brand Equity Foundation
ICAA	Institute of Chartered Accountants of Australia
ICAB	Institute of Chartered Accountants of Bangladesh
ICAI	Institute of Chartered Accountants of India
ICGFM	International Consortium On Governmental Financial Management
ICMAB	Institute of Cost & Management Accountants of Bangladesh
ICSI	Institute of Company Secretaries of India
IDAS	Indian Defence Accounts Service
IFAC	International Federation of Accountants
IFIs	International Financial Institutions
IFRIC	International Financial Reporting Standards Interpretation Committee
IFRS	International Financial Reporting Standards
IFRSF	International Financial Reporting Standards Foundation
IGAS	Indian Government Accounting Standards
IGFRS	Indian Government Financial Reporting Standards
IICA	Indian Institute of Corporate Affairs
IMF	International Monetary Fund
Ind AS	Indian accounting standards (converged with IFRS)
INGAF	Institute of Government Accounts and Finance
INTERPOL	International Criminal Police Organisation
INTOSAI	International Organisation for Supreme Audit

IOSCO	International Organisation of Securities Commission
IP&TS	Indian Post and Telecom Accounts Service
IPAI	Institute of Public Auditors of India
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IRAS	Indian Railway Accounts Service
IRDA	Insurance Regulatory and Development Authority
ISAR	International Standards of Accounting and Reporting
JBF	Japanese Business Federation
JICPA	Japanese Institute of Certified Public Accountants
LSE	London Stock Exchange
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate Affairs
MFF	Multitranche Financial Facility
MNCs	Multinational Companies
MoF	Ministry of Finance
MoUD	Ministry of Urban Development
NACAS	National Advisory Committee on Accounting Standards
NCAER	National Council of Applied Economic Research
NISM	National Institute of Securities Market
NIUA	National Institute of Urban Affairs
NMAM	National Municipal Accounting Manual
NPA	Non-Performing Assets
NSE	National Stock Exchange of India
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PFRDA	Pension Fund Regulatory and Development Authority
PL	Profit and Loss
PSC	Public Sector Committee
PSE	Public Sector Enterprise
RBI	Reserve Bank of India
ROSC	Reports on the Observance of Standards and Codes
RQ	Research Questions

SARFM	South Asian Region Financial Management
SASPR	South Asia Poverty Reduction and Economic Management
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SFAA	State Financial Accountability Assessment
SME	Small and Medium Enterprise
ULB	Urban Local Bodies
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organisation

CHAPTER ONE - INTRODUCTION

In common with other countries, India is preparing for convergence with International Financial Reporting Standards (IFRS) in the private sector and International Public Sector Accounting Standards (IPSAS) in the public sector. While the subject of convergence with international accounting standards has been widely discussed and debated, most literature examines the actual use of standards after a decision to implement has been made, assuming that the decision-making process is a one off event. In contrast this thesis explores convergence with international accounting standards as a complex decision-making process that commences way before the final decision is made. The aim of this thesis is to investigate the proceedings *before* the actual convergence of international accounting standards in India; that is the decision-making process as opposed to the frequently followed trend of investigating the *after-effects* of convergence. India being a country in transition means that the convergence decision could be different from other developing countries of the region. This research focuses on analysing the events and interactions between different people and organisations that constituted the decision-making process for convergence.

This chapter commences with Section 1.1 that introduces the research interest through an explanation of the motivation for research and identification of research gaps. The next section discusses the theoretical motivation and methods by introducing the theoretical concepts which provide the base to explain the scope of research in the following section. Section 1.3 extends the discussion of research motivation and gaps by explaining the scope of research through the contextual settings of convergence for this thesis and identification of research questions. Sections 1.4 and 1.5 present the key findings and contributions of this research respectively. Finally, Section 1.6 of this chapter presents a brief outline of the thesis structure.

1.1 Motivation for Research on Convergence with International Accounting Standards

1.1.1 Research Motivation

In recent times, international accounting standards have been heralded as the universal financial reporting language which is rapidly replacing national accounting standards. For example, more than 100 countries have made the decision to converge with IFRS and have complied with these standards in part or full. Several other countries such as Japan, Singapore, Indonesia and Thailand are preparing to converge with IFRS and IPSAS.

Convergence when examined as a process is mainly a decision-making process that starts long before the final decision is made. It is essentially a decision-making process that attempts to find answers to questions such as, "Should international accounting standards be implemented?", "When should these be implemented?", "How should international accounting standards be applied?" and "Should it be fully or partially implemented?". The answers to these questions lead to the final decision and are drawn based on the opinions or interests of people involved in the decision-making process. During this process some voices are heard while others are unsuccessful in their attempts to influence the decision (Mir & Rahman, 2005).

Academic work on convergence with international accounting standards mostly focuses on IFRS convergence with few studies investigating convergence in the public sector (Brusca, Montesinos & Chow, 2013). Most studies on IFRS or IPSAS do not examine convergence as a decision-making process. They focus on the events after companies start using the standards, and very often on whether or not actual reporting practice is in fact compliant with IFRS (Zeghal & Mhedhbi, 2006; Shammari, Brown & Tarca, 2008; Peng & Bewley, 2010). In these studies, the decision to use IFRS or IPSAS is an assumed event that has taken place. Hence they dismiss the decision-making process as an event that is taken for granted.

A glimpse of the existing literature on convergence with international accounting standards is presented below to draw attention to the limited research focus on convergence as a decision-making process as well as the need for greater focus on this subject.

1.1.2 Research Gaps in the Existing Literature

The subject of convergence with international accounting standards has been widely discussed and debated; it has been examined through multiple perspectives. Existing literature on convergence broadly focuses on issues such as reasons driving convergence, the actual application or implementation of international accounting standards by companies and the consequent outcomes of such implementation. It is to be noted that there are very few studies that actually examine the decision-making process surrounding convergence. Most studies find International Financial Institutions (IFIs) to be the main source of pressure for convergence (Abdelsalam & Weetman, 2003; Prather-Kinsey, 2006) while cultural, social, political and economic factors have been found to affect the implementation process (Parker & Morris, 2001; Hassab Elnaby et al. 2003; Hope, 2003; Evans, 2004; Meek & Thomas, 2004). On the other hand, studies focusing on outcomes, have specifically examined the after-effects of the implementation and identify positive economic impacts or negative impacts such as non-compliance and additional costs (Zeghal & Mhedhbi, 2006; Shammari, Brown & Tarca, 2008; Peng & Bewley, 2010). The few studies that have focused on convergence as a process, *inter alia*, traced the parties left out of this process who, at a later stage, 'hijack' standards implementation (Mir & Rahman, 2005; Burns, 2000; Carlson, 1997, Watty & Carlson,1998;). Although these studies do, to a certain extent, contribute towards understanding the importance of studying the convergence process they do not trace a variety of parties affected by the decision. These studies usually focus on a single party that was ignored during the decision-making process, such as members of a particular professional body, while briefly mentioning other parties not included in the decision. The interactions between these actors have not been investigated. Meanwhile, national standard-setting arenas have grown increasingly complex as a result of the involvement of multiple parties, of domestic but also transnational origin (Djelic & Sahlin-Andersson, 2006), and hence focusing on any one party, one may argue, is similar to

examining a portrait through a keyhole. Hence, this study emphasises the importance of examining and understanding the influence of multiple parties involved in the decision-making process around convergence.

From the review of the literature, it was observed that there are several questions left unanswered which could help a great deal towards understanding the reasons for what happens during and after convergence. For instance, although the literature on reasons driving convergence has highlighted some features such as the influence of transnational forces that is IFIs and Multinational Companies (MNCs), it seems to have often overlooked the manner in which such influence was received in the host country or how this influence was exerted. These studies have not delved deeper into the country-specific convergence context to trace other parties who might have desired to participate in the decision to implement international accounting standards. To understand the convergence process, it is important to identify parties involved in the decision-making process, and the means through which they exerted influence on the decision, to further identify those who were able to exert relatively greater influence, and the reasons leading to exertion of different levels of influence by different parties.

Figure One presents a generic timeline for the convergence process as viewed in this study. The timeline identifies the segment of the convergence process that this study focuses on, and explains briefly the focus of other studies on the subject of convergence[1].

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[1]See Below

Studies on Drivers of Convergence

Push from MNCs and IFIs

PRE – DECISION
Decision-Making Process/
Preparation Phase

- FOCUS OF THE STUDY

FINAL CONVERGENCE

Implementation Studies

Advantages and Disadvantages,
Compliance and
Non-compliance studies

POST - DECISION
- Actual Implementation of
Standards by Companies

Pre-Decision

Post-Decision
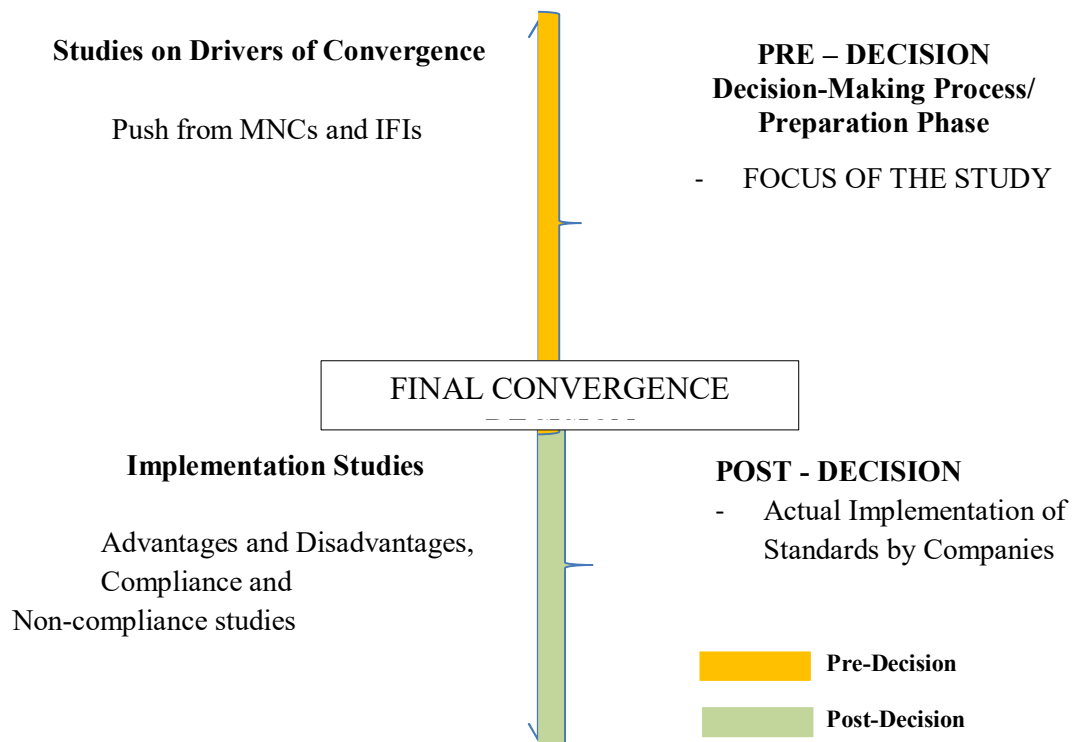
Figure 1 Generic Timeline for Convergence

Most studies have not investigated the pre-decision preparation phase of convergence. They hardly discuss the contentious or controversial nature of the decision-making process before the final decision which is characterised by conflicting view-points and struggles to dominate the decision. These studies often start their narration from the stage of actual implementation of international accounting standards by companies. Hence they overlook the fact that the implementation stage is a by-product of the complex decision-making process that commences long before the actual implementation.

As depicted in Figure One, this study defines convergence as having two phases which include first the decision-making process (pre-decision preparation phase) and secondly the implementation process (post-decision phase). It focuses on investigating the pre-decision preparation phase which is the decision-making process. This thesis distinguishes between the terms convergence and adoption in interpreting adoption to be full implementation of international accounting standards as issued by the IASB or IPSASB. Since India is *not adopting* international accounting standards exactly as they are issued by the global

standard setters, this thesis identifies the decision-making process as convergence and not adoption. The term 'final convergence decision' has been used to indicate a decision announcement which would be followed by actual implementation of standards by companies.

1.2 Theoretical Motivation and Concepts

To gain a deeper understanding of the convergence decision, it is necessary to understand the arena which shapes the convergence decision. This involves the identification of actors, individual and organizational, involved in the decision-making process, the means through which such actors exert their influences on the decision and the impact of these influences on the convergence process.

This thesis draws upon the theoretical concept of transnational governance to examine and analyse the convergence decision-making arena. A brief introduction to the concept and the motivation for using this theoretical perspective is presented in the following sub-sections.

Transnational governance literature creates awareness about the ongoing transformation of national policy making arenas into effective *transnational spaces* comprised of actors of both domestic and transnational origin (Djelic & Sahlin-Andersson, 2006; Djelic & Quack, 2010; Risse-Kappen, 1995). Such spaces are not confined within any one nation's boundaries but represent a mixture of domestic and international policy agendas. Further, transnational governance as a concept draws attention to the relative decline in the dominance of the state in regulatory decisions and the rising significance of non-state actors, both domestically and internationally. To gain a clear picture of the decision-making arena, it is therefore important to understand this multiplicity of actors and how they do not simply influence standard-setting decisions, but in many cases determine regulatory actions (Djelic & Sahlin-Andersson, 2006). As far as the state actors are concerned, who could be representatives of the national governments or various bodies associated with the nation state or having quasi-state functions. Likewise, non-state actors may include actors such as industrial lobbies, professional bodies, privately funded domestic policy organisations, transnational agencies and various organisations with global policy remit.

Djelic & Quack (2010) further explained that the above actors do not operate in an isolated manner. They establish relations (Risse-Kappen, 2007) and form groups based on shared interests or policy ideas, known in transnational governance literature as 'transnational policy networks' (Nolke, 2003). These networks are formed by actors with the intention to influence policy (that is standard-setting) decisions. Transnational communications are effectively channels through which different actors convey their opinions and policy standpoints and attempt to translate them into influences on the decision. In order to gain a stronger representation and voice, actors may join hands with those who hold the same opinion as they do.

Therefore, for the purpose of this study, the decision-making process regarding convergence is seen, through the theoretical prism of transnational governance, as taking place within an arena constituted of transnational policy networks converged around various issues of importance. It further analyses the dynamics within such transnational policy networks and how they operate to influence various aspects of the decision-making process behind convergence. These aspects include whether to implement IFRS/IPSAS and if so, under what conditions, including the terms and timing of possible implementation. To study dynamics within networks implies tracing various forms of communications between actors, including, for example, direct and indirect or formal and informal interactions between national and transnational actors.

Furthermore, such communications and interactions, as argued in this study, should be seen as forming a temporarily contingent cycle of policy reform where past decision-making experiences, (un)resolved issues, and instances of national resistance feed back into and influence present policy decisions. Therefore, this thesis draws on the concept of recursivity developed by Halliday & Carruthers (2009) in order to conceptualise the decision making around standards convergence effectively as a cyclical recursive process. Such a perspective defies the view that the diffusion of global laws or standards is a one-way interaction where transnational actors simply force national actors to adopt international standards and advocates for a more complex rationalisation.

1.3.   Research Context- The Case of India

India is one of the fastest growing economies of Asia, and is the tenth largest economy in the world. The onset of economic liberalisation in 1991 in India saw a steady growth in FDIs (Foreign Direct Investments) which subsequently led to demands for international accounting standards from investors. These demands were also supported by some Indian companies, especially those that were either purchasing foreign companies or were entering into joint ventures with them. In response to these demands, in 2007, India announced its decision to converge with IFRS by 2011 (Jain, 2011). India also commenced the move for accrual accounting in 2004 which is recognised as a first step towards IPSAS convergence (GASAB, 2011a).

India is particularly an interesting site for research due to the IFRS convergence decision. This is because this decision has been controversial as evidenced from much public political debate and the fact that the process of IFRS convergence has been delayed a number of times. The first deadline of 2011 passed without any specific dates for implementation being announced by the state and no explanation was provided for this delay. Then in August 2012, the Minster for Corporate Affairs & Power, Mr Veerappa Moily made the following statement at a seminar,

"......we are determined to ensure that IFRS is implemented by April 1, 2013," (Srivats, 2012).

However, this deadline had also passed without any explanation or public announcement being made about the reasons for delay. While it is normal for countries to debate the decision for IFRS convergence, it is not common for a country to repeatedly make official announcements of implementation and then delay the process by such long periods followed by mysterious silence on the part of the state. Unravelling the complex circumstances causing the delay will contribute significantly to the understanding of the decision-making process.

Comparing this complicated scenario with the public sector experience with convergence within the country presents a nice contrast which places India in a more interesting research angle. While convergence of IFRS in the private sector has been shrouded in uncertainties leading to delays, the public sector appears to

be making relatively better progress towards International Public Sector Accounting Standards (IPSAS) convergence without any of the controversies haunting the private sector process. This presents another interesting aspect in the Indian context which is the transformation in the role of the state as the central decision-maker between the private and public sector. However, it is to be noted that the comparison of the decision-making arenas of these two sectors does not aim to measure the progress of the convergence decision-making in the private and public sectors or to measure the extent of influence of the state in the two sectors. The comparison focuses on analysing the transformation in the strategies adopted by state actors and agencies in the two sectors as a result of the influences of transnational and national state and non-state actors. The contrast in the two sectors leads one to presume that, in the private sector, the state's role is more like that of a symbolic central authority, whereas in the case of the public sector, the state is the actual central authority thereby achieving relatively better progress with IPSAS convergence. It is therefore important to examine the multiple roles assumed by the state as a key decision-maker while it engages with transnational and national actors in order to fully understand the dynamics behind convergence including the power equations between the various actors involved in the decision-making process and the ultimate outcome of delays in reaching a final decision.

In order to gain a comprehensive understanding of the convergence decision, it is also important to be aware of some important aspects about the political background of the country which is the world's largest democracy with 814 million eligible voters. For a period of five years, until May 2014 while being ruled by a weak coalition government led by the Congress party, it has been stated that the country has been going through a 'policy paralysis' as various development projects were being delayed (The Economic Times, 2013).

A weak government and corruption scandals seem to have contributed to the slow pace and delays of projects (BBC, 2012). Most of these corruption scandals brought to light the informal links between the political machinery and the industry. In the context of the decision-making process for IFRS convergence in the country, this provides an interesting angle to explore the important roles played by the industry and political or government representatives.

During the General Elections of May 2014, the Congress-led government was replaced by a strong coalition led by the BJP (Bharatiya Janata Party) which is expected to revive and speed up the execution of delayed projects.

1.3.1 Research Objective and Questions

The main objective of this study is to examine and analyse the decision-making process for IPSAS and IFRS convergence in the public and private sectors respectively. The decision-making process is analysed as a series of cyclic events and interactions between transnational and national actors involved or influencing the convergence decision. Tracing the reasons causing the differences in convergence decisions in the public and private sectors can further help to gain an understanding of the complex dynamics of the decision-making process. The research questions that this study explores are:

❖ *RQ: 1 How and why did India decide to converge with international accounting standards?*

❖ *RQ: 2 What is the network of national and transnational actors involved in the decision-making with regards to convergence in the public and private sectors and how do such actors attempt to influence the decision?*

❖ *RQ: 3 What are the arguments put forward by proponents and opponents of convergence and how do they contribute towards our understanding of the contrasting dynamics of convergence observed in the public and private sectors?*

❖ *RQ: 4 What is the role of the state in the decision-making process in the two sectors and how does it affect the contrasting dynamics of convergence there?*

1.4 Key Empirical Themes

The discussion in the main analysis chapters of this thesis focuses on a range of key themes that emerge from the analysis of empirical data. Firstly, the study provides a detailed account of the arena in which the convergence decision evolves, including a variety of actors and actor constellations. It traces and analyses these actor groups to gain an understanding of the sources of transnational and national influence on the decision. The convergence decision in India has been shaped by a number of significant transnational influences and national responses to these influences.

Secondly, the channels of influence on the convergence decision are identified as direct and indirect, formal and informal communications across various platforms between global and local actors which acted as channels through which the convergence decision was shaped. This helps to portray the complex and multi-level arena wherein the discussions on convergence evolve and take shape. Influences on the decision through transnational channels were in the form of either direct / indirect communications from global actors or independent global events that affected national accounting decisions across the world. National channels of influences on the decision operated as responses to specific communications from global actors or as independent national strategies to keep up with global accounting developments. Transnational policy networks formed through such communications were transformed with the entry and exit of different actors at different times in the decision-making process.

Thirdly, the recursive nature of communications, or in other words cyclic and two-way nature of interactions, between actors has been traced to analyse and logically structure the narration of the events constituting the convergence decision-making process. Recursivity is a useful tool which helps to demonstrate that although transnational influences on the decision were strong, they are constantly shaped and modified by national responses to these influences and vice-versa. The recursive or cyclic nature of the interactions between transnational and national actors was found to be a key attribute of transnational policy networks driving the convergence decision-making process.

One of the defining features of the decision-making process portrayed through the lens of recursivity was the coming together of local actors from different national decision-making arenas of convergence for the purpose of negotiating terms of convergence with transnational organisations. This is a significant phase of decision-making which is applicable to not just the Indian context but could be applicable to other countries in the region going through a similar process towards convergence with international accounting standards. On the one hand, transnational influences were most significant proponents of convergence. On the other hand, inter-governmental cooperation was often used as a channel of recursivity or as a medium for responding to and influencing powerful transnational organisations, such as the IASB, where individual local actors would have potentially not succeeded in exerting influence. Such instances of cooperation have been successful in getting transnational actors to alter their strategies. Another equally important aspect of the convergence decision that was defined by recursivity was the nature of national responses.

National responses to transnational influences have led to significant differences in the convergence decision in the private and public sectors. While the decision-making process in private sector was marked by repeated delays, the public sector has made relatively better progress in terms of achieving targets set in roadmaps for convergence. A comparison of the private and public sectors revealed that the impact or influence of transnational actors such as IFIs on the convergence decision could be weakened by the presence of strong national actors resisting these influences. Further, the significance attached to both transnational and national influences is determined, to a great extent, by the relative position of the state in terms of its relationships with other actors involved in the decision-making arena.

Recursivity also helps demonstrate the means through which transnational influences and local responses to these influences could alter the strategies of the state as a central decision-maker. This thesis finds that these alterations in the strategies of significant transnational organisations and key national decision-makers are the consequences of the recursivity of interactions between actors, which highlights the complexity of decision-making surrounding convergence. These aspects of the convergence decision-making process in India are quite pertinent to the decision-making contexts of several developing countries such as Malaysia, Thailand, China, Bangladesh, Sri Lanka, and Pakistan where the state is the official key decision-maker.

1.5 Contributions of the Research

This study contributes to the existing literature on convergence with international accounting standards as discussed in Section 1.1.2 through identification of research gaps and the means through which this study attempts to bridge those gaps. Table One lists some significant areas of contribution based on key observations discussed in Section 1.4 and research gaps identified in Section 1.1[2]:

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[2]See Below

Table 1 Contributions of the Research

Convergence Process	Research Gaps	Contributions of this Thesis
Overall: As a Decision-Making Process	Limited studies on convergence as a decision-making process. A plethora of opinions of actors with different interests, communications to express those opinions and the means used by these actors to influence the terms of convergence had been left largely unexplored in the existing literature.	This thesis contributes to the understanding of convergence through an in depth analysis of the preparation or pre-implementation stage of convergence. It etches out the chaotic routes through which the idea of convergence travels before being finalised as an implementation decision.
Rationales, Reasons and Implementation Issues of the Convergence Decision-Making Process.	Discourse on the reasons for the growing trend of convergence with international accounting standards have often been composed of debates on advantages versus disadvantages of the standards. These debates often point out the financial reporting benefits of international accounting standards such as transparency or discuss the issues relating to incompatibility of international accounting standards in developing countries mostly examining compliance related issues.	This study contributes to providing a deeper and contextual analysis of the rationales provided by decision-makers for converging with international accounting standards. The real reasons that drive convergence are to a great extent determined by the interests of actors involved in the decision-making process and their ability to translate these interests into key feature of the convergence decisions. The findings of this study also indicate that some of the issues that arise during the decision-making process if left unresolved could extend into the implementation process to create hurdles at that stage.
Impact of Transnational Influences-Recursivity	The impact of transnational influences has always been viewed as a one-way interaction that promotes convergence.	Transnational influences form a part of two-way interactions. Impact of transnational influence on the decision-making process is significantly shaped by nature of local responses to these influences.

Presence and Influence of National Responses and overemphasis on transnational organisations- Recursivity	The role of national responses to transnational influences to push convergence has not been very widely researched. Most studies on the subject have almost created a stereotype of transnational dominance on national accounting decisions.	Significant role played by national actors who respond and at times succeed in getting transnational actors to alter their strategies. The study attempts to throw light on the power of the so called 'weaker' nation states in negotiating terms of convergence with global actors. In a deviation from the findings of several studies, it finds that both global and local sides of these negotiations play equally significant roles in shaping the convergence decision.
Role of state as a Key Decision-Maker	Limited analysis on strategies adopted by state to balance transnational and national influences.	This thesis finds contrasting roles played by the state in the private and public sectors which is interpreted to be the consequence of recursive interactions between transnational and national actors in the two sectors. The change in the role of the state also represents the contrast in the transnational policy networks that constitute the decision-making arenas of the two sectors.
Vital role of resource dependency relations between and within nation states in the convergence decision-making process	Existing transnational governance literature rarely examines the decision-making process for accounting standards convergence being influenced by traditional cross-country economic relationships.	This study portrays the decision-making process as being significantly influenced by the convergence decisions made by other nation states which are traditional economic and trade partners. Different types of resource dependency relations between the actors in the network driving the decision-making process play a key role in shaping the decision-making process. An example of such key influences on the decision -making in India was the impact of US delays on the decision to converge with IFRS.

Table 1 briefly outlines key themes of the convergence process that this study investigates to demonstrate the empirical and theoretical contributions made to the existing literature. Key empirical findings are as follows. Firstly, while in the early phases of decision-making, transnational influences, in the form of international financial institutions and standard setting agencies, were equally apparent in both sectors, in subsequent phases the transnational influences were greater and arguably more successful in the public than the private sector. This is interpreted to be a consequence of the higher

degree of complexity characteristic of the actor network in the private compared to the public sector, evidenced from the variety of perspectives on the terms and an overall appropriateness of convergence with IFRS demonstrated by constituencies such as members of the local accountancy profession, industrial lobbies, and government organisations. This complex variety of strategies towards convergence proved problematic to reconcile and presented a significant obstacle to the pursuit of full IFRS convergence by the transnational institutions.

Secondly, the study provides rationalisation for why the local resistance formed and was successful in delaying IFRS convergence in the private sector. In particular, through references to the concept of recursivity, the study demonstrates the strategies of soft influence (so called 'weapons of the weak') used by the seemingly 'weak' local actors to derail the convergence project on issues such as fair value accounting and the impacts of IFRS accounting on taxation and also how, in the context of a turbulent political environment, such influences proved powerful enough to cause delays. Thirdly, the empirics show the significance of foreign governments and inter-governmental regional networks as an important source of influence on the decision to delay IFRS convergence. Specifically, the study demonstrates how India's position was also affected by the decision of the US, a major trading partner, to delay its convergence with IFRS, and by the informal links with countries such as Japan, another significant economic counterpart.

This thesis has three important areas of contributions. Firstly, it makes a significant methodological contribution by studying convergence as a process rather than an event by tracing the dynamics preceding the actual implementation of international accounting standards. Conducting a study in such a manner entails identifying the multiplicity of actors involved in the convergence project, their concerns and opinions with regards to convergence, the means through which they voice these concerns, and the ultimate drivers of the decision making behind convergence. The findings of this study show that the idea of convergence that is promoted by the international standard setting agencies and other global organisations may well be accepted by the local actors in their public pronouncements but such an acceptance is often superficial and disguises the intense behind-the-scene negotiations and even conflicts *between* the local and global actors as well as *within* the local arenas of

convergence. Such a portrayal of convergence as a contingent negotiation associated with stark disagreements and conflicting views is in contrast to many prior accounts of convergence as a top-down dialogue between the powerful global and weak domestic actors. In sum, this study draws attention to the significance of understanding and fully accounting for the pre-implementation phase of convergence as such an understanding has a potential to provide a deeper and more comprehensive insight into the primary sources of the difficulties with standards implementation observed in many countries.

Secondly, this thesis contributes substantially to the existing standardisation literature. In most prior studies the discussion on accounting standardisation broadly revolves around the advantages and disadvantages of convergence, drivers of convergence and issues of compliance with international accounting standards. In discussing the drivers of convergence, the influence of international financial institutions is discussed in the literature with very little analysis of the responses to such influence. In alignment with the existing literature, this study finds transnational organisations as significant actors in the domestic standardisation arena. However, the analysis carried out finds that transnational influences are met with equally significant local resistance depending on the interests of the actors involved and the level of influence they are capable of exerting. This leads to an important observation that the key driving forces of the negotiations as regards to the terms of implementation are based not only on the perceived merits of the international standards themselves but also on the interests of the actors involved and power interplays and resource dependencies between them.

Thirdly, this study contributes to the literature on global governance by highlighting the importance of not losing sight of the nation state as an important player in the transnational governance arena. Specifically, literature on global (accounting) regulation devotes a great deal of attention to the roles of organisations and agencies with transnational remit (such as global standard setters, donor agencies) while often downplaying the significant impacts of the more traditional cross-country links forged through economic relationships and resource dependencies. This was specially noted in the case of the indirect influences of the US's decision to delay IFRS convergence. While being interpreted as an indirect source of influence, such a decision played a very significant role on the convergence negotiations in India. The

study shows how the US influence was channelled through Japan with which India has significant trade and economic relations and, most importantly, holds a joint forum specifically to discuss convergence issues. The consequences of India's links with countries such as US and Japan as well as its regional alliances with neighbouring Malaysia and China in the decision-making process provide a vivid indication of the important roles of cross-governmental relationships in the global governance arena, and also question the position of transnational organisations as pervasive powers in such governance. The study's findings clearly demonstrate that the pursuit of full IFRS convergence strongly favoured by the transnational forces was invariably challenged in the Indian context by the influences of powerful nation states advocating a more cautious approach.

1.6   Structure of the Thesis

There is a total of eight chapters in this thesis including this chapter. The remaining chapters of this thesis will be presented in the following sequence:

Chapter Two - Literature Review

This chapter presents a review of the existing literature on convergence with international accounting standards. The review was carried out through a classification of existing literature which identifies significant findings that helped in understanding the subject as well as the research gaps that needed to be bridged.

Chapter Three - Theoretical Underpinnings

The third chapter of this thesis presents and discusses in detail, the theoretical concepts used to examine the decision-making process for convergence of international accounting standards in India. There is also a review of literature on these theoretical concepts to present the rationale for using these concepts.

Chapter Four - Research Methodology

This chapter discusses the research strategies, research design, objectives and questions in the study.

Chapter Five - The National Decision-Making Arena -Indian Background

The chapter presents relevant information about India's accounting history and background, which is necessary to fully understand the context in which the decision-making process for convergence of international accounting standards in India is taking place. The chapter also broadly introduces Indian actors involved in the decision-making process and presents the timeline showing the stages of the convergence decision-making process in India.

Chapters Six and Seven - Empirical Chapters

These chapters present the evidence collected to answer the research questions. Chapter Six presents evidence from the public sector and Chapter Seven presents evidence of the convergence decision-making process from the private sector.

Chapter Eight - Discussion & Conclusion

This chapter discusses the results arrived at through analysis of empirical evidence and the implications of the analysis. It then summarises the findings and analysis of evidence found and conclusions arrived at through the investigation.

CHAPTER TWO - LITERATURE REVIEW

2.1   Introduction

Convergence with international accounting standards is a widely discussed and debated research topic and has been examined through multiple perspectives. Some of the most commonly analysed issues on the subject are the drivers of convergence, benefits and disadvantages and compliance issues. One of the significant aspects of the existing literature on convergence is that it mainly focuses on the implementation process and the after-effects of the process. The complexities involved in the lead up to the final convergence decision have rarely been discussed.

Karasiewicz (2014), in her study on the on-going convergence project between the FASB and IASB, emphasised the need to study the convergence process,

"*Understanding the convergence in accounting standards is important as it highlights the emergence of a global language of accounting anticipated to be accepted for the first time in worldwide capital market regulation. Further, as an economic language, accounting standards are ultimately considered to have distributional effects in society, effects which are perceived to be the outcome of a process encumbered by the potentially conflicting interests of affected stakeholders and institutions*" (pp. 113).

While it is important to examine the standard-setting part of the convergence process which takes place in a global arena dominated by transnational actors, it is equally important to examine the diffusion of these standards into the national arena. Unlike the global arena which hosts the international standard-setting process, the national arena for convergence is not dominated by transnational actors alone. Being a national accounting policy choice, the national arena for convergence thrives through a vibrant series of negotiations between both transnational and national actors. Studying the role of only either national or transnational actors in the process would not permit a comprehensive narration of the story of convergence. Hence while decision-making on convergence for a country is a national policy decision, it is typically a transnational process in its development and finalisation.

The process of international accounting standards convergence has been taking place in both the private and public sectors. While there has been extensive research on IFRS convergence in the private sector, research on convergence in the public sector has been relatively limited. The aim of this chapter is to review relevant themes from the literature on convergence with international accounting standards in both the private and public sectors. While there are several similarities in the issues prevalent in both the sectors, there are also some contrasting aspects which distinguish the two sectors.

The key themes identified though the review of literature are listed below and discussed in detail in the following sections:

2.2   Drivers of Convergence with International Accounting Standards

2.3   Benefits and Detriments of Convergence with International Accounting Standards

2.4   Issues of Compliance with International Accounting Standards

2.2   Drivers of Convergence with International Accounting Standards

Despite several criticisms levelled against the suitability of international accounting standards, approximately 120 countries have either fully or partially converged with IFRS (Chamisa, 2000) while governments of several countries are in various stages of IPSAS convergence. It has been observed that while IFRS convergence in the private sectors has been quite rapid, convergence with IPSAS and the shift to accrual accounting in the public sector has been not as fast as IFRS convergence. However, there is a definite progress made towards convergence in both sectors. Research has identified several reasons that have compelled countries across the globe to either abandon or revise their national accounting standards to converge with international standards.

One of the reasons for IFRS convergence that has been cited in many studies is the international capital market (Cai &Wong, 2010; Devalle et al, 2010; Ding et al, 2005). To begin with, the rapid development of international capital markets is strengthening their dominant role as an economic resource distributor. The

manner in which information is revealed to the market is a matter of great significance in ensuring market efficiency. Cai & Wong (2010) found that capital markets of countries that have adopted IFRS are better integrated than those that have not. Increasingly frequent cross-listing of multinationals has also been cited as a trigger for rapid convergence, which in turn creates a significant requirement of uniformity that could be achieved only through a single set of accounting standards for these firms in order to reduce information production costs and send out a unified, reliable message to the market (Chand & White, 2007; Ding et al, 2005).

Bidlle & Saudagaran (1991) noted that preparing and presenting financial information according to the individual national accounting regulations of every country in which they have operations is not only an expensive but also a cumbersome task for MNCs. Thus, of the several factor conditions which a firm may consider in its decision to invest in a particular country, IFRS figures are an important criterion. Hence, the cost factor in addition to an increasing amount of pressure from different exchanges competing for foreign listings by MNCs indicate the necessity for convergence of accounting standards across the globe (Prather-Kinsey, 2006). The increasingly international nature of activities of institutional investors has also been cited as a reason driving the rapid convergence of IFRS. The presence of these institutional investors in foreign markets compels domestic listed firms to follow accounting practices that are globally accepted (Ding et al., 2005).

Another widely cited reason for both IFRS and IPSAS convergence is the role played by donor agencies or IFIs in coercively bringing about standardisation, especially in developing countries. Substantial financial dependence on foreign aid from IFIs such as the World Bank (WB), Asian Development Bank (ADB) and International Monetary Fund (IMF) has strongly influenced the financial reporting practices of developing countries (Ashraf & Ghani, 2005; Mir & Rahman, 2005; Rahman, 1997; Points & Cunningham, 1998; Huq & Abrar, 1999). Since the 1980s, it has been observed that as a part of the globalisation process, bilateral and multilateral agencies have played a significant role in the dissemination of international accounting standards in developing countries

(Rahman & Lawrence, 2001; Neu et al, 2002). Adhikari & Mellemvik (2010) in their study on public sector accounting reforms in South-Asian countries noted that the state is no longer the sole orchestrator of reform policies. Financial dependence on IFIs meant that accountability or in other words, providing proof of efficient use of resources played an important role in this donor-recipient relationship. With accountability being measured through the use of IPSAS by these institutions, most developing countries are not left with much choice (Adhikari & Mellemvik, 2010). Hence it has been stated that IFIs are a coercive driving force in IPSAS convergence in developing countries.

However, a comparison of public and private sectors reveals that there is a difference in the role played by IFIs. There is a difference in the manner in which influence is exerted on the accounting standard-setting decision in the public and private sectors. In case of private sector, the influence of IFIs is mostly indirect that is through MNCs, other investors and professional bodies (Mir & Rahman, 2005; Rahman & Lawrence, 2001) while in the context of public sector, IFIs have been observed to exert direct influence on the state (Chan, 2005; Adhikari & Mellemvik, 2010). In addition to IFIs, pressure from politicians, media, scholars, management consultants, other multilateral organisations such as the Organisation for Economic Cooperation and Development (OECD) and the International Consortium on Governmental Financial Management (ICGFM) have all played an important role in initiating and spreading IPSAS convergence.

The need for legitimacy has also been cited to be a major factor driving IPSAS convergence. There are different aspects to this. Legitimacy is sought by different parties involved in the process. National governments attempt to strengthen their legitimacy by bringing in reforms that ensure greater accountability in handling economic and financial regulations (Brusca et al, 2013). IPSAS also established its legitimacy through association with models of government accounting that were based on Anglo-Saxon capital markets (Chan, 2008). IPSAS was hence not perceived as an entirely new system; it was viewed as an improvement of the existing global accounting system, which meant that national governments and international organisations did not have to make major changes or spend time and money creating a new accounting system (Heald, 2003). Since IPSAS are framed

based on IFRS, requirement to mandatorily adopt IFRS strengthened the position of IPSAS. IPSAS gained extensive legitimacy when the EU declared IFRS to be mandatory for listed companies of its member states in 2005 (Chiapello & Medjad, 2009). Hence, it has been observed that there has been a trend of mimicking international institutions in terms of adopting best practices. Other international organisations that have already declared their acceptance of IPSAS are North Atlantic Treaty Organisation, International Criminal Police Organisation (INTERPOL), OECD, United Nations (UN) and the Council of Europe (Brusca et al, 2013).

Active responses of the International Accounting Standards Board (IASB) and International Public Sector Accounting Standards Board (IPSASB) in assisting countries to meet challenges in convergence have also played an important role in driving the entire process. For instance, to accommodate the difference in governance structures of continental European countries in comparison to Anglo-Saxon governance structure, the IPSASB issued a standard on budgetary matters to specifically suit the governance structures of continental European countries (Portal et al, 2012). Recently IPSASB has commenced to translate IPSAS into different languages to ease the implementation process. The IASB has also made several amendments to its standards based on recommendations from associations of professional accounting bodies such as Asian Oceanian Standard Setters Group (AOSSG). These pro-active measures taken by the boards in both the sectors have significantly contributed to the process.

2.3 Benefits and Detriments of Convergence with International Accounting Standards

Some of the commonly cited benefits of convergence are that it permits greater comparison of financial information presented by companies operating in different countries (Ashbaug & Pincus, 2001; Street 2002; Zeghal & Medhbi, 2006; Abdullah & Sapiei, 2013), greater financial comparability leading to greater cross-border investment (Defond, Hu, Hung & Li, 2011; Yu, 2010), provides greater transparency and consistency in accounting practices (Shammari, Brown & Tarca, 2008), enables financial operations on a global scale thereby promoting

the process of globalisation of capital markets (Taylor, Evans & Joy, 1986) and significantly contributes to increasing the competitiveness of financial markets in developing countries (Peavy & Webster, 1990). Wright and Hobbs (2010), stated that while the principle based approach of IFRS would lead to a less complicated financial reporting system, it would also require companies to establish vigorous internal procedures to ensure proper and consistent judgement policies. Several studies have found IFRS convergence to have a positive impact on capital markets (Bruggemann, Hitz & Selhorn, 2013). Some of the benefits to capital markets are increase in market liquidity (Daske et al, 2008), an enabling of capital flows (Epstien, 2009) and a reduction in the cost of capital (Li, 2010) and in transaction costs for investors (Wolk Francis & Tearney, 1989) and enhancing equity investments from institutional investors (Florou & Pope, 2012).

Another benefit of IFRS convergence that has been widely discussed in literature is improvement in the quality of financial statement information (Bruggermann et al, 2013). It is stated that positive views of capital market participants on financial statement information would have a positive impact on firm value (*ibid*). Ashbaug & Pincus (2001) found that convergence with IFRS reduces the differences in measurement and disclosure practices which in turn rendered financial information more predictable. It was also found that differences in accounting standards relative to IFRS affect the accuracy of forecasts of annual earnings by analysts. Byard, Li & Yu (2011) confirmed the effect of IFRS convergence on analyst information by stating that IFRS convergence enhances the quality of analyst information. Some researchers have also highlighted the effects of IFRS convergence on information regarding earnings announcement (Bruggermann et al, 2013). An increase in the information content (Landsman et al, 2012) and increase in transfer of cross-border information (Yip & Young, 2012) of earnings announcements are stated to occur as a consequence of IFRS convergence. Non-corporate users of financial statements have also been stated to benefit from the adoption of IFRS as the notes required to be provided in financial statements are said to make it understandable to non-experts as well (Kumar, 2015).

The disadvantages of fair value accounting in comparison to historical accounting especially in developing countries has been one of the issues debated in the literature on convergence (Zeghal & Mhedhbi, 2006; Tyrall et al, 2007). However, several studies indicate that using fair value accounting permits better assessment of management performance (Latridis, 2010), leads to positive changes in the scale of accounting ratios (Lantto & Shalstrom, 2009) and greater transparency in financial statements (Abdullah & Sapiei, 2013; Kumar, 2015).

Among the supporters of IFRS convergence some studies have stated that IFRS convergence enhances accounting quality (Christensen, Lee, Walker & Zeng, 2015). Barth, Landsman & Lang (2008) and Christensen et al (2015) used earnings management, timely loss recognition and value relevance metrics to examine the impact of IFRS convergence on accounting quality. Barth et al (2008) found that IFRS convergence reduced earnings smoothing and management, recognised losses in a timelier manner and forged a greater link between accounting amounts and share prices and returns. Christensen et al (2015), on the other hand found that improvements in accounting quality following IFRS convergence is confined to firms which receive reporting incentives on voluntary convergence. They found no change in the accounting quality of firms that had no incentives to converge. Hence the authors state that reporting incentives of accounting standards are significant determinants of change in accounting quality.

Value relevance of accounting information in response to IFRS adoption has also been widely examined in prior literature (Aharony, Barniv & Falk, 2010; Ahmed, Chalmers & Khlif, 2013). Studies examining the impact of mandatory IFRS implementation on the value relevance of accounting information have found greater value relevance of specific accounting items which had significantly different treatments under the domestic GAAP in EU in comparison to IFRS (Aharony et al, 2010), significant increase in the value relevance of earnings and no difference in that of book value of equity (Ahmed et al, 2013).

While these studies mostly examined the benefits of IFRS in developed countries, there have also been studies stating that IFRS would equip developing countries with better quality of accounting frameworks and principles (Wolk, Francis &

Tearney, 1989; Epstein, 2009; Jain, 2011). While discussing the impact of voluntary and mandatory IFRS convergence on transparency and disclosure levels in firms of a developing country, Aksu & Espahbodi (2016) stated that while IFRS convergence did have a positive impact on transparency and disclosure levels of firms, the overall impact was influenced by factors such as the legal system in the country, the effectiveness of enforcement systems and rules prevalent in the country. This suggests that the benefits of IFRS translate in different ways while being implemented depending on the local context.

Several other studies have also supported convergence by citing that the obstacles faced during implementation can be overcome (Jain, 2011). They pointed out that any issues faced in the process of implementation can be resolved through training and creating awareness about international accounting standards (*ibid*). Among studies that provide solutions to problems in implementation process are those that emphasise that any international accounting principles incorporated into the national accounting system should be adapted to suit the local environment (Talaga & Ndubizu, 1985).

Street (2002) while emphasising the benefits of IFRS convergence pointed out the enormity of the task. The author stressed that IFRS convergence is not an isolated process and would require huge efforts to establish at the national level. Hence the convergence process could be successful only through a combined exertion of several parties such as the state, stock market regulators, standard setters, preparers, users and the accounting profession (Nobes, 2001).

In spite of the popularity of the idea of a global set of accounting standards, IFRS convergence has also been subjected to several criticisms (Hove, 1989; Perera, 1989). One of the major criticisms is made through the widely researched perspective of relevance of IFRS to developing countries (Wallace & Briston, 1994; Larson, 1993; Woolley, 1998; McGee, 1999; Chamisa, 2000, Zeghal & Medhbi, 2006; Tyrall et al, 2007). Chamisa (2000) found that one of the factors that determined the relevance of IFRS to developing countries was the type of needs that they were expected to serve. According to Tyrall, Woodward & Rakhimbekova (2007) the main factors that determine the relevance of international accounting standards to a developing country are similar to western

or developed countries in terms of cultural, political, economic and legal factors, the existence of a strong private sector, the capital market and accounting needs of the country.

Developing countries that are governed by communist ideology, characterised by a dominant public sector and absence of a capital market often find IFRS irrelevant. On the other hand, IFRS has been found to be relevant to countries that are characterised by a dominant private sector, a prominent role played by shareholders and the existence of a capital market. Here, it could be observed that relevance of IFRS is a subjective issue since the suitability (or non-suitability) of adopting IFRS is dependent on several country-specific factors. (Murphy, 2000; Kimura & Ogawa, 2007; Peng & Tondkar, 2008; Mir & Rahman, 2005; Zeghal & Mhedhbi, 2006; Peng & Bewley, 2010).

Due to the colonial history of several developing countries, some similarities do exist in the systems followed. However, it has been argued that accounting techniques tailored to suit the needs of developed countries cannot be applied successfully to the context in developing countries (Hoarau, 1995; Larson & Kenny, 1996; Point & Cunningham, 1998; Eccher & Healy, 2000). It has been observed in several studies that although the standards issued by the International Accounting Standards Committee (IASC) (currently IASB) claim universal applicability, they are in most cases mirror images of accounting standards applied in the UK and the US (Larson & Kenny, 1996; Hove, 1990). It has also been found that international accounting standards when adapted to suit local conditions do contribute to economic growth in developing countries (Larson, 1993; Chamisa, 2000). However, this view is countered by studies which have found that convergence with international accounting standards did not bring about any significant difference either in the economic growth or the quality of financial reporting of a country (Woolley, 1998; Ashraf & Ghani, 2005; Mir& Rahman, 2005).

Briston & El-Ashker (1984), Hove (1989) and Samuels & Oliga (1982) also presented the point of view that blanket adoption of international accounting standards could be disadvantageous in addition to being incompatible to the

systems prevailing in countries with emerging economies. However, countering this point of view, a case study of Egypt conducted by Abdelsalam & Weetman (2003) on the introduction of international accounting standards in emerging capital market, stated that the dissidents of international accounting harmonisation do not take into consideration the very important factor of capital market needs that demand the presence of 'internationally accepted standards' to win the confidence of investor.

A large part of the existing literature on IFRS continues to focus on the debate of IFRS vs. US GAAP (Kim, Tsui & Yi, 2007; Atwood, Drake, Myers & Myers, 2011; Barth et al, 2008; Covrig, Defond & Hung, 2007; Turley, 2007). Studies supporting IFRS implementation cited the principle-based system of IFRS to be a potential and effective deterrent of fraud (Atwood et al, 2011; Carmona & Trombetta, 2008) while the supporters of US GAAP argued that the additional costs of transition and the numerous versions of IFRS practiced across different countries would even out any comparability benefits that might arise out of IFRS implementation (Holthausen, 2009; Kvaal & Nobes, 2010; Atwood et al, 2011). The IFRS-US GAAP convergence project has been one of the focal points of studies on the subject of comparing IFRS and US GAAP. Baudot (2014) analysed the variant aspects of accounting changes which form a part of the efforts of the IASB and the FASB in the IFRS-US GAAP convergence project. The accounting changes which occur through direct emulation of the standards, difference reduction between standards and progressive redesign of standards jointly by the two standard-setters are all representative of the cooperative-competitive equation between the IASB and FASB (Baudot, 2014). The actions taken by both the IASB and the FASB as part of the effort for convergence is interpreted as being influenced by a wide variety of actors exerting political and economic pressures on the two standard-setting agencies (Baudot, 2014). This further emphasises the political nature of standard-setting decisions which are not solely shaped by concerns regarding the advantages or disadvantages of using the standards. The variety of actors surrounding the convergence project, their inter-relations and power equations are interpreted to have influenced the course of action taken by the IASB and FASB in the ongoing convergence project. This is very relevant in the context of this study where the decision to converge is influenced by political,

economic and legislative ties between the actors involved, making it a multi-dimensional decision-making process.

In tandem with the growing acceptance of IFRS in the private sector, public sector accounting across the globe has also been going through a process of evolution. While IFRS convergence is perceived as a part of the globalisation process, IPSAS convergence has been perceived as a move towards adopting the techniques of new public management and has been observed to make progress through the joint efforts of the state and international organisations (Christiaens et al, 2010).

The last three decades have seen accounting reforms in the public sector applied across several developed countries as part of the new public management wave (Adhikari & Mellemvick, 2010). The financial crisis of 2008 also acted as a catalyst to bring about greater demand for transparency and accountability. High levels of debt, budgetary instability and deficits of governments also strengthened the argument for accounting reforms in the public sector (Bergman, 2010; Ball 2012). A frequently proposed argument in support of convergence in the public sector is that the market value of structured loans would be replaced for nominal value which would be more appropriate. However, this argument was contested by Ellwood & Newberry (2016) who stated that the stance on this issue often depends on views about the purpose and users of financial reporting. Due to all these reasons, there were demands for reforms in terms of enhancing accountability and improving the quality and transparency of information on government financial activity which has been defined as necessities for good governance (Kim et al, 2011). In recent times, renewal of state policies has been characterised by financial accountability (Chan, 2003).

Although research on convergence with international accounting standards in public sector is not as vast as in the case of IFRS convergence, there are a few studies that examine the convergence with international accounting standards in the public sector. The necessity of a harmonised set of accounting standards in the public sector has been debated by several researchers (OECD, 1993, 1994; Welch, et al, 2004; Oakley, 2002). While supporters of IFRS convergence highlight the benefits of convergence to the different users of financial statements, supporters

of accounting reforms in the public sector base their arguments on accountability to the public. Some of the main arguments put forward in favour of IPSAS are increased effectiveness and accountability of public service delivery (OECD, 1993, 1994), providing information about the financial activity of public administration, supporting the explanation and increasing the comparability of macro-economic accounting (Benito, Brusca & Montesinos, 2007) and aiding international organisations that utilise public financial information of different countries.

The necessity for international accounting standards in the public sector also manifested itself through criticisms of reforms made under new public management. One of the major characteristics of these reforms is a shift from emphasis on administration of services to emphasis on management. Hence there has been an alteration in the traditional stewardship role of accounting to a role of cost management which symbolises the move towards accrual accounting (Lapsley, 2001). There have been criticisms that this focus on management has widened the gap between citizens and the state (Oakley, 2002; Noordhoek & Saner, 2004) which in turn has considerably reduced citizens' trust in public services (Welch et al, 2004). Several factors responsible for decline in public trust have been identified. Some of the main factors include policy failures, political scandals, inability of governmental and economic performance to match public expectations (Peters, 1999; Nye, 1997) and the information gap between the state and the public (Mutz & Flemming, 1999).

Convergence with international accounting standards in the public sector has also received some criticisms on the effectiveness of accounting reforms (Pina, Torres & Yettano, 2009). Accounting reform in the public sector is mainly characterised by a shift from cash accounting to accrual accounting (Mellet & Ryan, 2008; Lapsley et al, 2009). Hence one of the focal points of the debate on necessity of a global set of accounting standards in the public sector is the cash versus accrual accounting argument. Supporters have argued that accrual accounting caters to the democratic demands of the public for greater transparency, responsiveness and accountability, while on the other hand the cash accounting system is useful only

to the extent of monitoring legal compliance and for purposes of administrative decision-making (Pina, Torres & Yetano, 2009).

2.4   Issues of Compliance with International Accounting Standards

The extent of compliance with international accounting standards followed by different countries has been researched extensively in particular on the private sector in developed countries such as Australia (Tower, Hancock & Taplan, 1999), Germany (Glaum & Street, 2003) and Switzerland (Street & Gray, 2001). Therefore, it is not surprising that there has been a wide extent of research on issues related to compliance and non-compliance. Most of this work has focused on the extent of compliance in terms of the degree, rate and pattern of compliance and factors affecting compliance. However, research on compliance to accounting standards in the public sector has been relatively limited.

2.4.1   Identifying the Degree & Rate of Compliance

Compliance to international accounting standards is determined by the extent to which they can be implemented in practice and also the general recognition and approval of these standards by those who prepare and make use of financial statements (Masel, 1983; Tower, 1993). Walker (1987) noted that the process of laying down accounting standards would be useful only if the preparers and users of financial statements comply with these standards.

In the recent past several countries have adopted IASB standards on a compulsory basis (SEC, 2000; CESR, 2003; Schipper, 2005) which has drawn attention to the level of comparability of the existing financial information and also the extent of support provided by auditors and enforcement bodies in attaining a higher level of compliance to international accounting standards. (Shammari, Brown & Tarca, 2008).

Prior research on IFRS convergence done over the last ten to fifteen years has shown that there is a wide variation in the degree, rate and pattern of IFRS convergence across different countries. A study conducted by Deloitte and Touche (2005) found that from 99 countries that had adopted IFRS for domestic listed companies, a great majority belonged to emerging markets. However, the

results of another study conducted by Peng & Bewley (2010), represented the view that emerging markets present a greater number of hurdles in accounting standards convergence. The authors opine that especially in the case of emerging markets, a convergence of accounting standards would not guarantee the convergence of accounting practices. This point was further confirmed by the findings of Abdullah & Sapiei (2013), that underdeveloped capital markets in developing countries deter compliance with fair value accounting standards due to high costs of compliance. However, it is also important to note that the greater degree of IFRS convergence in emerging capital markets shown by Deloitte & Touche (2005) is supported by statistical evidence. The results of both Deloitte & Touche (2005) and Peng & Bewley (2010) showed that in spite of the greater number of hurdles presented by emerging capital markets, they often achieve a greater degree of convergence. This also implies that the degree of IFRS convergence would be different for both developed and developing countries. However, a further review of research literature shows that it is not possible to evaluate the degree of IFRS convergence based only on the position of the capital market of a country, although this is an important factor.

Differences in the degree or rate of compliance are not issues restricted only to developing countries. While discussing the degree of IFRS convergence across the world, Nobes (2013) stated that many of the 120 countries, including developed countries such as Australia and EU, that claim to be fully IFRS compliant do not follow 'IFRS as issued by the IASB for all purposes' (pp.84). They follow versions of IFRS based on regional or national context. Hence it is most important to focus on the degree to which a country has (or has not) complied with IFRS. The existence of differences in accounting practices of countries which claim to be fully IFRS compliant shows that the IFRS convergence achieved by more than 120 countries does not indicate that the accounting practices of these countries are fully converged or compliant (Nobes, 2013). Hence despite consistent efforts being made during the past several years to achieve uniform compliance with IFRS across the international accounting systems, differences in accounting practices such as balance sheet measurement continue to persist (Hellman, Gray, Morris & Haller, 2015).

The degree of IFRS compliance is also stated to be determined by the size of firms. Fernley& Hines (2003) presented the view that compliance to IFRS would be easier for large listed companies as compared to the small firms in UK. Thus it could be observed that in addition to the position of the capital market of a country, several factors such as the size of firms adopting IFRS and institutional factors also play an important role in determining the degree of convergence with IFRS.

Several studies examining the extent of IFRS compliance have focused on analysing the association between the extent of a firm's compliance with IFRS disclosure requirements and financial analysts' forecast accuracy (Hodgdon, Tondkar, Harless & Adhikari, 2008). Most of these studies find that greater degree of compliance with IFRS disclosure requirements leads to greater forecast accuracy or reduced analyst forecast errors (Ashbaugh & Pincus, 2001; Hope, 2003). Hodgdon et al (2008) found that a greater degree of compliance with IFRS disclosure requirements would reduce the information asymmetry and improve forecast accuracy of financial analysts.

Non-compliance with IFRS disclosure requirements has also been widely researched (Cairns, 1999; Hodgdon et al, 2008). Several studies have found significant levels of non-compliance in firms that claimed to be compliant with IFRS disclosure requirements (Street & Byrant, 2000; Street & Gray, 2001; Glaum & Street, 2003). In their study comparing the degree of compliance of US listed firms and non-US listed firms, Street & Byrant (2000) found that firms with US listings complied to a greater degree than those without. The overall compliance of the firms chosen for the study was found to be 75 per cent. Variations in the degree or extent of compliance have been found to be associated to firm characteristics such as country of domicile and non-regional listing (Street & Gray, 2001; Street, 2002). Several other compliance studies have also examined the association between extent of compliance with IFRS disclosure requirements and firm characteristics (Chow & Wong-Boren, 1987; Dumontier & Raffournier, 1998; Wallace et al, 1994, Cerf, 1961 and Craswell & Taylor, 1992). Most studies found that the size of the firm and status of listing have a significant association with the degree or extent of compliance with disclosure requirements (Glaum & Street, 2003).

Public sector accounting reforms have also witnessed several variations in the manner of compliance. For instance, European continental countries have been found to adapt an accrual basis of accounting to suit their social, organisational and cultural context. Due to minimal participation of professional accounting bodies in public sector accounting standard-setting processes, public sector managers and civil servants in these countries do not perceive these reforms as reliable (Pina et al, 2009). Specifically, variations have been identified in three aspects of convergence towards accrual accounting systems which include content, timing of convergence and the mode of application (Christiaens, Reyniers & Rolle, 2010). These variations, often based on national differences across countries, however will defy the aim of the convergence drive to bring about homogeneity in the accrual accounting systems followed by public sector organisations across the globe (Christiaens et al, 2010; Paulsson, Mattison & Tagesson, 2003; Carvalho et al, 2007). It has been observed that even within a country there could be significant variations in the accrual accounting systems implemented across municipal governments. Such variation exists because in several countries, the official plan for government accounting is voluntary and does not require auditing (Carvalho et al, 2007).

The application of reforms also varies depending on the extent of centralisation or decentralisation of the concerned government. For instance, in some countries, the reforms are first applied at the municipal level whereas in countries which are more centralised, the reforms are introduced at the central level (Olson et al, 1998; Guthire et al, 1999; Groot & Budding, 2008). Some of the variations in compliance or convergence are also based on regional factors. For example, it has been observed that in South-Asian countries, the trend is to first converge with the cash basis of IPSAS as part of the shift to accrual accounting and this trend has been found to be initiated and encouraged by IFIs such as the World Bank and the ADB (Adhikari & Mellemvik, 2010).

2.4.2   Factors Influencing Compliance

One of the main factors affecting IFRS compliance is the difference between National Generally Accepted Accounting Principles (GAAP) and IFRS. This is because while National GAAP suits the cultural, economic and political

conditions prevalent in each country, IFRS reflects the conditions of developed countries. These very differences have been stated to cause non-compliance (Ding, Jeanjean & Stolowy, 2005). Hence the reasons for difference in National GAAP and IFRS have been extensively researched to arrive at causes for non-compliance. Differences in National GAAP and IFRS lead countries to adopt different policies to converge with international accounting standards and these differences do have an effect on actual compliance (Flower, 1997; Zeff, 1998). Research has indicated that a wide range of reasons could explain the differences in national and international accounting standards. Ding, Jeanjean & Stolowy (2005) highlighted the significance of culture as a leading factor causing differences between national GAAP and IFRS. Country-specific factors that have been identified as affecting the process of IFRS convergence include cultural factors, economic factors, political factors, language factors (Nair & Frank, 1980), status of development, legal factors and institutional factors. Financial reporting standards are also strongly influenced by the economic, financial and governance institutions of a country (Ding, Jeanjean & Stolowy, 2007).

While evaluating factors affecting IFRS compliance by multinational companies, El-Gazzar, Finn & Jacob (1999) noted that voluntary compliance with international accounting standards is influenced to a great extent by the background in which firms operate and obtain finance. Operating and financing background is mainly defined in terms of dependency on the international market and also regional organisation membership. Complicated issues such as the 'competence' of the regulatory authorities in terms of willingness and enthusiasm shown to implement the regulations and availability of resources to successfully implement new regulations have also been identified as factors determining the level of compliance (DiMaggio & Powell, 1983; Mizruchi & Fein, 1999). The lack of elementary institutional means and feeble integration of accounting norms in terms of the extent of flexibility allowed by the accounting system to modify certain aspects to suit the specific needs of different municipalities also affect compliance levels (Oliver, 1991; Zimmerman, 1977). Also a lack of appropriate enforcement mechanisms (Ball, 2006) such as judicial efficiency and investor protection (Ashraf & Ghani, 2005) and differences in political, cultural and industrial environment could act as hurdles to achieving actual convergence or

compliance with IFRS (Horton, Serafeim & Serafeim, 2013; Armstrong, Barth, Jagolinzer & Reidl, 2010).

Lack of attention to financial reporting issues by politicians in terms of sufficient budgetary allocation has been stated as another factor affecting compliance (Olson 1990). Distinct political ideologies followed by the state could play a significant role in shaping accounting regulation and determine the implementation of accounting standards in a country (Ezzamel, Xiao & Pan,2007). For example, Ezzamel et al (2007) discussed the manner in which the political ideology that rejected conservatism during the Maoist era in China and the one that accepted conservatism during the Deng era, led to the use and implementation of accounting standards in contrasting ways. The authors discussed the manner in which accounting was used as a tool of authority by politicians who were supported by technical experts and academicians. In countries where accounting regulation and its enforcement is greatly dependent on politicians for meeting fund requirements and appropriate enforcement mechanisms, such political ideologies could significantly influence the extent of compliance to accounting standards (Ashraf & Ghani, 2005; Ezzamel et al 2007).

A close look at the practical scenario of IFRS convergence has often revealed several instances where the plans for convergence did not materialise into actual compliance (Ding, Jeanjean & Stolowy, 2007). It has been stated that IFRS convergence in emerging capital markets need not necessarily lead to a complete convergence of all the accounting practices based on the argument that often such convergence occurs only on paper and not in actual practice (Street & Gray, 2001). Hence compliance studies also distinguish between actual and symbolic compliance. Ball (2006) stated that that difference in general financial reporting quality of countries might affect the reliability of financial reports produced under IFRS. This leads one to ponder on the question as to why convergence with international accounting standards fails to materialise in certain contexts, while it is successful in certain others. Before commencing to answer this question, it would also be worthwhile to consider the fact that there are debates as to the authenticity of claims made by countries on successful convergence with IFRS.

Tay & Parker, (1990) suggested that convergence of accounting standards would not bring about the convergence of accounting practices by firms if it were known that the legal repercussions of non-compliance with the accounting standards are trivial. While analysing IFRS convergence in China, Peng & Bewley (2010) found that although China claims to have achieved substantial convergence with IFRS, there is significant difference in the institutional practices and actual practices of firms with regard to accounting practices. Hence the benefits that were aimed at by Chinese regulators would not be achieved in effect. Some of these divergences have been brought about while translating the IFRS requirements to the Chinese language. Despite the discrepancies that could occur due to translation, there have been studies indicating that translation of IFRS into the native language of the converging country has benefits such as enhancing the quality of decisions made by users of financial statements (Holthoff, Hoos & Weissenberger, 2015; Evans, Baskerville & Nira, 2015). However, this does not by any means render the limitations of translation, as observed in the case of China, to be non-existent. While highlighting the benefits of IFRS translation into the native language, these studies stated that a 'good' translation would achieve better results such as improved decision-making quality, while an inaccurate translation would certainly not deliver the intended benefits. (Evans et al, 2015).

This implies that convergence in non-English speaking countries with translation discrepancies leads to low quality of financial reporting, which results in compliance on paper but not in actual practice. Such discrepancies might deceive investors about the true financial position of companies. Similarly, in the public sector also it has been observed in several cases that when accounting reforms are undertaken due to normative or coercive pressures despite incompatibilities, they result in decoupling and symbolic convergence (Siti-Nabiha & Scapens, 2005; Arnaboldi & Lapsley, 2004).

Political factors can affect the extent of compliance in both the private and the public sectors, although they are more likely to affect the public sector. To cite an example from the public sector, Jones & Luder (2011) while discussing Germany's abandonment of accrual accounting reforms in 2010 stated that while the German Ministry of Finance did support the reforms, the parliamentarians were

concerned about their ability to maintain control over the budget and government finances. Hence political reasons play an important role in determining the success or failure of accounting reforms in the public sector. Another reason cited for this reversal of reforms in Germany was the absence of any constitutional or organisational changes to accommodate the shift to accrual basis of accounting that could have made the reforms effective (Brusca, Montesinos & Chow, 2013).

Some of the hindrances towards convergence with international accounting standards are absence of proficiency and the apprehensive or pessimistic approach of preparers of financial reports towards convergence (Falkman & Tagesson, 2008). According to the authors, such a pessimistic approach is due to lack of authorisation. All these factors are also inter-related and hence often act in conjunction with each other to influence convergence with international accounting standards. From among all these factors, however, culture has always been attributed greater significance over the other factors, in not only influencing convergence but also in creating impacts on the success or failure of implementation in general. Several studies that have highlighted the role played by culture in impeding the implementation of international accounting standards have presented it as a hurdle that manifests itself only during the implementation process (Chow, Chau & Gray, 1995; Gray, 1988; Ding & Jeanjean, 2005; Ding, Jeanjean & Stolowy, 2007). The point to be noted here is that cultural differences manifest themselves not only during the implementation process but also during the decision-making process.

Research has also identified some common factors causing a low level of compliance in both the public and private sectors. These include weak audit quality, lack of proper training and education to cope with accounting developments and lack of proficiency, lack of enforcement mechanisms and penalties for non-compliance (Christiaens et al, 2010). In the public sector, some of the additional factors identified as factors causing low compliance levels are low level of technology adoption, weak political and legal frameworks and legislative delays.

2.5   Convergence as a Decision-Making Process

From the review of literature covered under the first three sections, it can be observed that most studies examine the rise of international accounting standards, the rationale and drivers that aided the convergence process to spread across the globe, the extent of compliance to international accounting standards and factors affecting compliance. Research on convergence process in the public sector also has been mostly restricted to necessity and compliance issues. There seems to be a significant void in the existing literature about the pre-decision process that leads a country to the final convergence decision. Most studies dismiss the decision-making process as a one-off event. There are very few studies that highlight the significance of studying convergence as a decision-making process. Carlson (1997) & Watty & Carlson (1998) noted the lack of studies that have critically examined the decision-making process of convergence. Carlson (1997) while exploring alternative paths for achieving greater international accounting harmonisation, pointed out the lack of studies analysing the process of decision-making. The author stated that,

"There has been little analysis of the processes that are involved in the adoption of the international accounting standards by nations and perhaps the IASC may achieve a greater level of adoption of international accounting standards if it were to more fully examine the processes of adopting standards rather than assuming that nations will use their product."

There are a few studies that have examined some aspects that affect the decision-making process of IFRS convergence. For instance, the effects of corporate lobbying on the convergence decision have been widely investigated (Georgiou, 2004; Hodges & Mellet, 2002; Walker & Robinson, 1993; Weetman et al, 1996). Most of these studies, examine the timing, methods, and effectiveness of lobbying. While corporate lobbying is an important influencing factor, it is only one of the many aspects that shape the decision.

Several studies examining accounting convergence have found the presence of differences in national or local perspectives and some of these studies also examined local resistance to implement the perspectives of global standard setters

such as the IASB (Edwards & Baker, 2014; Kvaal & Nobes, 2012). These differences in national perspectives and subsequent resistance have not only slackened the convergence progress in specific countries but have also decelerated the global convergence progress. This also brings into question the extent of international comparability achieved through convergence (Kvaal & Nobes, 2012). Differences in local perspectives on convergence have also increasingly led to individual countries creating carve-outs of international accounting standards which could only result in MNCs preparing multiple financial reports to meet the requirements of financial reporting standards of different jurisdictions (Edwards & Baker, 2014). Such local differences on convergence issues and the medium used by both local and global actors to negotiate these issues are activated in national decision-making arenas. Hence the decision-making process of convergence in individual countries plays an important role in shaping the global drive for convergence.

The need to analyse the decision-making process becomes more evident from events such as the reversal of accounting reforms in the German public sector in 2010 (Jones & Luder, 2011). This reversal could be interpreted as a consequence of issues left unresolved during the decision-making process. If the decision-making process is analysed, it could help gain a better understanding of the on-going situation during and after the possible implementation of international accounting standards.

An example of the manner in which the decision-making process could have an impact on the possible implementation was demonstrated by Mir & Rahman (2005) in their study on the adoption of international accounting standards in Bangladesh, which the authors described as an 'undemocratic process'. In particular, several 'interested parties' were not involved in arriving at the decision to implement IFRS. For example, the exclusion of ICMAB (Institute of Cost & Management Accountants of Bangladesh) from the decision-making process resulted in a great degree of tension between the two main professional bodies of the country, the ICAB (Institute of Chartered Accountants of Bangladesh) and the ICMAB. This further led to competition between the two bodies for clients which manifested itself in the form of auditors providing unqualified opinions on

financial statements that hardly comply with international accounting standards. The authors noted that:

"*While there is a possibility that an all-inclusive approach could engender political lobbying problems, we argue that the problems resulting from the exclusive use of the ICAB for the adoption process and the lack of effective communication to interested parties are creating even greater compliance problems.*"

The authors clearly implied that the exclusion of ICMAB has led to several impediments in the actual implementation process. The authors attempted to highlight the effects of the decision-making process on the implementation by mainly focusing on the exclusion of ICMAB. The authors also briefly discussed the lack of awareness of international accounting standards among financial statement preparers who are non-members of ICAB. The authors noted that,

"*We find a problematic situation where international accounting standards have le--gal backing (insofar as they concern external reporting of listed companies) but some preparers appear to be unaware of the changes taking place. This highlights some of the inadequacies of the adoption process*".

The article throws light on the fact that other 'interested parties' might exist in the local context. However, it does not delve deeper to identify these other interested parties. It focuses mainly on the exclusion of ICMAB to draw out inadequacies of the convergence process. Further analysis of the country-specific context in terms of the decision-makers, users of financial statements, political elements and other people influenced by the decision is necessary to fully comprehend the impact of the decision-making process on actual implementation of international accounting standards.

However, the existing literature on the various dimensions of standardisation in general and accounting regulation does not provide a clear explanation of the manner in which these transnational organisations interact with other country-specific elements to influence the standard-setting process and decisions of a country.

2.6   Conclusion

From the review of the literature, it was observed that many IFRS studies specifically focused on what happens after the decision to implement has been taken. Most of these studies do not answer questions such as 'how was the convergence decision arrived at?' Hence there is a gap in the existing literature with regard to the analysis of the decision-making process of IFRS/ IPSAS convergence that takes place before the actual implementation of these standards. Analysing the decision-making process could assist in gaining a better understanding of the issues faced during and after possible implementation.

CHAPTER THREE - THEORETICAL UNDERPINNINGS

3.1.   Introduction

A shift from state-centric regulatory mechanisms to a growing influence of a wider pool of transnational actors and solutions represents a new phase in the development of accounting regulation. This change *inter alia* has been characterised by decisions of governments around the world to converge with international accounting standards (Djelic & Sahlin-Andersson, 2006; Samsonova, 2009). As highlighted in the literature review chapter, such decisions about convergence have been viewed by researchers mostly as an event and taken for granted. The purpose of this thesis is to examine the course of decision-making towards converge with international accounting standards as a complex *process* and to understand what goes on during such a process.

This chapter presents the theoretical concepts that help to examine the events constituting the pre-decision stage of convergence with international accounting standards. The key concept of transnational governance is presented through literature that discusses the evolution of a new regulatory environment, the diffusion of global standards and the rise of transnational organisations. This is followed by discussion of the concepts of transnational policy networks and transnational communications which have been used to theoretically visualise the arena where the decision-making process is carried out, and to explain the means or communications through which decision-makers exert influence. Finally, this chapter discusses the nature of communications that enable decision-making through a theoretical glimpse into some of the complexities that define relationships between people involved in making the decision to converge with international accounting standards.

3.2.   The Concept of Transnational Governance

Transnational governance is a stream of governance literature that discusses the evolving regulatory environment characterized by, *inter alia*, the weakening of the territorial nation state and delegation of (certain) of its functions to private regulatory institutions, and as a consequence, a rising significance of non-state actors, of both domestic and transnational origin, in governance arenas (Djelic & Sahlin-Andersson, 2006; Richardson, 2009; Risse-Kappen, 1995; Dingwerth,

2007). This new form of regulation where functions previously under state control are delegated to private authorities has been referred to as 'meta-regulation' (Richardson, 2009). Huault & Richard (2012) explored and explained the concept of regulation as being shaped through the combined influences of non-state market actors, civil society organisations and the state at both national and global levels. Regulation is hence no longer defined within the constraints of issues related to the regulators and the regulated. It is a complex and dynamic multi-dimensional process that evolves with power equations between actors involved and the changing external conditions. Some of the defining attributes of this evolved concept of regulation are the nature of monitoring, enforcement and sanctioning, whether regulation is national, regional or global, public or private, hard law (that is law imprinted in official legislation) or 'soft law' (that is non-binding or flexible in nature or law that is part of social norms) (Huault & Richard, 2012).In the context of this study, the exploration of the convergence decision-making sphere as transnational space not merely defined by regulators and the regulated is very significant. The key roles played by regulatory intermediaries and the power interplays between them and a wide variety of other actors surrounding the convergence debate forms an important part of the convergence story in India. Hence, this study draws on the idea of visualising the regulatory space discussed above to explore and rationalise the decision-making arena in India.

Transnational governance is hence a form of meta-regulation characterised by a transformation of the role played by the state as the central decision-maker in governance issues and the strong influences of transnational non-state actors on policy decisions (Djelic & Sahlin-Andersson, 2006). The terms 'decentred' and 'polycentric' have been used to define the two representative characteristics of transnational governance (Black, 2008; Black, 2001). Decentred regulation represents the dilution of state authority in regulation (Curtin,2007; Stewart,1990; Sunstein,1990), and polycentric governance represents the existence of multiple centres of power and influence attracting various state but, more significantly, also non-state actors (Skelcher, 2005; Pattberg, 2005; Braithwaite & Drahos, 2000).

The rise in transnational governance modes has been due to an increasing demand for global policy solutions, driven by the globalisation of economic life

(Dingwerth, 2007; Djelic & Quack, 2010). The spread of transnational governance modes, for example, is evident from the rise of transnational organisations in fields such as finance and capital market regulation, including the WB, IMF, International Organisation of Securities Commission (IOSCO) and the World Trade Organisation (WTO).

In the accounting arena, the emergence of transnational standard-setting organisations such as the IASB and IPSASB has transformed the nature of standard-setting decisions, which, in turn, has resulted in an explosive increase in regulatory activities, actor constellations and networks (Richardson, 2009). In the context of accounting regulation, prior studies cite economic pressures as the cause for the rise of transnational accounting standards convergence. Economic developments such as privatisation and deregulation opened up capital markets across the world, leading to increased level of foreign investments and cross-border listing which necessitated global accounting harmonisation (Botzem, 2012). Quite often, it has manifested itself through re-regulation or reconfiguring of existing national regulations and relationships at an international level (Djelic & Sahlin-Andersson, 2006).

Such influence is especially clear in the development and diffusion of a global set of accounting standards which is an example of re-regulation or restructuring of areas that had been previously regulated at the national or state level (Botzem, 2012; Richardson, 2009; Posner, 2009). This also represents the rising significance of transnational regulatory solutions, where states are not the makers but rather the recipients of standards produced by transnational standard-setting organizations, such as IASB. In parallel to this, there also exists a cohort of other transnational organizations such as the WB, IMF, IOSCO and OECD which support IASB and similar standard-setting agencies (Stiglitz, 2002; Drori et al, 2006). For example, it has been observed that convergence with IFRS initially commenced in developing and post-Soviet countries that started adapting their national standards due to pressure from such transnational organisations (Mir & Rahman, 2005; Suddaby et al, 2007). Thus standard-setting is no longer a state controlled activity but is a movement that is coordinated by a pool of actors/organisations which are transnational in nature (Higgot et al 2000; Slaughter, 2001). These organisations together play an important role in

influencing, implicitly or explicitly, the decisions of nation states to converge with international standards.

As discussed above, the IASB has been viewed as a global standard setter for the accounting profession capable of significantly reducing the regulatory functions traditionally attributed to the state as well as domestic professional bodies (Botzem, 2012). However, a decline in the prominence of national actors does not imply that they have no influence on the decision-making process. Humphrey & Samsonova-Taddei (2014) discussed the growth in transnational co-operative initiatives bringing together national actors such as inter-state discussion fora and globally focused co-operative initiatives by the national professional accountancy bodies. These examples of transnational cooperation may also have implications for the promotion of global practice rules such as IFRS. The point being made here is that despite standard-setting decisions for individual countries being national accounting policy decisions, they are shaped by both national and transnational influences. The decision to go ahead with convergence is not purely a national decision in its origin and development. It is not a decision that is dominated by national actors alone. Djelic (1988) while examining the application of the American corporate model in development of business systems in Western European countries found that national systems are moulded by different types of actors with varying and even directly conflicting interests. These include both global and local actors. The author emphasised that transnational actors in powerful geopolitical positions could influence national decisions. Similar influences are observed in the convergence process of international accounting standards as well. The decision of a country to converge is hence essentially a transnational process significantly defined either directly or indirectly by the developments occurring in transnational standard-setting spaces.

Hence, this study examines the decision-making arena to gain an understanding of the manner in which both transnational and national influences are exerted on the decision-making process of convergence.

3.3. Transnational Policy Networks - Locus of the Decision-Making Process

The transnational decision-making arena where convergence decisions are made consists of a variety of networks comprising a variety of actors, both individual and organisational. However, a transnational network is not a formal construction, that is, the actors do not come together formally for the purpose of forming a network. These actors converge around a common issue regarding which a decision is being made (Hood et al 2001) while at the same time often having divergent views and opinions. So converging around particular policy issues provides such actors with opportunities to influence how such issues become eventually resolved. Hence, the motivation that drives these actors to interact with each other is to exert influence on the decision. Exerting such influences is often a result of collective, rather than an isolated, effort. This means that actors often join forces and establish relations with other actors who favour similar policy opinions, through communications (Djelic & Sahlin-Andersson, 2006; Samsonova, 2009; Djelic & Quack, 2010; Risse-Kappen, 1995). However, it would be misleading to think of transnational networks as homogenous environments. Difference of opinion between network participants is common. The main point to be noted here is that it is not the commonalities in views and opinions that bring actors together; it is the nature of issues and policy dilemmas that causes these actors to interact with each other in order to be able to negotiate the terms of the ultimate policy decision made.

Cooperation and associations formed between actors in a decision-making arena could be defined in multiple ways depending on the nature and purpose of such cooperation. Djelic (2014) examined the development of competition regulations in Africa and described the region as, "a complex multi-layered organisational and community landscape". This region is constituted through formation of multiple layers of inter-connected and juxtaposed transnational networks and acts as the ground of mediation for the exchange of influences. The term 'transnational regional initiatives' is used to describe regional strategies that are initiated by international organisations or transnational actors and sustained through the formation of transnational networks, with the intention of influencing national policies in the region (Djelic, 2014). These strategies and networks are hence used as platforms by global actors or organisations to promote their agenda to national

decision-making contexts. If similar platforms are used by local actors from different national decision-making arenas of the region to jointly negotiate with transnational organisations for solutions to common local issues, these platforms could be viewed as extensions of national decision-making arenas

In this study, the concept of a transnational policy network is used to conceptualise the policy arena where decisions about IFRS convergence in India are negotiated and determined. Djelic & Sahlin-Andersson (2006) referred to three dimensions to describe transnational policy networks: networks as clusters of actors, as inter-linked meeting platforms and as a producer of policies. Such a categorisation, hence, helps imagine a transnational network as made up of clusters of actors who interact with each other through various platforms in order to influence the policy decision. Similarly, transnational networks have also been described as sets of individuals, "whose interests, whether material, aesthetic or ideological are bound together" (Harvey & Maclean, 2010, pp. 105).

In this regard, Djelic & Quack (2010) identified five characteristics that represent transnational networks. Firstly, members of these networks have multiple affiliations; that is they could be members of different networks, both local and transnational. Hence membership in one transnational network does not exclude them from membership in other networks. So networks could also be formed on the basis of sectoral affiliations such as members of the same industry across countries. Secondly, despite their transnational nature, networks are represented by members who are still rooted, to a certain extent, in their national identities. This leads us to the interpretation that within networks members retain their local identities and are representative of their national interests. Thirdly, transnational networks have been described as fluid and dynamic imagined networks which commence with converging around a particular issue and during the course of time, through continuous interactions, crystallise into groups or clusters of actors working together. [3] Fourth, due to the diverse nature of the membership of these networks, they are complex and exhibit heterogeneity and conflict. And hence

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[3] Djelic & Quack (2010) differentiated between the terms 'transnational communities' and 'transnational networks' where they described communities to be more stable as opposed to the loosely connected actors forming a network. However, the authors do agree that it is not possible to always differentiate between the two and that the terms could be used inter-changeably. This study uses the term 'transnational networks' and does not differentiate between networks and commu--nities.

transnational networks are not necessarily characterised by complete consensus or unity of opinion. Neither are transnational networks static in terms of their membership or growth. These networks evolve over time leading to the entry of new actors and exit of old actors depending on the changes in factors influencing the formation of these networks. For instance, in a decision-making process for convergence with international accounting standards, there might be legislative disparities that act as hurdles for convergence. Often legislative amendments are made to resolve such issues. The people involved actively at that point in time of the decision-making process might be legislative actors. Once that issue is cleared, these actors might exit the arena and new actors dealing with other hurdles might enter the decision-making arena.

The fifth characteristic of transnational networks is that they could also be time bound and hence may have 'limited liability' when compared to traditional groups or networks such as nation states (Djelic & Quack, 2010). The term limited liability is used here to indicate the time-bound nature of these networks which often exist only as long as the issue of concern, for instance decision to converge with international accounting standards, is in existence. Once the decision is finalised, the transnational network that materialised around this decision, might be dissolved or be disintegrated. Various studies have provided examples of channels of influence or transnational policy networks. Bushman & Piotroski (2006) presented a view of the various channels of influence or networks that exist within the regulatory environment of a country through their study on influence of financial reporting incentives. The study enables one to perceive that these networks are not comprised solely of regulatory actors but also non-regulatory actors as well, such as investors, analysts and corporate executives.

Hussain & Ventresca (2010) discussed transnational networks through a case of global finance associations. The authors define such associations as organisations with global membership which are not linked to a specific national context. The international accounting and auditing standard-setting scenario could be cited as an apt example wherein substantial transformations through global associations have attributed a transnational character to the international accounting and auditing field (Catchpowle et al, 2004; Arnold, 2005; Ramirez, 2010; Suddaby et al, 2007). Professional organisations such as the IASB, IPSASB, national professional bodies such as the ICAI (Institute of Chartered Accountants of India),

JICPA (Japanese Institute of Certified Public Accountants) and AOSSG often form tie-ups across national boundaries and exert influence as a transnational network (Galvin, 2002; Morgan & Kubo, 2010).

Risse-Kappen (1995) while analysing the impact of transnational networks on foreign policies of the state, emphasised the significant role played by domestic structures. Differences in the domestic structure, that is, organisational inter-linkages between the state, the society and the polity, have been stated to create variations in the impact of transnational actors (Meyer, 1990; Rochon, 1988). Domestic structures could determine the accessibility of the national political system to transnational actors and the requirements for effective coalitions between actors to enable the successful exertion of influence on national decisions (Risse-Kappen, 1991; Katzenstein, 1976). This implies that the ability of transnational actors to access the national political system of a country could depend on the position of the state vis-a-vis other non-state actors in the country. For example, it would be difficult for transnational actors to enter the social and political systems of a country where the state is the dominant actor in the domestic structure. However, if these transnational actors manage to negotiate and convince the state in their policy view, they could have a significant impact on the policy decisions of the country (Haskel, 1980). Also if the state is in a weaker position or is more fragmented with a well organised civil society, transnational actors would find it easier to access the socio-political systems (Duvall & Wendt, 1987; Barnett, 1990). However, if the state is in a stronger and dominant position with views different from those of transnational actors, it could be difficult to exert influence which in turn acts as a limiting factor in the scope of transnational governance (Risse-Kappen, 1995; Humphrey & Samsonova -Taddei, 2014).

An example of the significance of domestic structures could be the differences in the decision-making process for IFRS convergence in India and Bangladesh (Ramanna, 2012). The contrasting policy impact of transnational actors in the two countries is reflected through the quick and non-controversial decision made by Bangladesh to go ahead with convergence under pressure from the WB (Mir & Rahman, 2005) while India has been going through controversial delays and debates in the decision-making process despite pressure from transnational actors (Srivats, 2012).

The above discussion highlights the fact that the concepts that together bring about transnational governance in the regulatory field are greatly inter-linked, which makes it almost impossible to categorise them distinctly. To gain a better understanding of the manner in which these transnational policy networks operate to successfully exert influence on the decision-making process it is important to analyse the sources of these influences that is the actors constituting these networks.

3.4   Actors and Sources of Transnational Influences

Actors involved in the decision-making process with regards to convergence can be identified as transnational and national/local actors (Djelic & Sahlin-Andersson, 2006). As argued previously, such actors exert their influences by means of developing relational links (interactions) between each other in the context of a transnational policy network (Nolke, 2003). Resource dependency and exchange of resources (Richardson, 2009) have been said to significantly shape such interactions (Conzelmann, 1995; Ansell et al, 1997; Nolke, 2003). The resources that are exchanged in the course of these interactions are finances, information, legitimacy and offers of participation in the policy making process (Richardson, 2009).

For instance, financial dependence of state actors in the decision-making arena on non-state transnational actors (such as transnational donor agencies) makes the former more susceptible to the influence of the latter (Risse-Kappen, 1995). Nolke (2003) used the characteristics of functional interdependence and transnational politics in terms of resource dependencies to analyse transnational policy-making, which was also applicable to the standard-setting decisions. For instance, it is well known that international organisations such as the WB, IMF and WTO engage in global trading activities and also funding development projects in developing countries (Mir & Rahman, 2005; Ding, Jeanjean & Stolowy, 2007; Arnold, 2005). These organisations often directly or indirectly influence the standard-setting decisions of a country by giving preference to a specific type of financial reporting standards or requirements. For example, a study conducted by Aggestam & Loft (2007) focused on the interactions between the WTO and the accounting regulators in Malaysia. The study emphasised the distinct role played by the WTO in liberalising the trade of accounting services. Here, the authors drew a

distinction between the roles played by WTO in comparison with other international organisations (such as the IASB and IFAC), highlighting the dependent nature of the relationship between the organization and the state.

Despite the diverse nature of actors in the transnational arena, they could be broadly classified into four categories (Djelic & Sahlin-Andersson, 2006):

3.4.1. State Actors

These are actors who are partly or fully associated with nation states and political administration. They could be state or political bodies which actively participate in decisions regarding governance issues (Held et al, 1999; Giddens, 1990). In the context of the increasingly transnational nature of national decision-making processes, state actors from outside the national boundaries could also be involved (Dingwerth, 2007; Risse-Kappen, 1995). For example, the DFID (Department for International Development) provides technical and financial assistance to the Government of India (GOI) for several development projects (DFID, 2014). In this case, DFID, which is a global state actor, due to its status of being a donor is involved in several ways in the decision-making process for project implementation in India. Hence state actors involved in the decision-making process could be both domestic and global.

In the domestic context, although the unquestioned authority held by state actors in regulation issues has diminished to a great extent, they have not entirely lost the power to influence these decisions. Not only do they participate in the decision-making process but validation of regulations by the state is often necessary for successful implementation of these regulations.

3.4.2   International organisations

Organisations of a public nature that operate at the international level and are essentially transnational political constructions form the second category of actors in the transnational arena. These international organisations can be categorised into different types based on their main function such as finance, standard-setting and other regulatory authorities (Boyle & Meyer, 1998; Hurd, 2007). Few examples of such organisations are international financial organisations (IFIs) such as the WB and IMF, international standard-setting organisations such as the IASB and international organisation for capital market regulation such as the

IOSCO. The significant role played by these organisations in the national decision-making process especially in the context of accounting regulation has been widely discussed by several researchers (Djelic & Sahlin-Andersson, 2006; Mir & Rahman, 2005).

3.4.3   Economic and Societal actors

Actors who were previously rule-followers now constantly re-invent themselves to actively participate in governance processes. Examples of these actors are professional bodies, corporations, media, and universities (Arnold, 2005; Arnold & Sitka, 2001; Wallace & Briston, 1993). In this context also there are both domestic and global actors. For instance, we have international professional bodies such as International Federation of Accountants (IFAC) that work with domestic professional bodies. Similarly, organisations such as the OECD, UNCTAD (United Nations Conference for Trade & Development), and WTO increasingly influence the national decision-making process.

In the domestic context also the role played by actors such as business lobbies professional bodies, media and universities has evolved. Over the years, these actors have redefined themselves to attain the capacity to participate in decisions that have an impact on them. For instance, with the advent of globalisation, business corporations across the world redefined themselves through growth and development across national boundaries. This has enabled these corporations to assume a more dominant role in national decision-making processes on governance. A shift in the accounting standards to be followed by companies implies the incurrence of substantial costs and hence these decisions cannot be taken by the state in an isolated manner. Hence, corporate lobbying (Georgiou, 2004) is bound to affect the standard-setting decisions made.

In the context of accounting regulation, some of the actors in this category may include domestic state authorities dealing with company affairs, trade and commerce, transnational state organisations of trading partners of the country, national and transnational accounting bodies, business lobbies, national and transnational capital market regulators and other regulatory authorities (Djelic & Sahlin-Andersson, 2006). The above categorisation of actors covers a wide range

of aspects such as the general denomination to which the actors belong. These aspects do shape the way that people or the organisations they represent act in the decision-making arena. From the above discussion it could be inferred that the position of these actors in the decision-making arena could also be examined as those of rule-makers, rule-takers and rule-intermediaries (Djelic & Sahlin, 2009; Bartley, 2007; Levi-Faur & Starobin, 2014). This angle of exploring actors in the decision-making arena quite aptly suits the accounting standard-setting context where international professional organisations such as the IASB play the role of rule-makers whereas as explained under the economic and societal category of actors, corporations and professional bodies are in the position of rule followers (Mayer & Gereffi, 2010). An interesting role is also played by international organisations that act as regulatory intermediaries such as IFIs in the context of accounting standard-setting. International organisations in the role of regulatory intermediaries engage with both rule makers and rule followers to shape or influence the regulatory standard-setting context (Abott & Snidal, 2010; Levi-Faur & Starobin, 2014). The interactions that constitute such engagement could hence be viewed as three-way interactions between rule-makers, rule-takers and rule intermediaries. These three-way interactions create and shape the transnational regulatory space (Levi-Faur & Starobin, 2014). These three-way interactions between rule makers, rule takers and rule intermediaries are quite relevant to this study, where the decision-making arena for convergence is dominated by various actors belonging to each of these rule categories. This study traces such interactions at multiple levels not just once but several times over the course of decision-making. The networks formed through these interactions could be dominated by different actors such as state or non-state actors or IFIs. Together these different networks formed through collaborations between different actors in the arena constitute the transnational decision-making arena (Abott & Snidal, 2010).

There are different means through which all these networks operate to influence the decision-making process. To gain a better understanding of the decision-making process, it is important to understand these means or channels that are used by actors to exert influence.

3.5. Transnational Communications as Channels of Influence

The term 'transnational communications' has been defined as "*a representation of the communicative links deriving from information exchanges and inter-linkages between countries and the actors within them, including those facilitated by multinational organisations and agencies*" (Samsonova, 2009 pp. 533). Hence, transnational communications could be seen as channels for exerting influence by means of facilitating the flow of information between actors across borders. In the context of convergence with international accounting standards, communications are used by actors at different levels, as a means to influence the decision-making process (Samsonova, 2009; Djelic & Sahlin-Andersson, 2006). Hence, actors who are part of networks interact for the purpose of negotiating the terms of a decision, such as the decision to implement international accounting standards. The interactions between actors within networks as well as the impact they have on the regulatory environment is quite interesting because the decision-making process clearly operates through network structures.

There are several studies in the field of political science that have examined the different dimensions of relations between actors involved in and responsible for policy transfer & convergence (Dolowitz & Marsh, 1996; Dolowitz & Marsh, 2000; Holzinger & Knill, 2005), there are very few studies examining this issue in the field of accounting and auditing practices. One exception is Samsonova (2009). In her study on the evolution of a legislative framework of auditing in Russia, she used the concept of transnational communications to examine the manner in which international policies or standards take root in the local context. Her study focused on the influence of transnational communications between various actors on the evolution of audit rules and regulations in Russia. The actors, in this case, included nation states and governments, professional accounting and audit organisations and associations. According to the author, the modern society functions through a matrix of transnational communications which enables the dissemination of 'knowledge, practices and meanings' across nation states. This matrix of transnational communications represents the increasing level of interactions and resource exchanges that take place between different types of actors irrespective of national boundaries (Samsonova, 2009). Transnational

communications therefore represent the channels of communications between nations and actors within them.

There are different means through which these actors communicate. There may be formal communications through different types of official discussion fora or informal communications through unofficial meetings and gatherings. For example, Slaughter (2004) while describing transnational networks as a significant characteristic of 21st century governance stated that this new order of governance is not simply constituted of formal communications and relationships between sovereign states; it is equally driven by semi-formal and informal linkages between public, private and non-profit organisations that interact with each other through common medium of expertise and interest rather than formal channels of communications (Dawes et al, 2011). Hence transnational communications acting as channels of influence are constituted of formal and informal interactions, relatively new types of knowledge-sharing and information systems such as semi-formal linkages between state and non-state actors that combine both technical and social dimensions (Slaughter, 2004).

Resolving common issues might be achieved through direct or indirect means of communications. Two frequently used modes of communication, that could be direct or indirect, are lesson-drawing and emulation (Holzinger & Knill, 2005). Lesson drawing refers to attempts by domestic actors to learn from the experience of foreign colleagues while emulation refers to imitation or emulation of successful governance modes applied in other countries (Meyer & Rowan, 1991). Actors often refer to solutions created for similar issues in the broader transnational context that could be applied to their own national/domestic context (Held et al, 1999). These solutions are then adapted to suit the local context. Such lesson drawing and emulation activities could be carried out directly through organised seminars or conferences conducted for the specific purpose of approaching a common issue faced across national boundaries. They could also be carried out through indirect means by referring to reports and case studies conducted by transnational actors. Direct modes of communication used are transnational problem solving and transnational policy promotions (Holzinger & Knill, 2005). Under transnational problem solving, actors work together to jointly solve common issues faced. Transnational policy promotion refers to the exertion

or acceptance of influences through political means by association with activities and ideologies of transnational organisations (Samsonova, 2009). Hence it could be observed that communications in the transnational arena occur at multiple levels through direct and indirect means (Kobrin, 2008; 2009).

Some examples of such communications would be interactions between national governments, interactions between domestic non-state actors of a country and transnational organisations through the government, interactions between governments of countries and influential international organisations that play an important role in shaping the accounting and auditing regulatory regimes across the globe.

In the context of the decision-making process to converge with international accounting standards, it has been observed that interactions between actors occur through different platforms where actors debate and discuss the terms of implementing these standards (Djelic & Sahlin-Andersson, 2006). Although all actors attempt to influence the decision, all are not equally successful. Some transnational communications are able to influence the decision with varying degrees of success, while others are unable to influence the decision. Therefore, some actors are left discontented during the decision-making process. This matters because these discontented actors may retaliate during the possible implementation stage to counter a decision that they never agreed to in the first place. To further understand the reasons for different levels of success of transnational communications in influencing the decision, it is necessary to understand the power plays and the cyclical nature of the decision-making process.

3.6   The Recursive Nature of the Decision-Making behind Standards Convergence

The decision-making process regarding whether or not to converge with international accounting standards may be characterised as a negotiation between certain actors in relation to the terms of possible implementation (Halliday & Carruthers, 2009). Since the success or failure of the various actors in influencing the decision may have a significant impact on the dynamics and actual success of possible implementation, it is important to understand why some actors are more successful than others at influencing the decision. Power disparities between actors have been identified as an important reason that allows some actors to exert

greater influence over the decision-making process. Actors with greater power in the socio-political and economic sphere of the decision-making arena are relatively more influential in the process. (Krasner, 1995). Another important aspect is that in spite of differences in power, actors do not give in easily; they react to influences and try to negotiate terms with other actors.

3.6.1 The Notion of Power in the Decision-Making Process

It is interesting to contemplate on the reasons that lead certain communications to facilitate a desired change in policy in certain cases, but not in others. The different levels of social significance attached to different actors involved in the decision-making process could be cited as one of the reasons why all the actors do not enjoy the same level of power (Covaleski et al, 2003; Caramanis, 1996). In the standard-setting context of several countries, actors wielding greater power, such as corporate lobbies, not only voice their opinions but are also successful in getting their views translated into action (Georgiou, 2004). Since accounting regulation in the national context has often been observed to undergo a group decision-making process and has also been stated to have political and social characteristics (Ding et al, 2007; Fearnley & Hines, 2003), it becomes necessary to study the power perspective to gain a clear understanding of the decision-making process of national standard-setting and the rationale that drives the same. Thus it could be stated that the concept of transnational governance involves significant power plays within the national decision-making context, which strongly influences the actual implementation process.

Dahl (1957) defined power as a phenomenon wherein certain possessions of one actor enables them to get another actor to do something which they would not have otherwise done. Rahman (1997) stated that this exercise of power highlights a possible situation of conflict which is likely to result in action being taken. Therefore, it should be observable. Clegg (1989) stated that studies concentrating on the action part of the concept of power focus on group decision-making processes in which there is a struggle between the participants to prevail over conflicts and incorporate his or her objectives into the final decision.

Since such group decision-making processes take place through transnational policy networks (Nolke, 2003; Risse-Kappen, 2005), power disparities also manifest themselves through these networks. Two features of transnational policy

networks that act as sources of power disparities in the decision-making arena are resource dependencies in relation to transnational agencies, and state/domestic structures (Djelic & Quack, 2010; Nolke, 2003). The exchange of resources in transnational policy networks takes place through national and international institutions. These resources could be financial resources, information resources or technical aid for implementation of projects (Scholte, 2000; Keohane & Nye, 1989). Specifically, these features revolve around the donor-recipient relationship that exists between actors in the decision-making arena. Resource dependencies between national and international institutions affect the on-going negotiations for terms of finalising the decision. This is because recipient actors are dependent on donor actors for resources and this places the latter in a relatively powerful position (Webb, 1991; Cooper, 1968). Such a relationship acquires significance due to its power dimension and has a significant impact on the decision-making process (Garret & Lange, 1995; Haggard & Maxfield, 1996). And it is these institutions that determine the political influence on the process. Hence resource interdependencies and distribution of political capacities among the actors also create power disparities that significantly affect the decision-making process. Elements of the resource dependency theory help to partly rationalise the flow of influences between actors of transnational policy networks and the power dynamics that define the impact of these influences on the decision-making process.

Resource dependency theory originally proposed by Pfeffer & Salanick in 1978 is based on the fundamental theme that an organisation's ability to survive is determined by it capability to acquire essential resources from its external environment. To achieve this end, the organisation uses certain techniques to minimise the uncertainty in the flow of its essential resources. Some of the key tactics identified in the theory are, a) minimising interest in valued resources received from the other organisation, b) procuring alternative sources of resources, or c) developing coalitions (Casciaro & Piskorski, 2005).

Although the resource dependency theory and its modified version developed by Casciaro & Piskorski (2005) are defined in the organisational context, elements of the theory could be adapted to suit the context of this study. For instance, in the context of convergence with international accounting standards, the role played by

the global community in shaping national decisions through interactions with various national actors could be viewed as similar to the role of external environment to an organisation. Often national actors have multi-dimensional relationships with global actors at political, economic and professional levels. For example, national decisions of accounting convergence may be made in conjunction with global actors who are also political allies or significant trading partners. In such cases there is a pre-existing resource exchange or resource dependency relationship between the national and global actors. The resources in this context could be political support in the international arena or economic support through large investments and development projects. The point is that these pre-existing resource dependencies between the actors could have a significant impact on the national accounting convergence decision. Several national level decisions such as convergence with international accounting standards and public financial management are discussed at global forums such as G-20, OECD and UNCTAD. These platforms are often used by global actors to exert influence on national policy decisions. In such cases nation states may employ some of the strategies identified in the theory such as procuring alternative sources of supply, or forming coalitions with other nations to resist the influences of global actors.

Decision-making shaped through power disparities arising out of resource dependencies between actors has been widely discussed in theoretical literature (Burt, 1983; Pfeffer & Salanick, 1978; Friedkin, 1986). Casciaro & Piskorski (2005) explored resource dependencies by incorporating the theoretical constructs of power imbalance and mutual dependence to the existing resource dependency theory in the context of inter-organisational dependence and relations. These theoretical constructs can also be applied to examine transnational networks and communications. In the case of donor-recipient relationships between nation states and IFIs, it has been observed that the latter often significantly influence national accounting decisions as illustrated in the case of IFRS convergence in Bangladesh in Chapter Two of this thesis (Mir & Rahman, 2005). This is also an example of cases where resource exchanges or dependency between actors are characterised by power imbalances where the IFIs are in relatively more powerful position in comparison to the recipient country.

According to Casciaro & Piskorski (2005), power imbalance between two actors is determined by the extent of mutual dependence of actors. This implies that the power equation between the two actors would alter if there is a change in the mutual dependence of the actors over the course of time. It has often been observed that long-term alliances or relationships between national and global actors do change with changing socio-economic and political contexts. For example, the donor-recipient relationship between India and the WB over the last two decades has witnessed a significant change through reduction in the extent to which India is dependent on the WB for financial aid. This change in the extent of resource dependence could determine the extent of influence that the WB could exert on national decisions. While the powerful IFI was able to exert direct and dominating influence on the national accounting decision of relatively more financially dependent country such as Bangladesh (Mir & Rahman, 2005), it may not be possible for WB to exert similar influence in India due to the changing socio-economic developments which have altered the power equation between the two actors.

It is important to examine these features while studying the decision-making process for convergence as they help to explain the source of influences on the decision and also explain the reasons for power imbalance between actors in the transnational arena (Risse- Kappen, 1995; Nolke, 2003).

3.6.2 Power Dynamics leading to Recursivity in the Decision-Making Process

Transnational and national actors possess different degrees of power at different stages of the convergence process. Halliday & Carruthers (2009) explained the significance of this difference in power dynamics on standard-setting decisions. Most studies examining the decision to adopt global norms visualise influences on the decision as top-down so that influences flow *from* the supposedly powerful transnational actors *to* the 'weaker' national actors. This view has been contradicted by Halliday & Carruthers (2009). According to these authors, at the initial stage of the decision-making process when a country considers whether it needs international standards, transnational actors have greater power. At this stage, national actors are at their weakest and give into global pressures wherein a large number of countries are seen to adopt international standards and the

country comes under pressure to conform to global norms. Once the process of taking a decision kicks off and the decision-making tends to come down to the local level, more and more national actors begin to get involved. At this stage, national actors start voicing their concerns regarding the potential consequences of actual implementation of international standards and here the complexities of arriving at a decision acceptable to all becomes visible. The negotiations that take place at the local level then get conveyed to the transnational actors who then respond to these concerns or issues.

So Halliday & Carruthers (2009) allowed the conceptualisation of a two-way interaction process where national actors flex their muscles to not only resist such influence but also exert strong reactionary influences on the decision-making process. Djelic (2014) described this as a process where transnational laws and regulations are also influenced by national laws and regulation. The author used the term 'glocalisation' to indicate this two-way flow of influences as,

"Globalisation always gets localised, but the local also becomes inscribed in and framed through global dynamics - 'glocalisation' is the right term to describe this circular interplay" (Djelic, 2014, pp. 91)

This implies that the issues raised by the local actors could also lead transnational actors to alter or reconsider their strategies while promoting international standards. This negotiation between transnational and national actors could occur several times before the decision is finalised and this is the reason for power disparities in the decision-making arena. So this conceptualisation of the decision-making process puts regulation in a time frame and represents it as a continuous process throughout this time frame. The term used by the authors to define the cyclical process of interaction between the national and transnational actors is 'recursivity'. One of the few studies exploring local responses to global standards in the field of regulation was conducted by Samsonova-Taddei (2013) in Russia. The study examined local responses to international auditing standards and emphasised that social structures and relationships in which the adopters of these standards are embedded is significant in determining local responses to global standards. The study highlighted the complex nature of issues constituting convergence with international standards.

Halliday & Carruthers (2009) explained the different stages of recursive law making through two dimensions which are enactment and implementation. The intermediaries between the global and the local actors dominate the first dimension and in the second, the local intermediaries determine whether the imported laws remain symbolic or are genuinely implemented. The same can be said of convergence with international accounting standards which could be viewed through the two-dimensional microscope of enactment and implementation. Discourses around enactment of international accounting standards will be determined by intermediation between global and local actors whereas discussions around possible implementation will be dominated by local actors. Enactment is clearly a prelude to implementation. The process of arriving at the enactment can turn out to be quite interesting when there are power struggles between the actors involved in deciding the terms of implementation. Several studies on the implementation of international accounting standards have brought out the gaps in formal and actual implementation occurring due to the actions of the local actors (Peng & Bewley, 2010; Mir & Rahman, 2005). Hence the authors draw attention to the significant role played by local/national actors in determining the success or failure of implementing international standards. An adapted version of a diagram representing recursive decision-making process (Halliday & Carruthers, 2009) is presented in Figure 2.
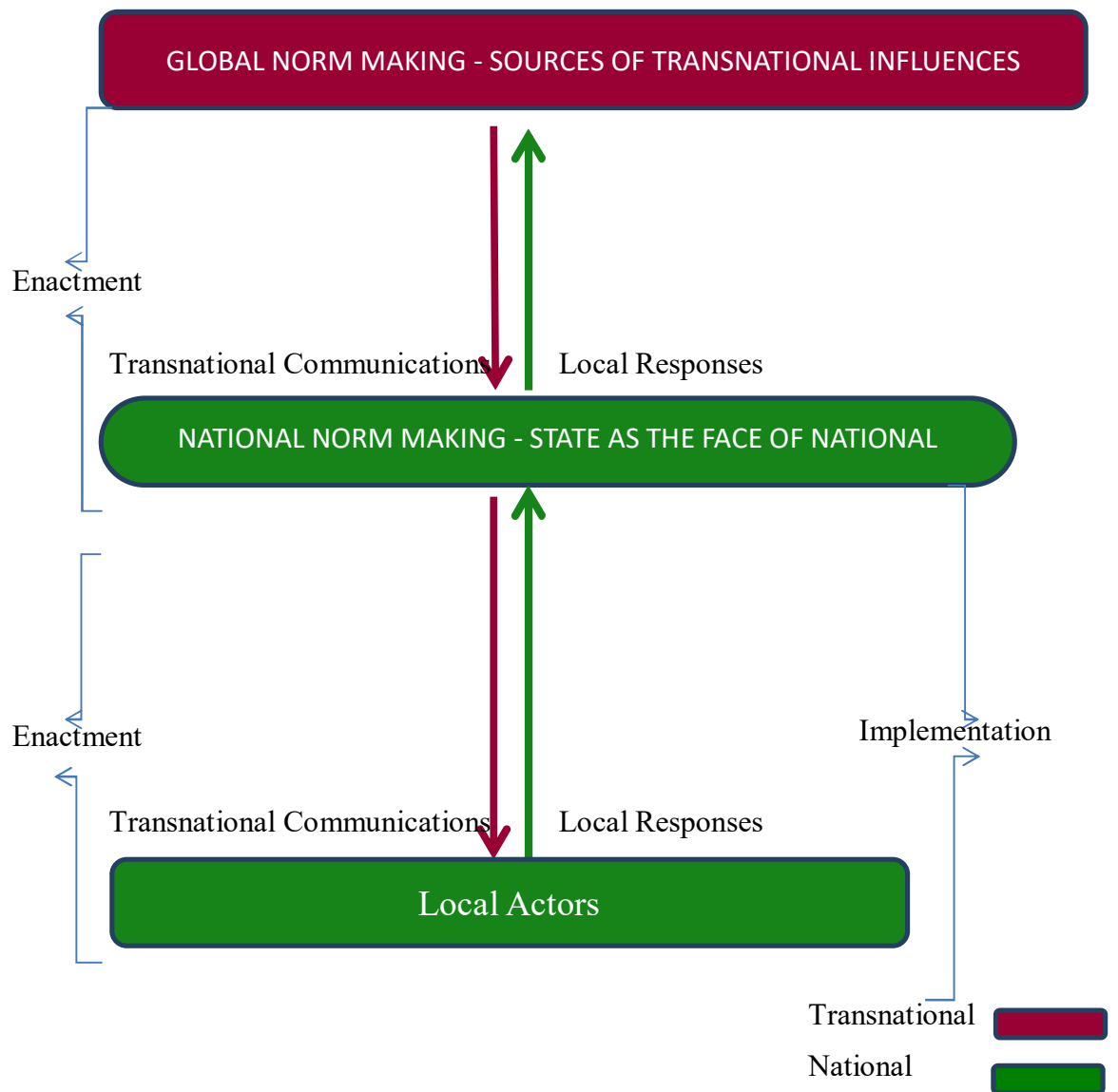
Figure 2 Recursivity of Decision-Making Processes

Halliday & Carruthers (2009) further challenged the views of scholars who predict inevitable decline in the power of nation states in the face of the rising level of global integration. They highlighted the need to acknowledge and examine the power that nation states, apparently in a weaker position, possess, which makes it possible for them to resist and adapt to global norms. The terms of implementation of global norms are heavily dependent on the balance of power between the global and local actors involved in the process.

3.6.3   The Concept of Foiling - Weapons of the Weak

Halliday & Carruthers (2009) used the term 'foiling' to describe the 'weapons' or tactics used by supposedly weaker nations to foil or thwart attempts made by

powerful transnational actors to influence the decision-making process around international convergence. The concept of foiling focuses on the power, and autonomy of the domestic or local actors (Halliday & Carruthers, 2009). Local actors, according to the authors, wield the weapons of the weak and are able to resist powerful global institutions and IFIs. The authors through their study arrive at the finding that weak national states can *foil* global dominance by using weapons of the weak through which they evade external pressure and also influence or manipulate international standards in the domestic context as much as the circumstances permit them. While discussing local actors, it is important to note that in most cases the local actors are represented by the state which acts as an intermediary between transnational and national actors. The concerns or issues of local actors are conveyed to the transnational actors though the state and so the state is the face of the national arena. Hence it is the state that quite often employs the rhetoric of the 'weapons of the weak' to soften outright resistance. Even if these local actors are not able to hinder the stage /dimension of enactment, they can definitely influence the second stage of implementation (Halliday & Carruthers, 2009).

However, not all local actors resist reforms induced by global institutions. According to a study by Dezalay & Garth (2002) on Latin America, local interest groups such as reformist groups, politically side-lined groups and minority sections encouraged and hailed international interventions which enabled them to strengthen their position in intrastate conflicts or struggles. On the other hand, local interest groups that would be negatively affected by international intervention would be expected to resist.

The positions of most developing countries relative to the global institutions that drive the integration of global norms in the local context are undoubtedly weak. Since Halliday & Carruthers (2009) discussed the imposition of global bankruptcy laws specifically during the Asian Financial Crisis, the position of the host countries would seem to be particularly weak. Their dependency on IFIs for economic revival places them in a predominantly vulnerable position. The authors examine the causes that enable successful resistance and creation of hindrances in the enactment and implementation of laws proposed by IFIs despite the wide

disparity in the level of power between the global and local actors combined with the internal needs of the countries.

Halliday & Carruthers (2009) identified weapons that weak nation states could wield to resist the transplantation of global norms. These include avoiding or rejecting conditional foreign capital and aid, selective acceptance of recommendations, delaying or deferring compliance thereby avoiding direct conflict, segmenting and dispersing international influence, invoking cultural incompatibilities, symbolic compliance, deferring compliance and constructing exclusions and escape routes. These weapons may or may not be complemented by the weaknesses of the global institutions such as time pressures, diagnostic limitations exclusion of significant local constituencies and asymmetry of expertise. Although the concept of foiling exists through the combination of two aspects: the weapons of the weak and the weaknesses of the strong, this thesis focuses on the weapons of the weak to explain the complexities of the decision-making process in India. Some of the most significant weapons used by nation states are discussed below:

a)   **Avoiding or rejecting conditional foreign capital and aid**

Halliday and Carruthers (2009) cited three circumstances which enable nation states to reject intervention from IFIs: (i) when there is no crisis and hence no desperate demand for short-term capital, (ii) when there is a crisis, but capital can be found elsewhere or a country is prepared to ride out the crisis while sustaining domestic economic damage, (iii) when there is a powerful, entrenched national leadership that can speak to outside institutions cohesively and remain in control domestically. These characteristics are exhibited by countries which are politically stable and rapidly progressing emerging economies such as India. This weapon or strategy is hence a very suitable criterion to examine the decision-making context in India.

b)   **Accept recommendations selectively**

Under this category Halliday & Carruthers (2009) cited three circumstances which enable nation states to selectively accept the recommendations of IFIs: (i) low level of external leverage enables the country to hold its fort in terms of pressure from IFIs, (ii) when countries display general compliance with the proposals made by IFIs and display an inclination to go ahead with the major proposals of the institutions, and (iii) when the country can justify the rejection of the proposals by proving that accepting the proposals will lead to major problems in the local context as opposed to improving the situation.

c)   **Defer compliance**

In this situation, the host country accepts the proposals made by IFIs, but keeps stalling and delaying actual compliance and thereby avoids direct confrontation. The authors state that this tactic is mostly used by governments of developing countries wherein committees and boards are created to deal with issues regarding actual compliance meanwhile stalling the process by dragging it through slow governmental procedures. According to Halliday & Carruthers (2009), the effectiveness of this tactic or weapon increases under two circumstances: (i) when the IFIs are hesitant or unable to act against the non-compliance (ii) when weak nation states have low administrative and professional capacity to implement suggested proposals.

d)   **Substitute a solution**

Nation states might create their own carve outs of the solutions proposed to solve the problems identified by transnational institutions. This becomes possible when the host country has professional experts who are capable of communicating and negotiating with experts of the transnational institutions. The presence of efficient experts in the country would place it in a relatively better position in terms of its power equation with the transnational institution. The authors further state that

such a substitutive solution would be acceptable to IFIs if the country broadly follows the terms of the original agreement if not all the specific terms.

In addition to these, the authors also cited instances wherein the existence of a strong national political power and the absence of any dire internal need enable weak nation states to reject external pressure. Findings of studies (El-Gazzar, Finn, & Jacob, 1999; Street & Gray, 2001; Dao, 2005; Brown & Tarca, 2008) that focus on compliance/non-compliance issues and causes in the context of convergence with international accounting standards suggest that weaker nation states probably use a combination of these weapons. The study of these tactics is important as they could significantly alter the initial strategies used by transnational actors to locally promote international accounting standards in countries.

3.7   Conclusion

Transnational governance as a theoretical perspective portrays the standard-setting decision-making arena as a transnational arena constituted of complex and interconnected transnational policy networks that significantly influence the decisions of a country (Djelic & Sahlin-Andersson, 2006). These transnational policy networks are constituted of both state and non-state actors at both the global and local levels (Nolke, 2003). The concept of transnational communications (Samsonova, 2009) helps explain how these transnational policy networks operate to exert influence on the decision-making process (Nolke, 2003). The concepts of recursivity and weapons of the weak (Halliday & Carruthers, 2009) further enable the visualisation of the decision-making process as a cyclical process wherein the domestic and supposedly weak national actors are able to resist the influences exerted by powerful transnational actors. Halliday & Carruthers (2009) move away from the usual analysis of the dominating influences of all pervasive IFIs. The authors breathed life into the so far weak and unresponsive portrait of the national context mostly typified as being constituted of meekly submissive recipients of transnational influences. Halliday & Carruthers (2009) drew attention to the strong retaliation by domestic actors in response to transnational influences that is capable of pressurising the otherwise powerful transnational actors to alter the strategies they follow to integrate international standards across the globe. Hence the concepts of recursivity and

weapons of the weak help in narrating the 'other side' of the story as well and thereby enable the presentation of a fuller picture of the decision-making process. In the Indian context, it has been observed that a combination of the tactics mentioned above could be utilised to explain the complex proceedings of the decision-making process regarding convergence with international accounting standards.

CHAPTER FOUR - RESEARCH METHODOLOGY

4.1. Introduction

The purpose of this chapter is to explain the philosophical perspective and research methodology that has been used in this study that examines convergence as a decision-making process in India. According to Saunders et al (2007), research is a process that involves the evaluation and analysis of important characteristics in an efficient and organised manner. Explaining and describing the methodology used to arrive at logical answers to the research questions is a significant stage of doing research. The rest of this chapter will discuss issues such as ontology and epistemology, research objectives and questions, research approach, methods, data collection and analysis.

4.2 Ontology & Epistemology - Philosophical Perspectives

Philosophical perspective has been often defined using the term 'paradigm' (Kuhn, 1970; Burrell & Morgan, 1979). According to Thomas (2009), a paradigm is a framework representing the ways in which a researcher thinks about and researches the social world. Philosophical perspectives can be broadly classified into three categories on the basis of research epistemologies: positivist, interpretive and critical (Chua, 1986). Technically the term paradigm refers to specific approaches to knowledge: positivism or the manner in which knowledge is sought and interpretivism that is how knowledge is put to use (Thomas, 2009). The third perspective that is critical theory is an alternative approach to positivism and interpretivism (Trauth, 2001) which seeks to construct reality based on influence of social, economic and political factors (Guba & Lincoln, 1994). A brief overview of all three paradigms is presented in the following sub-sections.

4.2.1. Positivist Perspective

Positivist research examines the social world by obtaining and analysing facts through the use of quantitative methods such as surveys and statistical models (Saunders et al, 2007; Eriksson & Kovalainen, 2008). Among the three philosophical perspectives, this is considered to be the first or oldest perspective

(Chua, 1986). According to Burrell & Morgan (1979), positivist research examines and analyses the social world by attempting to establish consistencies and associations between the elements that constitute this world. A positivist approach propounds the existence of an objective reality that is independent of human objectives, behaviour and purposes (Evely et al, 2008; Dyson & Brown, 2006). Hence according to positivists the precision, measurability and objectivity of natural science studies can also be applied to social science studies. As Thomas (2009: 74) put it,

"For positivists, knowledge about social world can be obtained objectively: what we see and hear is straight-forwardly perceived and recordable without too many problems. The things of the social and psychological world can be observed, measured and studied scientifically, in much the same way that physicists study levers, atoms and pulleys".

The author stated that positivism proposes a 'disinterested' approach wherein the findings are not influenced in any manner by the researcher. A positivist would hence aim to provide predictions and explanations by using scientific tools, large amounts of data, large samples carefully selected and analysed through statistical models for the purpose of making statistical generalisations (Oakley, 2000; Ryan et al, 2002; Oates, 2006).

However, positivism has been stated to be unsuitable for research studies wherein the object of research is influenced by sociological factors as this approach does not help in understanding and explaining the social aspects of the world (Hirschheim, 1992; Kaplan & Duchon, 1988).

4.2.2   Interpretive Perspective

An alternative approach to positivism is the interpretive approach where in the researcher focuses on actors or people and the manner in which these actors interconnect, think, create notions about the world and the manner in which they construct their worlds (Thomas, 2009). Interpretive or constructive perspective has also been termed as anti-positivist by some researchers (Hatch & Cunliffe, 2006). Research under this perspective utilises various experiences that are based on the interpretations of individuals and groups that constitute the social world in which the research is conducted (Denzin & Lincoln, 2003). Hence interpretivism

as opposed to positivism does not believe in the independency of research from the social context in which it is embedded. Kakkuri-Knuuttila, Lukka & Kuorikoski (2008) while discussing interpretive research defined the main aim of the paradigm as follows,

"Interpretive research…the inherent aim of which is to make sense of human action and the meanings attached to issues in their everyday life contexts".

Under the interpretive approach, a researcher would attempt to understand the views or perceptions, thoughts, actions and ideas of participants by observing and interacting with them (Oakley, 2000; Cooper, 1983). Hence an interpretivist assumes a subjective view of the world wherein there exists a stable society and even if there are uncertainties in the society these are considered to be controllable (Chua, 1986). Hence if the convergence decision-making process were to be investigated through an interpretivist approach, the researcher would draw information or arrive at conclusions based on his own subjective interpretations and an understanding of the perceptions or views of actors involved in the decision-making process (Chua, 1986; Burrell & Morgan, 1979).

4.2.3   Critical Perspective

Kincheloe & McLaren (2002) defined critical perspective as a social theory that deals with matters of power and justice and demonstrates the manner in which issues relating to religion, race, ideologies, class and other societal factors interact with one another to create a social system. Hence critical perspective propounds the creation or construction of reality through the influence of several factors such as, social, economic and political aspects over a period of time (Guba & Lincoln, 1994). Under this perspective, power associations, inconsistencies and paradoxes are identified as the causes for isolation and dominance and this approach seeks to remove these causes (Kincheloe & McLaren, 2002). Since critical perspective takes into account the socio-economic, political and cultural factors in which the research is set, it can be stated that there are some similarities between interpretive and critical research (Klein & Meyers, 1999). Kincheloe & McLaren (2002:96) while discussing critical theory also emphasised the significance of interpretation as cited below,

"While there are many moments within the process of researching where the critical dynamic of critical theory-informed research, there is none more important than the moment(s) of interpretation".

According to Pozzebon (2004), the similarities between interpretive approach and critical approach have led to some researchers using the term 'critical interpretive research'. This research draws on both interpretive and critical perspectives. The decision-making process is examined through identification of actors involved and interpretation of the communications and networks constituted by actors to influence the development of the convergence decision. The interpretations have been constructed through analysis of evidence in the social, political and economic context of the country which indicates the use of critical perspective. The narration of the decision-making process, hence, is built through interpretation and critical analysis of evidence from the decision-making arena.

4.3   Objectives of the Study and Research Questions

4.3.1   Research Objectives

The main objective of this thesis is to study the decision-making process behind the convergence towards international accounting standards in India. The country's convergence decision has been characterised by repeated delays in IFRS convergence in the private sector in contrast to the smoothly proceeding IPSAS convergence in the public sector. This contrast becomes more interesting in light of the fact that both decisions are officially headed by the same actor that is the state. This emphasises the need to examine the actual role of the state in the convergence decision. Hence the objectives of this research are to investigate the apparent contrast between the delays in IFRS convergence in the private sector as against the relatively smooth story of IPSAS convergence in the public sector. As outlined in the following sub-section, such an investigation will cover four key areas of interest and related research questions.

4.3.2 Research Questions

This thesis focuses on four themes drawn from the review of literature and the theoretical framework. Accordingly, the research questions are formulated in a way which relates to the themes in question, namely:

4.3.2.1 The Decision-Making Process behind Convergence with International Standards

4.3.2.2 The Transnational and National Actors Involved in the Decision-Making Process

4.3.2.3 The Two-way Interactive Dynamics between Key Actors

4.3.2.4 The Role of the State as the Central Decision-Maker

4.3.2.1 The Decision-Making Process behind Convergence with International Standards

Convergence with international accounting standards is a widely researched topic (Ding et al, 2005). However most studies have focused on investigating the actual implementation process of international accounting standards, and on the impact of such implementation (Mir & Rahman, 2005; Carlson, 1997; Watty & Carlson, 1998). The decision-making part of convergence is often overlooked as a one-off event. This thesis focuses on investigating the manner in which India arrived at the decision to converge with international accounting standards. The first research question (RQ) is hence:

RQ: 1 How and why did India decide to converge with international accounting standards?

This research question, hence, aims to investigate the proceedings before the actual implementation of international accounting standards. The manner in which the final decision is arrived at could potentially influence the possible implementation process which again highlights the need to understand the decision-making process (Mir & Rahman, 2005).

4.3.2.2 The Transnational and National Actors Involved in the Decision-Making Process

The theoretical perspective of transnational governance has provided the premise that governance decisions produced by local actors are developed and enacted in cooperation with or even under pressure from actors in the transnational regulatory space (Djelic & Sahlin-Andersson, 2006). Such dynamics have a profound impact on the governance outputs and the nature of decisions made. This thesis applies this theoretical premise to the context of the convergence project in India to arrive at the second research question:

RQ: 2 What is the network of national and transnational actors involved in the decision-making with regards to convergence in the private and public sectors and how do the actors in the network attempt to influence the decision?

The purpose of this question is to trace state and non-state actors of both global and local origin. This will then help in constructing the stage or the decision-making arena where these actors interact to influence the decision. The second part of this question regarding the mode of influence is drawn from the concept of transnational communications as is the next theme discussed below.

4.3.2.3 The Two-way Interactive Dynamics between Key Actors

Studies analysing the convergence process have often focused on the influence of transnational actors and represent the process as a one-way interaction where local actors submit to pressures from powerful transnational players (Mir & Rahman, 2005). However national policy making processes are far more complex than top-down flow of influence from the global arena. Halliday & Carruthers (2009) explained the significance of local responses to and even resistance towards

transnational influences and the recurring nature of such two-way interactions. This idea has provided a theoretical construct which can be used to evaluate the story of convergence at hand and mainly, to see the convergence decision-making process in India as a two-way relational dynamic where transnational actors push for a greater local acceptance of international standards while the complex realities of the local adopters force them to resist such pressure, hence modifying and limiting the scope of transnational influence. This leads to the third research question:

RQ: 3 What are the arguments put forward by proponents and opponents of convergence and how do they contribute towards our understanding of the contrasting dynamics of convergence observed in the private and public sectors?

4.3.2.4 The Role of the State as the Central Decision-Maker

For the purpose of analysing the impact of the two-way interactions between transnational and national actors, the role of the state which is a significant common factor in the private and public sectors, presented itself as an interesting point of comparison. The state is a significant common actor in both the private and public sector. Analysing the behaviour of the state vis-a vis the decision-making process in the private and public sectors provides a glimpse into the complexities that constitute the convergence project in India. A preliminary analysis suggested a marked difference in the behaviour of the state in the two sectors which led to the following research question:

RQ: 4 What is the role of the state in the decision-making process in the two sectors and how does it affect the contrasting dynamics of convergence there?

4.4   Research Approach

According to Biggam (2008), research approach is defined as the strategy utilised by the researcher to conduct the analysis. Research approaches can be of different types such as case studies, surveys, ethnography, experimental research, historical research, action research and grounded theory. The chosen approach needs to be inherently consistent and appropriate to find answers to the research questions. Due to the nature of this research, the overall approach that has been adopted in this

study to evaluate and seek explanations for the major research objectives is a combination of case study, desk-based and field research.

Case study is an approach that is widely used to gain an in-depth understanding of particular processes of a definite population in their context (Hartley, 2004). According to Thomas (2009) a case study can utilise a wide range of methods such as direct observations, interviews, documentary analysis etc. This method helps to analyse complex behaviours and the impact of context on processes (Cooper & Morgan, 2008). It also enables the researcher to establish trust equations with individuals in an organisation as the method involves long periods of repeated interactions with members of the organisation. This also helps in obtaining relevant informal information (Hartley, 2004). Although this method could help in understanding processes, it restricts itself to a specific sample (Hammersley, 1992). Since this thesis does focus on understanding the convergence process of one country through interviews and documentary analysis, it could be stated that this is a case based study.

One of the desk-based research approaches utilised in this study is historical research. Biggam (2008) stated that historical research approach is a mode of research that analyses events that took place either in the distant or the recent past. These analyses are then utilised to provide logical solutions to the research questions of the study. This study analyses convergence with international accounting standards in India as a decision-making process. For this purpose, it conducts a comparison of the events or proceedings that constitute the decision-making process in the public and private sectors. This thesis aims at un--derstanding how the decision-making process is influenced and shaped by interactions between actors representing the national and transnational regulatory realms and how these influences are exerted on the convergence decision.

This study is positioned within the qualitative research paradigm. According to Mason (2002), qualitative research deals with the manner in which the social world is "interpreted, understood, experienced, produced or constituted" and hence qualitative research is based on an 'interpretivist' philosophical position. Qualitative research has also been described as a process where researchers

attempt to interpret phenomena as shaped by the actors or people involved in them (Denzin & Lincoln, 2011). This thesis uses a qualitative approach to collect the views and experiences of various participants or actors. According to Biggam (2008), qualitative research refers to exhaustive investigative analysis which provides qualitative responses. Research approach utilised to conduct analyses could be qualitative, quantitative or a combination of both qualitative and quantitative strategies. Qualitative research conducts an analysis of occurrences in terms of interpreting these occurrences according to their significance to people. Quantitative research on the other hand is basically measurement oriented analysis of relevant aspects of the research (Neuman, 1997). The decision-making process is constituted by several actors and interactions between these actors which cannot be effectively captured by a quantitative approach based on proxies and statistical models. Most quantitative methods are limited by hypothetical relationships and predetermined concepts which would not suit the exploratory nature of this research (Thomas, 2009). The investigative requirements of this research are hence well suited to the qualitative research approach as it can investigate the interactions between actors and the influences of these interactions on the decision-making process.

4.5   Research Methods

This thesis makes use of the interview method which is considered to be the most common method adopted under qualitative research (King, 2004). Interviews allow the collection of rich information about the related complex interactions and processes through open-ended questions (Saunders et al, 2012), especially when there is a need to understand the influences of interactions on the decision-making process (Easterby-Smith et al, 2002). The interview method is also widely used by researchers in extant studies that focus on analysing decision-making processes (e.g., Gendron and Bédard, 2006; Roberts et al, 2005; McNulty et al, 2003; Spira, 1999).

Research studies make use of different types of interviews such as structured, unstructured and semi-structured interviews. A structured interview is a highly organised interview method that uses 'recording schedule' as a means of

investigation (Gillham, 2005). This type of interview uses the same standardised questions for every respondent, in the same pre-set order, and the interviewer notes down the answers into some predetermined categories, such as 'agree', 'disagree', or 'undecided' (Wilson, 1996). Practically, a structured interview is a verbally administered questionnaire wherein there is a risk of producing superficial data which is a frequently cited disadvantage of questionnaires Gillham, 2005). This method is useful for studies that mostly investigate a large number of samples with the intention to subsequently analyse the data quantitatively. However, this study does not seek any such quantitative answers. It would be quite irrational to attempt to fit the complexities of the decision-making process of convergence into statistical models and hence this study focuses on qualitative analysis.

As the name suggests, unstructured interviews are quite the opposite of structured interviews, especially in terms of predetermined standardised wordings of questions framed uniformly for all respondents. This method is mainly based on a conversational style where both interviewer and interviewee interact but the interviewer tries to get the conversation back to the topics under study in a more natural manner (Wilson, 1996). This helps to shape the narration of the interviewee in a manner that results in rich contents and may help in gaining insights that highly structured interviews might not be able to provide. It is ideal for conducting qualitative research since it enables the researcher to gain an understanding of the world of the respondents (Gillham, 2005) and to explore in depth the areas of interest (Saunders et al., 2012). The drawbacks of this method are, however, the time-consuming nature of the interview process, the ability to find the informants that will allow the researcher to gain access to in-depth level of knowledge, and the skills required by the interviewer to get the interviewee to stay focused on relevant issues without interrupting the sentiments being shared in the interview (Wilson, 1996). Due to restrictions placed on the time available to high level government officials and top management of corporate entities, professional and regulatory authorities, unstructured interviews were not suitable for this study. Taking these factors into consideration, this research employs a semi-structured interview method.

Semi-structured interview is a method that allows a fine balance to be struck between the structure of the interview and the quality of data collected through the interview. The method involves the researcher using a list of themes and questions to be covered to ask every interviewee, even though some questions may be reordered or skipped as appropriate in the given interview context (Saunders et al, 2012). The interview questions are principally open-ended and probing questions are also added to further explore the issues identified in the discussions (Gillham, 2005). It is this less unstructured style that enables time to be spent efficiently with the interviewees (McCracken, 1988). The semi-structured interview thus facilitates a discovery, with sufficient details of the interviewee's story within a reasonable timeframe available to the interviewee. The structured focus of the method also facilitates the analysis of data since commonalities can be easily identified (Gillham, 2005).

Interview guides were developed to ensure that the focus of the study is based on the extensive literature review and the theoretical framework, discussed in Chapters Two and Three, with the questions in the guide open enough for the varying levels and ranges of responses from the interviewees (Gillham, 2005). These questions were designed to draw out the experiences and stories in the interviewee's own words, at his/her own speed and order (McCracken, 1988). However, 'planned prompts' had also been developed for the interviews. Planned prompts are questions that have been prepared before the interview, based on the literature reviews and framework, and are used in cases where the interview begins to get stalled on a single issue or when the information being provided by interviewees is beyond the scope of this study, or not relevant to the focus.

4.5.1   Justification for Exclusion of Other Research Strategies

Before choosing the interview method for conducting this research several other research strategies were considered. This section briefly presents some strategies that could be used and explains the reasons for not employing those methods. Some of the research methods considered were ethnography and action research. According to Thomas (2009), ethnography is deeply set in the interpretive research approach and requires the researcher to analyse a given context through

actual participation or in other words "to become part of the situation they are studying" (Thomas, 2009; pp 118). Similarly, action research has also been defined as a participatory research method. Action research differs from the traditional perception of research wherein research is conducted "by the researcher on the subjects" (Thomas, 2009; pp 112). In case of action research, research is carried out by the subjects or actors actually participating in a process.

Observation method was another research method that was considered for application in this study. According to Marshall & Rossman (2006), the observation method permits the researcher to witness the actual proceedings and also observe the behaviour of actors participating in those proceedings. Observation method could be either participant or non-participant in nature (Collis & Hussey, 2003). While participant method involves full participation in the process, non-participant method limits itself to observation of the process. Since this research examines the convergence decision which is mainly shaped through high level meetings involving sensitive information, it was not possible to gain access to actual participation in the process. And so these methods were not employed in this research.

4.6   Data Collection

According to Biggam (2008) data collection techniques may be of many different types, such as sampling, questionnaires, secondary data, observation and interviews. A research analysis can make use of more than one of the above mentioned methods to collect the relevant data. In this analysis a combination of three of the above mentioned data collection techniques are utilised which are interviews, secondary data and sampling techniques. According to Biggam (2008) there are several kinds of sampling techniques that could be utilised to carry out analyses such as stratified sampling, cluster sampling, systematic sampling, quota sampling, convenience sampling and random sampling. Stratified sampling is a technique which splits up the target population into different strata with common characteristics from each of which the samples for study are chosen. Cluster sampling splits up the target population into different clusters and then samples are randomly chosen from these clusters. When samples are taken from the target population at standard time-periods, it is called systematic sampling. In quota

sampling, the researcher identifies in advance the kind and number of sample elements which is also known as the researcher's selection quota. Consequently, this analysis also makes use of sampling technique to conduct the research study. The key data collection techniques used in this study are discussed below.

4.6.1 Interviews

One of the main methods used for data collection in this study was conducting interviews. Since it would not be practically possible to obtain interviews with all the actors involved in the vast transnational policy network that constitutes the decision-making arena, interviews were conducted with actors from different target groups identified depending on the maximum availability of access.

Since access to senior members of the government in policy making positions who are willing to provide detailed information about the decision-making process for convergence was limited, this study had to rely on 'opportunistic sampling' which is a non-probability sampling method. Opportunistic sampling is otherwise known as convenience sampling and involves the selection of samples that are easy to access (David & Sutton, 2011). According to Engel & Schutt (2013) opportunistic sampling is especially useful when a new research setting is being explored.

The data collection process for this study was initiated through identification of actors involved in the decision-making process. This information was obtained from two sources: personal contacts and secondary sources. Three personal contacts of the researcher were members from industry who were part of public-private projects that gave them access to senior government officials and few members of IFIs. These three contacts were first communicated with through telephone and e-mails. These contacts then helped in identifying target groups of actors involved in the decision-making process. Once the target groups of interviewees were identified, further contacts with target interviewees were then established through these contacts. Information regarding target interviewees was also obtained from the public domain such as websites of state organisations and professional associations and also reviews of reports and documents available on the internet.

As presented in Table 3, the interviews were conducted face-to-face, over telephone and Skype that is internet-based communication service. Generally, the interviews commenced with some consideration of the interviewee's role or involvement in the decision-making process for convergence. The interviewees were invited to describe their role which led to further discussion on the extent to which they were comfortable with the role in terms of their ability to articulate their views on the decision-making process and their access to channels to formally or informally engage and coordinate with other key decision-makers. This was followed by further discussion on issues in the decision-making process which the interviewees considered to be important such as any differences of opinions between key decision-makers, the financial, legislative and political factors that were driving/ stalling the process as well as the presence (or absence) of proper coordination between actors in key policy-making roles. The interviews also focused on gathering information and in some cases corroborating evidence collected from preliminary documentary analysis on key events or communications that facilitated the discourse on significant issues surrounding the convergence debate including those cited above. The detailed list of questions prepared to gather information on the role and position of interviewees in the decision-making process is listed in the first section of Appendix 4.

Interviewees directly involved in core policy-making teams were able to throw light on the manner in which the convergence decision-making developed in the country over the years and the key sources of influences on the decision-making process. Building on this initial discussion the interviews explored a number of issues concerning the problems that were encountered and the steps taken during decision-making which had a significant impact. The aim of the discussion during these interviews was to try and identify key factors or influences that shaped the decision-making process. Reflection and analysis of the information gathered through a number of such interviews helped to build a number of key themes which include sources of influences, channels of exerting influences and the changing role of the state as a key decision-maker. These themes have been analysed in detail in the empirical and discussion chapters.

All interviews were tape-recorded with the permission of interviewees with the exception of those with senior government officials which could not be recorded on tape due to regulations. These interviews were manually transcribed immediately afterwards. From Table 3, it can be observed that the first round of interviews was conducted in July 2012. During this round a total of 6 interviews were carried out. These interviewees were members belonging to the ICAI and industrial associations. Information collected through these initial interviews permitted the corroboration and in some cases contradiction of the general information gathered through review of newspapers and other documents to obtain an understanding of the background of the convergence decision-making process in India. These interviews also helped to identify and establish contacts with other key actors directly involved in the top levels of decision-making.

In January 2013, regional representatives of the WB and the United States Agency for International Development (USAID) were interviewed via phone and Skype respectively. The first interviewee from the World Bank was able to confirm and further explain details gathered from documentary analysis on public sector convergence decision-making process such as time and purpose of pilot studies, financial sector assessment programmes and the forums which facilitated any interactions between the World Bank and national actors. The second interviewee from USAID had corroborated details of the move to accrual accounting in the Indian public sector which includes allocation of funds by UASID for development of accrual accounting in the country, information about the recipients of these funds, technical support provided to entities moving towards accrual accounting as well as key information regarding informal communications on the convergence decision-making process. In April 2013, the member of USAID earlier contacted on Skype, five members of the Ministry of Finance (MoF), two members of Government Accounting Standards Advisory Board (GASAB) and two members of the Ministry of Corporate Affairs (MCA).

Gaining access to interview the government officials was quite a task due to the numerous formalities involved. However, these interviews were very important since a) these interviewees were direct members of the central team that was officially driving the decision-making process in the country and b) they revealed information about the decision-making process that are not publicly available and

in some cases were contradictory to the official statements provided by the state. It took a few rounds of interviews with the same set of government officials to extract information on unofficial and informal aspects of the decision-making process. Further telephone interviews were conducted during May 2014 when several members earlier interviewed were re-contacted to fill in gaps found during data analysis. The average length of an interview was approximately 70 minutes although follow up interviews were shorter. The interviewees represented a cross-section of the key actors in the decision-making process leading to convergence and all of them were senior in the hierarchy of the respective organisations. As shown in Table 3, a total of 25 interviews were conducted during the time-period of 2012-2014.

From the information collected through these sources, institutional actors were identified. Since one of the strategies used to study the decision-making process is to analyse the interactions between actors, these actors were classified into different groups based on their activity. The four main categories of actors found in the private sector are state bodies, professional bodies, regulatory authorities and industrial associations. The decision-making arena in the public sector is comprised of actors belonging to state bodies, professional associations and IFIs. Hence, the target population of this analysis comprises of actors involved in the decision-making process of convergence in both the private and public sectors of India.

Table 2 Interviewee Affiliations

Target Groups	Specific Groups	Number of Interviews
International Financial Institutions	WB	1
	USAID (United States Agency for International Development)	1
Regulatory & Professional Bodies	ICAI	5
	GASAB	2
	SEBI (Securities & Exchange Board of India)	1
Industrial Associations	FICCI (Federation of Indian Chamber of Commerce & Industries) & CII (Confederation of Indian Industries)	5
State Bodies	Ministry of Finance	5
	Ministry of Corporate Affairs	5
		Total 25

The purpose of classifying target interviewees into the categories shown in Table 2 was not to draw any statistical generalisations. The key interview questions are listed in Appendix 4 of this thesis. The length of the interviews and the codes assigned to interviewees is presented in Table 3.

Table 3 Details of Interviews

Interviewee Code	Position	Type of interview	Location	Date	Length of Interviews
1. CG 1	Member of Core Group	Face to face & Telephone	New Delhi	April 2013	1 hour 25 minutes
2.CG 2	Member of Core Group	Face to face	New Delhi	April 2013	1 hour
3.CG 3	Member of Core Group	Face to face	New Delhi	April 2013	1 hour 10 minutes
4.CG4	Member of Core Group	Face to face& Telephone	New Delhi	May 2014	1 hour
5.CG5	Member of Core Group	Face to face	New Delhi	April 2013	1 hour 30 minutes
6.MCA1	Member of MCA	Face to face	New Delhi	April 2013	50 minutes
7.MCA2	Member of MCA	Face to face & Telephone	New Delhi	April 2013	1 hour
8.MCA3	Member of MCA	Face to face	New Delhi	April 2013	1 hour
9.MOF1	Member of MOF	Face to face	New Delhi	April 2013	55 minutes
10.MOF2	Member of MOF	Face to face	New Delhi	April 2013	50 minutes
11.MOF3	Member of MOF	Face to face	New Delhi	April 2013	45 minutes
12.PB1	Accounting body Member	Face to face	New Delhi	July 2012	1 hour 30 minutes
13.PB2	Accounting body Member	Face to face	New Delhi	July 2012	1 hour 20 minutes
14.PB3	Accounting body Member	Face to face& Skype	Tamil Nadu	July 2012	1 hour 30 minutes
15.PB4	Accounting body Member	Face to face	New Delhi	July 2012	2 hours
16.PB5	Accounting body Member	Face to face Skype	New Delhi	July 2012, May 2014,	3 hours 30 minutes
17.PB6	Accounting body Member	Telephone	New Delhi	May 2015	1 hour
18.PB7	Accounting	Telephone	Kerala,	May	2 hours

Ju

			India	2012	
19.PB8	Accounting body Member	Telephone	New Delhi	July 2012	1 hour
20.IB 1	Member of Industrial Association	Face to face	New Delhi	July 2012	2 hours
21.IB2	Member of Industrial Association	Face to face	New Delhi	April 2013	2 hours
22.IB 3	Member of Industrial Group	Face to face	New Delhi	April 2013	1 hour
23.IB 4	Member of Industrial Group	Face to face	New Delhi	July 2012	1 hour 30 minutes
24.IB 5	Member of Industrial Group	Face to face& Telephone	New Delhi	July 2012, May 2013	2 hours 30 minutes
25. WB1	Member of World Bank	Telephone	New Delhi	January 2013	1 hour

The aim of this study is gain an understanding of the convergence decision-making process and how the interactions between actors involved shape this decision. Hence the main focus is on how the actors interact with each other to influence the decision rather than analysing their relationships. Generalisation in the case of this study can be made to the extent where the conceptual framework of one study could be applied to analyse and explain similar experiences in comparable situations.

4.6.2 Documentary Analysis

A wide variety of documents were used to collect information as also to substantiate data gathered from interviews. A classification of the types and numbers of documents used in this study are presented in Table 4.

Table 4 Documents Analysed

Documents Issued by	Examples of Documents
Government	*Reports, Press Releases, Press Notes, General Notifications*
Professional Bodies	*Reports, President's Annual Message, Exposure drafts, website material Commentary Letters*
Public practice accountancy firms	*Reports by KPMG, PWC, Deloitte*
Regulatory Bodies	*Reports by SEBI, ESMA, website materials*
Professional and Business Media outlets	*The Business Standard The Hindu The Business Line The Economic Times*

Broadly these documents included 1) Press releases/reports/ articles, 2) documents and reports issued by government bodies, standards setters and other national and international organisations, 3) Information available from public sources such as websites of government bodies, standard-setting bodies and international organisations.

Press Releases/reports/articles

Significant media articles on private sector accounting convergence were identified based on an online search using the key words 'IFRS convergence in India'. Since the adoption of accrual accounting was considered to be the first significant step towards convergence with international accounting standards in

the public sector, the key words "accrual accounting in Indian public sector" were used to identify relevant articles for this sector. From among the results generated through this search, relevant articles based on IFRS convergence and public sector accounting convergence were shortlisted for review.

The review of these articles helped to trace the existence of debates and delays in the convergence decision-making process in the private sector and gain an overview of the progress being made in the public sector. It helped to identify a few key actors such as the relevant government officials leading the decision-making process. Details obtained from these articles such as names of personnel and ministries responsible for handling issues relating to the convergence decision-making in combination with information derived from organisational reports of professional bodies, government agencies and regulatory agencies was used to commence the preparation to establish contacts and tracing other key actors for example, representatives of concerned government ministries, the industry and standard-setting bodies in the decision-making process.

In addition to newspaper articles, the review of online media sources also included 62 press releases made by the key government agencies involved and 45 press releases by the concerned national standard setting authorities. The press releases helped to fill in several gaps in the information obtained from newspaper articles. These press releases often indicated some significant decisions or announcements made by the government and national standard setting bodies. Information thus obtained helped further in tracing the contours of the decision-making arena and the people involved in this process. This also assisted in preparing interview questions regarding the different events/interactions that were identified through the review of these materials.

Organisational Documents and Reports

This thesis referred to organisational documents and reports to gather information regarding several key events such as international conferences and financial accountability assessment programmes run by international financial institutions that triggered the decision-making process, subsequent high level meetings

organised by the state and convergence seminars organised by the state, professional accounting bodies and industrial associations. These documents and reports were published by the concerned national and international organisations which organised the events or had participated in the proceedings. For example, the construction and narration of an independent transnational event of the EU's decision to adopt IFRS and the manner in which this decision influenced India's decision-making process was based on information obtained from reports and conference proceedings published by the EU, ESMA and the professional accounting bodies in India. Similarly, information regarding pilot projects to implement accrual accounting which formed part of the convergence process in the public sector was gathered from the reports published by actors involved in funding and implementing the projects. These projects involved national state actors and transnational non-state actors which led to multiple reports or documents being issued on the same project. Reviewing these documents produced by multiple project participants helped to gain a fuller view of the issue or project.

In addition to documents relating to events constituting the decision-making process, other documents from the archives of national standard setting bodies and government bodies were used to provide the introductory details of key national actors and the development of accounting profession in Chapter Five of this thesis. the concept paper, titled 'Convergence with IFRSs in India', was used to partially trace the reasons of India's decision to converge and not adopt IFRS in Chapter Seven of the thesis.

These documents and reports had been used in part to address the first and second research questions regarding the rationale for India's decision to converge and networks that are driving the decision-making process for convergence.

Websites of Organisations

A wide range of information sources were obtained from the websites of various organisations such as state agencies, professional accounting bodies national and transnational regulatory bodies and international financial institutions involved in the decision-making process. These included speeches made by senior government officials at significant events, annual messages of presidents of

professional accounting bodies, joint memorandum notices issued by national and transnational actors of state and non-state categories. Information gathered from websites helped in identifying the relevant actors and significant events as well as constructing the background structure of the decision-making arena through introductory details of actors. The classification of actors based on their professional backgrounds was also made using the information gathered from these sources in addition to sources discussed above.

Since time-sequence and narration of the development and influence of events are significant points of analysis in this study, a detailed comparative review of the various documentary sources discussed in this section helped to confirm the accuracy of timelines for construction of events. For example, details regarding an event on convergence decision-making process published in newspapers were corroborated by collecting and reviewing documents obtained from the websites of actors/institutions mentioned in the newspaper. This information was further validated by interviewing concerned members of the said institution or organisation. The extensive documentary analysis had supplemented information gathered through interviews and in several cases documentary evidence was the main source of information in this study.

4.7   Data Analysis

According to Miles & Huberman (1984) and Creswell (1997), qualitative data analysis would consist of a series of steps such as collecting data under specific themes or aspects, describing the collected data, categorizing the issues, and finally interpreting the collected information. The data collected was analysed and interpreted to answer the research questions. The decision-making process was studied through an analysis of events or milestones that occurred in India regarding IFRS convergence in the private sector and IPSAS convergence in the public sector.

In the private sector, these events were reconstructed around the three deadline announcements for IFRS convergence in India. In the public sector the events were constructed around targets set by the state for steps towards achieving

convergence. The events were then streamlined on a timeline to enable a greater understanding of the sequence of events and the impact that these events had on the decision. To analyse and interpret these events in the two sectors, certain codes were set up. These codes were derived from the theoretical framework and review of literature. The codes were allotted to the three aspects listed above. The interpretation drawn from the analysis of these events was used to compare the convergence processes in the private and public sector. Tabular analysis was one of the means used to analyse data based on specific research questions. The analytic frameworks of tables used for interpretation also include some of the codes that were used to process raw data.

In this study, the following aspects drawn from the theoretical perspective of transnational governance and the actual IFRS/ IPSAS context in India were used to analyse data.

a)   **Actors involved in the decision-making process** - were identified and analysed through a two-way classification of the actors in the decision-making process based on their occupation and their status of being national or transnational. This would enable to identify and position the actors in the transnational policy network. This identification would further enable a greater understanding of the nature of influence on the decision.

b)   **The manner in which they influenced the decision** - was analysed using a two-way classification framework to analyse the stance or views of the actors on the decision to converge. This aspect of the analysis would help to understand the flow of influences on the decision and also any contradictions that might exist in the official and unofficial versions of issues regarding the convergence decision-making process.

c)   **Causes for delays in IFRS decision-making process in private sector** - were investigated to analyse if the actors were successful in achieving their desired goals in terms of the decision to converge with international accounting standards. The analysis is a two-way classification that determines the extent of influence of actors at the same time identifying if the source of influence was

national or transnational. This will enable a comparison of the convergence process in the private and public sector in terms of the influence achieved by actors, especially transnational actors, in the two sectors.

In order to increase the reliability of the findings, this thesis uses data triangulation method, wherever possible. Data triangulation is a technique to increase the reliability of the data based on data collected from different sources or at different times (Denzin, 1978). Quotes from the interviews are normally supported by one or more similar quotes on the same matters.

Some of the limitations of this research were limited access to government officials at high levels and reluctance of some government officials to confirm the existence of external influence on the decision-making process. Also this study focuses solely on analysing the proceedings before actual implementation. Further work could be done on investigating post-implementation scenario to establish a cause and effect relationship between the events constituting the decision-making process and its impact on the actual implementation process.

4.8   Conclusion

In summary, this chapter discusses the research methodology adopted to conduct this study. The study uses qualitative methods to arrive at answers to the research questions. Interviews and review of relevant documents have been used to collect data. Data has been analysed using interpretive analysis. Coding technique was used to identify and analyse the main research objectives. Since this thesis studies the decision-making process of convergence over a period of time, a timeline of events was constructed to provide a greater understanding of the developments constituting the convergence project in India.

To understand the various events constituting the convergence movement and the impact of these events on the decision, it is necessary to first get a glimpse of the Indian context or background in which this decision is being made. The next chapter presents a brief introduction to those political, geographical and legislative aspects of the Indian context which play a significant role in shaping the decision-making process for convergence in the country.

CHAPTER FIVE -THE NATIONAL DECISION-MAKING ARENA: INDIAN BACKGROUND

5.1   Introduction

Convergence with international accounting standards is a significant national decision that this thesis argues, is deeply influenced and shaped by both transnational and local influences. Prior research on convergence with international accounting standards and the present study on the decision-making process of convergence has clearly indicated that the process is heavily embedded in the socio-political, legal and economic context of the host country (Tyrall, Woodward & Rakhimbekova 2007). Therefore, to gain a deeper and fuller view of the convergence movement in India, it is important to understand the relevant political, legal and economic environment of the country within which the decision-making is actually enacted. This chapter presents these aspects of India as part of the wider narration of the story of the decision-making to converge with international accounting standards in the country.

The relevant background for both IPSAS and IFRS convergence are discussed under separate sub-sections as the decision-making arenas for both are shaped by different characteristics of the Indian context. Hence the main purpose of this chapter is to introduce the decision-making arena for both public and private sectors in their local context. This also includes introduction of the domestic factors involved in the convergence project. The chapter presents relevant information regarding the accounting background in public and private sectors such as current accounting systems, initial steps constituting the move towards convergence, gaps and similarities between international accounting standards and domestic accounting standards and national actors involved in the convergence decision.

5.2.   Structure and Process of Government Accounting

This section presents the preparers of financial statements in the public sector and also explains the current accounting system in the country. To present the preparers of financial statements, it is important to define what constitutes 'public sector' in the country. The term public sector in this thesis is used for entities that constitute the government at both the central and local level (for example ministries and departments). IPSAS convergence in India is applicable only for government accounts. The following sub-section will focus on the introduction of these entities through a brief overview of the structure of the government.

5.2.1   Structure of Government of India

The constitution of India defines the country as a sovereign, socialist democratic republic (Dutt, 1998). It is a federation with a parliamentary system which distributes power between the centre and provinces. The Indian federation is constituted of 29 provinces and seven Union Territories. It has three main branches which are the executive, the legislature and the judiciary. The Indian legislature functions under the Westminster style of parliament. It is constituted of the President of India and two houses; the lower house called the *Lok Sabha* and the upper house called the *Rajya Sabha* (National Portal of India, 2015).

"The Government of India (Allocation of Business) Rules" of Article 77 of the Indian constitution states that the business of the government will be carried out by ministries, departments, secretariats and offices specified in the first schedule of these rules (Adukia, 2012). The central government has more than fifty ministries which are normally headed by cabinet ministers. Each ministry under the government is constituted of one or more departments and several departments have distinctive institutions attached to them such as commissions, departmental undertakings, boards and government owned organisations (Adukia, 2012).

5.2.2 Pre-Convergence/ Existing Accounting Basis in the Public Sector

Government accounts in India have been maintained on a cash basis according to Government Accounting Rules (GAR) 1990 framed under Article 150 of the Indian constitution. However, it has become widely recognised that this basis of accounting has short-comings compared to accrual accounting (GASAB, 2008). One of the shortcomings of the cash system currently used to maintain government accounts is that it is based on inputs and outputs and that it does not represent what was budgeted by the government. Another issue raised was that the cash system does not complete financial information for resource management. Also, it neither provides a full picture of the government's financial position at any given point nor does it represent the changes that take place over time. It has been further noted that the system does not reflect the government's liabilities such as accrued liabilities on interest payments due, dues on account of pensions and superannuation benefits (Twelfth Finance Commission Report, 2004). Also current assets and non-financial assets are not tracked.

Cash system does not provide information on assets held by the government; further it does not ascertain the full cost of holding and operating these assets and the full cost of providing services by the government's departments or future commitments. Cash based system of accounting also creates ambiguity; excess tax revenues can be collected during a period followed by high incidence of refunds, allows for easy deferring of payments and passing them on to future periods, provides for one-time receipts thereby allowing future revenues to be compromised (Twelfth Finance Commission Report, 2004; GASAB Report, 2011b). The short-comings of cash basis of accounting have been cited as a major reason for the transition to accrual accounting which in India as elsewhere, is to be achieved by first aligning with cash IPSAS. The steps being taken to achieve this are discussed later in this chapter.

5.2.2.1   Existing System of Government Accounts in India

As shown in Figure 3, government accounts in India are maintained in three parts:

a)   Consolidated Fund

b)   Contingency Fund

c)   Public Account

a)   Consolidated fund refers to revenues for conducting government business that are received in the form of customs, central excise, income taxes and other sources of non-tax revenues. Internal debt such as treasury bills, external debt such as loans obtained from IFIs and foreign governments, other loans raised by the government through issue of public notifications are some other sources of revenue. All these revenues, both tax and non-tax are credited to the consolidated fund. This account also meets the expenditure of the government with authorisation from Parliament (Adukia, 2012).

b)   Contingency fund was established under the constitution of India and is held by the secretary to the government at the Ministry of Finance (MoF), on behalf of the President. An amount of rupees, 50 crores, that is US $ 7,557 330 (approximate value) is held in this fund and is used to meet unforeseen expenditures which is returned to the fund on receiving authorisation from the Parliament for additional expenditure. Hence this fund performs the function of an imprest [4]account for the government (Adukia, 2012).

c)   Public account was established under Article 266 of the constitution and keeps record of transaction related to those debts that are not included in the consolidated fund. Transactions wherein the government incurs a liability to repay or recover an amount received or paid are recorded in this account under debts, deposits and advances. Remittance and suspense transactions include all adjusting heads. Corresponding receipts or payments shall be made to clear the initial debits or credits to these adjusting heads. Normal receipts of the government do not include receipts under this account and hence payments made from this account do not require parliamentary authorisation[5] (Adukia, 2012).

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[4] A fund used for small items of expenditure and periodically returned to a fixed amount
[5] See Figure 3
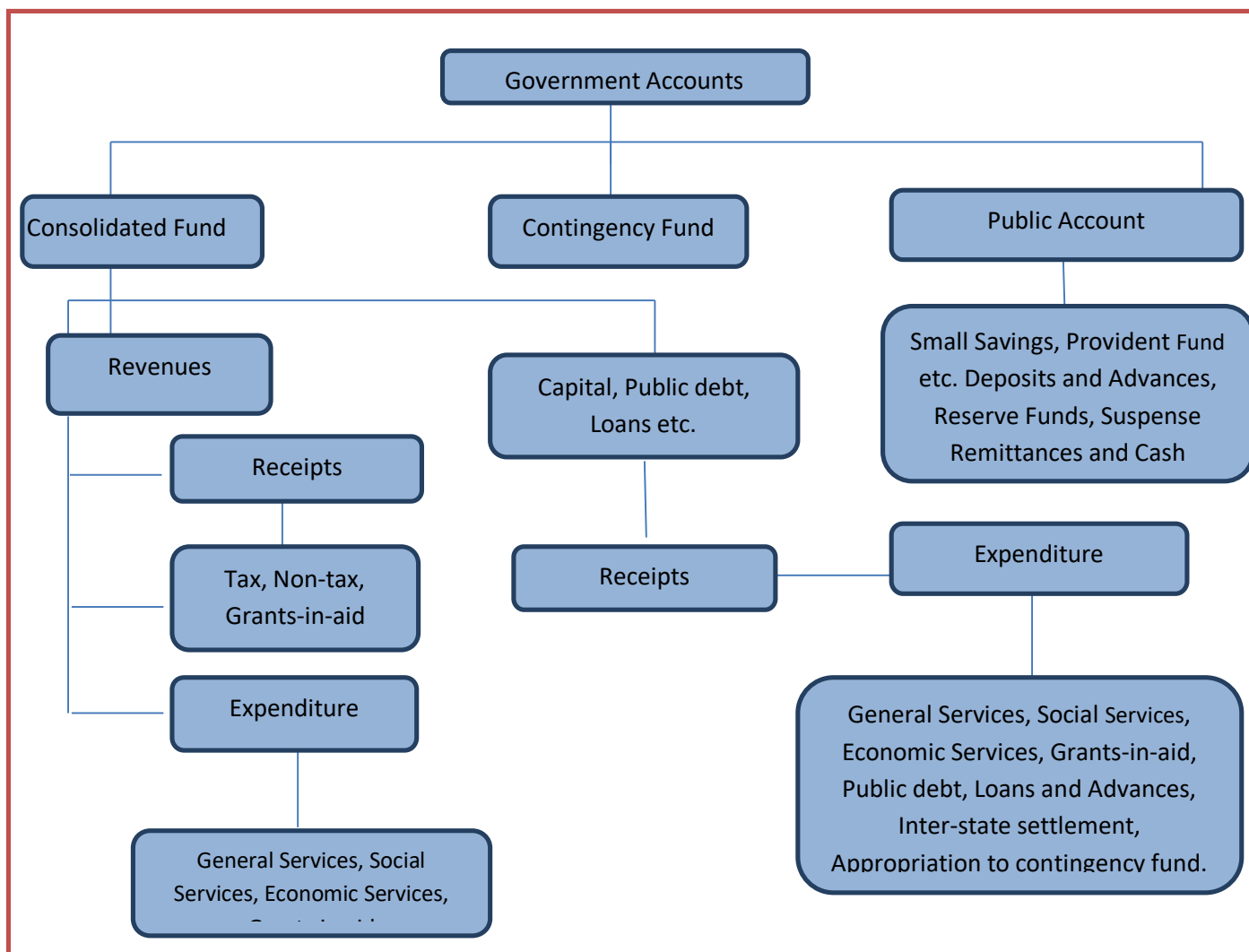
(Source - Adukia 2012)

Figure 3 Current Structure of Government Accounts

5.2.3 Move towards IPSAS Convergence - Rationale and Initial Steps

One of the main reasons or rationale for IPSAS convergence is the rising trend of transfer of funds across nations. International investors would find it cumbersome, time consuming and costly to decipher financial statements that are prepared according to domestic accounting standards. Convergence with international accounting standards would render the financial statements user friendly and hence assist in attracting international investors that is, IPSAS convergence would provide international acceptance to the accounts prepared by the GOI. Hence IPSAS convergence would enhance the quality and comparability of the financial statements produced (GASAB, 2002).

IPSAS convergence initially commenced with steps to improve government accounting systems. One of the first steps towards IPSAS convergence by the Government was the constitution of GASAB. In 2002, the government approved a recommendation made by the CAG to constitute an entity for the purpose of establishing and improving government accounting standards and financial reporting of the union and provinces. The GASAB was constituted of representatives from all the above mentioned actors. Principal secretary/finance secretaries of four provinces were also to be part of GASAB on rotation basis (GASAB, 2002).

Hence it could be stated that the foundation for IPSAS convergence in India was laid in 2002 through attempts to reform the existing accounting system. The two major objectives of these reforms were revamping the existing cash system and enabling a subsequent migration to accrual accounting. Reforms included formulation of accounting and financial reporting standards for the central/union government, the provinces and union territories with legislature (GASAB, 2004a). For this purpose, Indian Government Accounting Standards (IGAS) for the current cash accounting system and Indian Government Financial Reporting Standards (IGFRS) for accrual accounting were formulated by GASAB. IGFRS was being framed for the purpose of facilitating pilot studies and research conducted by government on accrual accounting system (GASAB, 2008). In accordance with the provisions of the Indian constitution, these standards were

officially notified or announced by the government following recommendations from GASAB.

The IGFRS have several similarities and gaps when compared to IPSAS and these are discussed below.

5.2.3.1   IPSAS and Indian Accounting Standards - Gaps & Similarities

IPSASB issues standards that have mandatory requirements and those that have non mandatory requirements. Mandatory requirements of IPSAS are applicable to entities following cash accounting system. Adopting Cash IPSAS in India is considered to be an intermediate step for migration to accrual accounting. Although at present the cash accounting system followed is not fully aligned to Cash IPSAS, it does satisfy some of the requirements of the same. In 2008, GASAB conducted a gap analysis of the differences between the existing cash accounting system followed by GOI and the requirements of Cash IPSAS (GASAB, 2008). A few of the similarities and gaps are presented in Table 5, and a detailed list is presented in Appendix 1.

Table 5 Gaps & Similarities between IPSAS and Indian GAAP

Issue	IPSAS Requirement	Gap	Similarity
1. General Purpose Financial Statements	Include FS presented separately or in another public document such as annual report	-------	Finance & appropriation accounts of union & provinces constitute General Purpose FS of Government.
2. Accounting Basis	Recognise transactions and other events only when cash is received or paid	Not strictly cash basis: in some cases accrual transactions are taken into account. There are also transactions that do not involve cash flows	
3. Accounting Policy	Accounting policy should be explicitly stated by government authorities	Accounting policies are not specifically disclosed on the face of FS although the embodiment of policies is laid out in publicly available documents such as GAR.	

From Table 5 and Appendix 1, it can be observed that there are several gaps and a few similarities between Cash IPSAS and government accounting in India. Some of the gaps have also been stated to be due to variations in the practical context in India. For instance, with regard to issue no.5 'entity' in Appendix 1, the GASAB report states that compliance with the requirements of Cash IPSAS in the Indian context would probably create distortion rather than clarity. This is because the extent of autonomy of the provincial governments and local bodies vis-a-vis the union government is not very clear. According to the report, a large part of social expenditure for provincial governments flow from the union government. In this context consolidation of government company

accounts with that of the government could lead to artificial inflation of cash inflows and outflows thereby defeating the purpose of improving the presentation of financial statements (GASAB, 2008). In several other cases the study appreciates the necessity and benefits of Cash IPSAS standards and recommends the incorporation of these standards.

To complete the introduction to the domestic decision-making arena for IPSAS convergence, it is important to present the other national actors involved in the decision-making process. They are briefly introduced in the following section.

5.2.3.2 National Actors in the Decision-Making Arena

The national actors in the decision-making arena for public sector can be broadly classified into three categories; a) state, b) professional associations/institutes, c) regulatory authorities. The state establishments involved in the decision-making process are the CAG of India, MoF, Ministry of Railways, Ministry of Defence, Department of Post, Department of Telecommunications, National Council of Applied Economic Research (NCAER) and principal secretary/finance secretaries of provincial governments. Members of Indian Railway Accounts Service (IRAS), Indian Post and Telecom Accounts Service (IP&TAS) and Indian Defence Accounts Service (IDAS) were also part of the decision-making while government departments' accounting reforms were being conducted (GASAB, 2008).

Professional associations participating in decision-making are the ICAI and Institute of Cost Accountants of India. RBI was the regulatory actor involved.

From the above discussion it can be observed that domestic actors involved in the decision-making process were state entities and professional organisations were strongly associated with the state. The public sector decision-making process for convergence was driven by the state or central government and applicable to both central and provincial governments. This probably contributed to the straight forward and uncomplicated nature of the public sector decision-making process in comparison to that of the private sector. The next section discusses the national scenario in which the IFRS convergence decision-making process was set.

5.3 IFRS Convergence in India - Relevant Context and Background

This section provides a brief overview of the establishment of ICAI and broadly presents its general role in the decision-making process through a discussion of the development of accounting profession in the country. This helps in setting a platform for explaining and analysing IFRS convergence in subsequent chapters. In addition, this section also focuses on discussing the private sector background, introducing the public sector enterprises (PSEs) in India, the IFRS convergence movement and presenting national players or actors participating in the convergence decision-making process.

5.3.1 ICAI and Development of Accounting Profession

The Chartered Accountants Act was passed by the GOI in 1949 and the ICAI was formed in the same year. The ICAI continues to be the apex body of accounting and auditing in India. The establishment of the ICAI was an important landmark in the development of accounting profession in India. In 1977, the ICAI constituted an Accounting Standards Board (ASB) to create standards on various items of the financial statements (ICAI, 2008). Since that time, this Board has been releasing and amending standards on a regular basis. Till the year 1999, statutory audit was the only enforcement mechanism for accounting standards in India. In 1999 the GOI constituted the National Advisory Committee on Accounting Standards (NACAS), an advisory body on accounting standards under the Companies (Amendment) Act 1999 (Das & Pramanik, 2009).

In order to analyse the development of accounting profession in India, Verma & Gray (2006) examined the accounting change that occurred in India before, during and after the establishment of the ICAI. The study analyses the factors or events that caused accounting changes in India, the manner in which the change is dissolved to accommodate itself in the existing system and the manner in which the accounting change is finally incorporated into the system (McKinnon, 1986; Gray, 1988). Although, these factors are expected to be external to the accounting system (Gray, 1988), in the Indian context, factors from within the accounting system were also influential in the establishment of ICAI (Verma & Gray, 2006).

While examining accounting change, the study focuses on the relationship between the state and the ICAI and the influence that this relationship has on accounting change in the

country. In the context of this thesis, the relationship between ICAI and the state is significant as both these actors play an important role in the IFRS convergence decision-making process in India. The state was deeply involved in the establishment of ICAI through two of its major institutions, the MoF and the Ministry of Commerce (currently Ministry of Corporate Affairs). State involvement in the process was driven by the need to attain social and economic development for which a strong accounting system was seen as an indispensable necessity. Culture and colonial history of the country also significantly influenced this process of establishing ICAI which marked an important accounting change in the country. For instance, the study highlights the fact that the cultural and historical context of India is responsible for one of the most important distinctions between the Indian accounting profession and accounting professions of developed countries (Verma & Gray, 2006). While in most developed countries, the accounting profession is relatively independent and an autonomous institution, the Indian accounting profession is subject to statutory regulation by the Parliament. Hence it can be observed that there is a significant interrelation between the state and the ICAI. The manner in which this association between these two actors influences the decision-making process will be explained in the empirical chapters.

The ICAI as one of the key national actors in IFRS convergence decision actively participates in global accounting conferences and is committed to promoting IFRS convergence in India. However, the power balance between the ICAI and other national actors such as the industry and the state significantly shape its role in the decision-making context. Similar to its association with the state, it has also had a multi-dimensional relationship with the industry. Officially the ICAI is associated to the industry in the position of a regulator. However, individual members of the ICAI do have links with the industry as employees who work as tax consultants and CAs. Hence although ICAI as an official regulator may not have informal links with the industry, the members constituting ICAI do have formal and informal links with the industry as individual professionals.

The ICAI could also be stated to have transnational presence in its various boards and committees. According to an interviewee, the ICAI is strongly influenced in its decision-making by members of the Big 4,

"Big 4 is the fundamental factor…. they also dominate the ICAI. For example, they have Big 4 members on interview boards for selection of some senior positions at ICAI"

The ICAI hence is not an isolated national entity operating solely within its organisational boundaries. It has multiple dimensions of relationships with other national and transnational actors involved in the decision-making process in the country. Further details and analysis of the different levels at which the ICAI collaborates with national and transnational actors to shape the convergence decision is elaborated in Chapter Seven.

5.3.2 Private Sector Entities

In India, IFRS convergence is applicable to specific entities operating in the private sector and all PSEs. Private sector is the dominant sector in the Indian economy (ADB, 2003). From among the three sectors of the economy-agriculture, manufacturing industry and services-the agriculture sector is the largest employer although its contribution to the Gross Domestic Product (GDP) has been declining and now stands at 18.20%. The manufacturing industry contributes to 25% of the GDP and employs 25% of the total workforce. The services sector has been the fastest growing sector that includes healthcare, tourism, education, software and information technologies, trade, infrastructure and banking (Biery, 2013).

Private sector industries are also marked by a significant inflow of Foreign Direct Investments (FDI). During the period of April 2000 to November 2014 total inflow of FDIs amounted to US$ 350,963 million. Recently government has taken steps to allow 100% FDI in medical devices and construction sector (IBEF, 2015). With the exception of a few sectors such as atomic energy, retail trading, gambling and betting, agricultural or plantation activities (excepting floriculture and horticulture), government allows up to 100% FDI in all sectors (IBEF, 2015).

Another characteristic that defines the majority of private sector entities in India are family run businesses. According to Credit Suisse, an international financial services company, family run businesses constitute 67% of listed companies in India with a market capitalisation of more than US$ 50 million (Credit Suisse, 2011). A few of the major family run businesses in India are the Tata Group, Birla Group, Reliance Industries, Dabur, Bajaj, Jindal and Hindalco. However, these businesses are stated to have

independent CEOs who run day-to-day operations and large executive councils at group level to provide strategic direction (Inamdar, 2013). Some of the family-run businesses such as Tata, Reliance and Hindalco are multinational companies with operations across the globe in several business sectors. For example, Tata group operates in business sectors such as energy, services, engineering, consumer products and chemicals, communication and information technology and earns revenue of US$ 103.27 billion as of 2014 (TATA, 2015). The group and a few other Indian companies have also been ranked in relatively high positions in Fortune 500 list (The Economic Times, 2014).

Some of the major sectors of the economy and the potential impact of IFRS on these sectors are discussed in detail in subsequent sections of this chapter.

5.3.3 Public Sector Enterprises in India

Prior to achieving independence PSEs were almost non-existent in India with very few state-owned entities such as railways, post & telegraph and port trust (Jain, Gupta & Yadav, 2014). After achieving independence in 1947, India decided to implement planned economic development policies which were considered necessary to resolve issues such as regional imbalances in economic development, low employment and unequal income levels (CAG, 2014). The Industrial Policy Resolutions of 1948 and 1956 sought to utilise the public sector as a means of driving the economic growth of the country laying emphasis on the expansion of agricultural and industrial production (Department of Disinvestment, 2001). Due to lack of capital and strong entrepreneurship, the state was placed in charge of initiating and driving industrial development in the country. The state executed its role through five year plans that assessed the country's needs and set goals to be achieved to fulfil those needs (Department of Disinvestment, 2001). Hence it is through these five year plans that PSEs came into concrete existence in the country.

A PSE in India is a corporation owned by the state through 51% holding in paid up share capital (Jain, Gupta & Yadav, 2014). PSEs in India can be owned by central, provincial, and territorial governments or be jointly owned by the centre and provinces. As of March, 2012, the number of PSEs in India had risen to 260 compared to five PSEs in 1951 (Jain, Gupta & Yadav, 2014). At present PSEs account for over 22% of India's GDP and contribute to over 22% of the country's direct and indirect tax collections. They

constitute 6% of the total employment in the organised[6] sector (KPMG, 2011). All PSEs in India are required to follow accounting standards issued by the ICAI that is they follow private sector accounting standards and will therefore converge with IFRS.

5.3.4 Moving towards IFRS Convergence

Although the IFRS convergence decision has proved to be a long term project, the actual decision-making process could be stated to have started in the year 2000 with the establishment of the NACAS by the state. However, there were some important events that led to this first step being taken by the state. The significant events are discussed in detail in the empirical chapters. This section provides a brief overview of a couple of events that triggered and facilitated the move towards convergence. It also briefly discusses the rationales provided for the IFRS convergence decision.

In 1991 India faced a severe balance of payments crisis in response to which several economic reforms were implemented. The state adopted free-market principles and opened the economy to international trade. As a result of this there was an increase in FDI and significant reduction in state control of the economy. According to Jain (2011) the reasons that initially necessitated convergence with international accounting standards in India were, firstly, the increasing trends of foreign investment in the country during the 1990s due to opening up of the economy and secondly the rising number of Indian companies that were either entering into joint ventures with foreign companies or buying foreign companies.

India's move towards IFRS seems to have stayed focused on convergence rather than full adoption from the beginning of the decision-making process. The IASB as part of its agenda to achieve global accounting harmonisation had always promoted full adoption of IFRS in India. However, the ICAI and the government were not keen on full adoption taking into consideration various legal, economic and conceptual factors which are discussed in detail in the empirical chapters.

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[6] Organised sector comprises those organisations which are registered with the government, follow rules and regulations, terms of employment such as fixed number of work hours and provide employee benefits such as paid leave and medical benefits (http://india.gov.in/topics/labour-employment/organized-sector-workers).

According to Jain et al (2014), convergence with IFRS in India would have several benefits such as an increased access to global capital markets, greater degree of global comparability, easy cross border listing, higher quality of financial reporting and the elimination of multiple reporting systems for large business in India with operations in different countries. While stating the advantages of convergence with IFRS, the author also points out challenges that India would have to face. These include creating awareness about IFRS practices among different stakeholders such as banks, commodity exchanges and stock exchanges, amending existing laws that stipulate accounting practices in the country, major amendments in taxation laws of India and also transiting from using a historical cost basis of accounting to the fair value approach of accounting prescribed by IFRS. Some of the major amendments required such as legal amendments and the IFRS requirement to use fair value have been cited by the ICAI as reasons that led to the decision to converge with and not adopt IFRS.

5.3.4.1 Gaps and Similarities between IFRS and Indian GAAP

Although a good part of the Indian accounting standards is exactly the same as the international accounting standards, there are some significant differences between the two. In particular, accounting treatments recommended by IFRS would lead to differences in certain areas including, a) consolidated financial statements, b) accounting for income taxes, c) intangible assets and d) financial instruments (Das & Pramanik, 2009).

More specifically, under Indian accounting standards, revenue is recognised as charges made to customers for goods and services. IFRS requires that revenue should be measured at fair value of the consideration, and in cases where the cash inflow is deferred, such flows need to be discounted to the present value to arrive at the revenue (Jain, 2011). Such accounting treatments have been reported to affect especially significantly the revenue recognition practices by players in the Indian construction and realty sectors (Bala, 2010). IFRS also provides guidance on revenue through barter transactions and customer loyalty programmes, which are not recognised separately by Indian Accounting Standards (Ind AS) (Jain, 2011). Also, the IFRS converged Ind AS does not require periodic review of residual value and useful life of an asset unlike IFRS. This may change the depreciation estimates for companies. These are some of the ways in which IFRS convergence would alter financial reporting in Indian firms (Jain et al, 2014). Some further major gaps between IFRS and Indian accounting standards are presented below.

Table 6 Gaps between IFRS and Indian GAAP

SUBJECT	IFRS	Indian GAAP
First time adoption	Full retrospective application of IFRS to profit and loss account (PL) and balance sheet (BS). Reconciliation of PL and BS in respect of last year reported numbers under previous GAAP.	No need to prepare reconciliation on first time adoption.
Components of Financial Statements	Comprises BS,PL,cashflow statement, changes in equity and accounting policy and notes to accounts.	Comprises of BS, PL, cashflow statement (if applicable) and no test of accounts.
Balance Sheet	No particular format, a current/noncurrent presentation of assets and liabilities isused.	As per format prescribed in Schedule VI for companies, adherence to banking regulation for banks.
Income Statement	No particular format prescribed (IAS-1)	As per format prescribed in schedule VI(AS-1)
Cash Flow Statement	Mandatory for all entities(IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset. (IAS-16)	Over the useful life of the asset, Or schedule xiv rates, whichever is higher(AS-10)

Source (Ray, 2012)

Detailed list of gaps between IFRS and Indian GAAP is provided in Appendix 2. Further information about the specific impact of IFRS on two major sectors in India is shown in Table 7.

Table 7 Impact of IFRS on Real Estate & Banking Sectors

Industrial Sector	Indian GAAP	IFRS	Impact
1.Real Estate	*Percentage of Completion Method*: Revenue is recognised as and when the project is constructed	*Completed Contract Method*: Revenue is recognised after project is completed and sold.	• Income tax liability would get deferred • Lower revenue in initial years • Negative effect on decisions by investors
2.Banking	• Revenue Recognition: accrual basis • Hedge a/c: no need to classify • Financial Assets: initially recognised at cost • ESOP: intrinsic value or fair value • Securitisation: assets securitised are de-recognised from books • NPA: interest/instalment unpaid for >90days	• Revenue Recognition: Effective interest rate basis • Hedge a/c: need to classify • Financial Assets: initially recognised at fair value • ESOP: fair value • Securitisation: slightest control retained over asset could lead to asset being retained in books • NPA: based on objective evidence of impairment	• Upfront fee income will get amortised as effective interest rate • Securitised portfolio will retain in banks books will have impact on CAR • NPA provisioning will become subjective as compared to rule based

Further details of the impact of IFRS on other industrial sectors are provided in Appendix 3. The next sub-section presents domestic factors involved in the IFRS convergence decision in the country.

5.3.4.2 National Actors Involved in Decision-Making Process with regards to IFRS Convergence

The national actors involved in the IFRS convergence decision can be broadly classified into four categories:

a)   Professional Associations
b)   State Bodies

c) Regulatory Authorities
d) Industrial Associations

a)   **Professional Associations**

These include the ICAI, the Institute of Company Secretaries of India (ICSI) and the Institute of Cost Accountants of India with ICAI being the prominent body among the three (Jain, 2011). Accounting standards in India are framed by the ICAI. The organisation plays an important role in the convergence decision-making process through its association with the state and industry. Since members of ICAI provide professional services to members of industry, they are aware of the issues faced by industry. Also being part of international professional associations such as the IFAC, the ICAI also represents the voice of the country at transnational professional forums discussing convergence with international accounting standards.

b)   **State Bodies**

The main state bodies participating in the decision-making process are the Ministry of Corporate Affairs (MCA), the MoF, the Central Board of Direct Taxes (CBDT), the NACAS and the Indian Institute of Corporate Affairs (IICA).

All private sector companies and public sector undertakings come under the jurisdiction of the MCA which is therefore the main state body leading the decision-making process. The MCA is primarily concerned with administering rules & regulations concerned with the functioning of the Indian corporate sector. It is also responsible for administering the 2002 Competition Act to prevent monopolistic practices and to promote market competitiveness (Adukia, 2012).

Besides, it exercises supervision over the three professional accounting bodies. This relationship between a state agency and professional bodies signifies that accounting bodies in the country are not absolutely independent and are controlled, at least, to some extent by the state.

The MCA is assisted in some of its functions by the IICA. IICA has been established by the MCA for capacity building and training in various matters relevant to corporate regulation and governance such as corporate and competition law, accounting and auditing issues, compliance management, corporate governance, business sustainability

through environmental sensitivity and social responsibility, e-governance and enforcement and others (IICA, 2014).

The MoF and the CBDT play a joint role in the IFRS convergence decision-making process. The MoF deals with issues such as taxation, financial legislation, financial institutions, capital markets and is comprised of the following departments: Departments of economic affairs, expenditure, revenue, financial Services and disinvestments (IICA, 2014). The CBDT which is part of the Department of Revenue provides essential inputs for administration, planning and policy making areas relating to taxation.

In India tax standards are separate from accounting standards. Tax standards are prepared based on recommendations of the CBDT and are officially issued by the MoF. Since IFRS convergence has tax implications, these two bodies were required to coordinate with the MCA to take the process ahead.

The NACAS is an important body acting as an intermediate between the state, or more specifically the MCA, and the professional bodies such as ICAI in matters relating to IFRS convergence (MCA, 2007). The body advises the state on the formulation and laying down of accounting policies and standards for implementation by companies. Its advisory committee consists of, (i) a chairperson (ii) a member each nominated by the ICAI, the Institute of Cost and Work Accountants and the ICSI (iii) one representative each of the state or central government, RBI and CAG to be nominated by it, (iv) current or former accounting academic, (v) the chairman of the CBDT, (vi) two members to represent the chambers of commerce and industry, and (vii) one representative of the Security and Exchange Board of India (SEBI). All accounting standards framed by the ICAI are first submitted to the NACAS for review which then forwards them to the MCA for approval and official notification (MCA, 2007).

c) **Regulatory Authorities**

The four main regulatory authorities involved in the IFRS convergence decision are the Securities and Exchange Board of India (SEBI), the RBI, the Insurance Regulatory & Development Authority (IRDA) and the Pension Fund Regulatory & Development Authority (PFRDA).

SEBI is the main capital market regulator of India and is the main body with the authority to change the listing requirements applicable to companies listed in India including with regards to IFRS convergence. (SEBI, 2014).

RBI is the country's central banking institution responsible for controlling the monetary policy and its main functions include: formulation, implementation and supervision of the monetary policy, regulation and monitoring of the financial system, managing foreign exchange, issuing currency, performing merchant banking functions for the central and provincial governments and also maintaining banking accounts of all scheduled banks (RBI, 2014).

IRDA is an autonomous statutory body which is a regulator for the insurance industry in India. Hence it deals with the changes to be incorporated in the insurance sector to facilitate IFRS convergence (IRDA, 2014).

PFRDA was established by the government in 2003 to promote old age income security by establishing, developing and regulating pension funds, to protect the interests of subscribers to schemes of pension funds and related matters (PFRDA, 2014). PFRDA has been actively involved in the decision-making process for IFRS convergence through participation in key committees driving the process[7].

d) **Industrial Associations**

Since industries are one of the parties that are most affected by the IFRS convergence decision, industrial associations have been actively interested in the decision-making process. The two main industrial associations of the country are Federation of Indian Chamber of Commerce & Industries (FICCI) and Confederation of Indian Industries (CII). FICCI is the largest and one of the oldest apex industrial associations in the country which was established in 1927. It is a non-state and non-profit organisation and its membership is comprised of more than 250,000 corporate entities from various regional chambers of commerce (FICCI, 2014).

CII is a non-state, not-for-profit, industry-led and industry-managed organisation which was founded in 1895. It has a membership of over 7200 companies, from the private as

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[7] Detailed information regarding the role of PFRDA in the decision-making process is presented in Chapter Six

well as public sectors, including SMEs and MNCs, and an indirect membership of over 100,000 enterprises from around 242 national and regional sectorial industry bodies. It also has several overseas offices in Australia, China, Egypt, France, Singapore, UK, and the USA, as well as institutional partnerships with 312 counterpart organisations in 106 countries. CII claims to be a reference point for Indian industry and the international business community (CII, 2014).

Out of the two associations, the CII has been more actively involved in the convergence decision by organising seminars, conferences and training programmes in preparation for IFRS convergence. FICCI although relatively silent also played a significant role which will be discussed in detail in the empirical chapters.

5.4   Conclusion

To gain a better understanding of convergence with international accounting standards in India, it is very important to first comprehend the local background in which the standards are proposed to be implemented. The decision-making process for convergence is significantly influenced by economic, political and legal factors that constitute the local environment. Domestic or national actors being embedded in the local environment are better explained in the backdrop of introducing the Indian context. And hence this chapter had presented the domestic factors involved in both IPSAS and IFRS convergence decision-making processes in India. This thesis further examines the causes for delays in the IFRS convergence decision in contrast to IPSAS convergence in the country. The next two chapters of this thesis present empirical evidence from the public and private sectors that narrate the decision-making process for IPSAS and IFRS convergence in India.

CHAPTER SIX - IPSAS CONVERGENCE IN THE PUBLIC SECTOR

6.1   Introduction

The decision-making process for IPSAS convergence in India has been relatively straightforward and non-controversial and hence was almost absent from media sources. The striking contrast in the two sectors compels one to contemplate on the reasons that led to two contrasting scenarios of convergence with international accounting standards within the same country even though the key official decision-maker for both sectors is the state. The public sector has made relatively better progress in terms of achieving targets and moving ahead with convergence. The question that then arises is why there should be such striking differences in the decision-making processes of the two sectors.

These differences suggest that there might be a disparity in the rationale for convergence decision given by a country and the actual reasons that drive the decision-making process. To investigate the reasons for this contrast it becomes necessary to first explore the decision-making process in the public sector and then compare it with that in the private sector. Since this thesis examines the convergence decision-making process as a two-way interaction process between transnational and national actors, it was assumed that the nature of interactions constituting decision-making in the public sector could have been different from those in the private sector. This further leads to the questions as to why these interactions were different and how they influenced or shaped the decision-making process.

This chapter focuses on analysing the evidence from the public sector. The narration of events constituting the decision-making process for IPSAS convergence is presented in two phases. Phase I is constituted of events that led to the creation of a roadmap for convergence. The roadmap provides an overall guidance for transition to accrual accounting by listing out broadly the activities or steps to be taken and the time-frame within which these activities should be carried out. These activities were to be adjusted by user departments to suit their needs and specificities (GASAB, 2008). Phase II narrates and analyses events or activities that were carried out to achieve two important

stages or recommendations of the roadmap. Each phase is presented, in turn, as a series of transnational and national events/communications on a timeline. An attempt is made to show the cyclic nature of the events wherein both transnational and national events/communications are interlinked and often occur in response to each other. Figure 4 presents a snapshot of the two phases of the decision-making process for convergence in the public sector.

2 PHASES OF THE DECISION-MAKING PROCESS IN PUBLIC SECTOR

2004-2008 • **PHASE- I – EVENTS LEADING TO THE PREPARATION OF ROADMAP**

- 2003-04 – Formation of AGAOA (Association of Government Accountants of Asia) with the support of WB, USAID, WB's ROSC Report, State Financial Accountability Assessment by WB,SARFM and DFID.
- 2005- ADB/OECD Anti-Corruption Initiative
- 2006-2008- Collaboration between WB and Government of India to implement IPSAS

- 2004- 12TH Finance Commission Recommendations, GASAB(Government Accounting Standards Advisory Board)-IFAC-ICGFM (International Consortium of Governmental Financial Management) Meeting
- 2005- Two committees constituted by GASAB
- 2006-2008- GASAB issues roadmap and operational framework, Centre & State meetings

2009-2014 • **PHASE-II- FIRST AND SECOND STAGES OF ROADMAP -TARGETS ACHIEVED**

- 2009 – India becomes a member of IPSASB
- 2010 – WB offers to fund pilot studies for convergence in India
- 2011-2014 – IPSASB Chairman visits India-Ministry of Finance and ICAI

- 2009 – 'Bubble up' approach to transition to accrual accounting by Governments, National Municipal Accounting Manual issued by CAG
- 2010 – Pilot studies conducted in 3 states through WB funding
- 2011- 2014 – Urban local bodies in 17 states and rural local bodies in 4 states switched to accrual accounting

Figure 4 Summary of Decision-Making Phases in the Public Sector

6.2 Phase I - Events Leading to the Preparation of Roadmap for Convergence (2002-2008)

Transnational   **National**

| | 2002 | Task Force Constituted by CAG in February |

State Financial Accountability Assessment by World Bank, SARFM& DFID from Feb-May | 2003 | Central Government accepts recommendations of Task Force

Formation of AGAOA with support from WB

State Financial Accountability Assessment Report Published by WB

| 2004 | 12TH Finance Commission Recommendations

GASAB-IFAC-ICGFM Meeting

Professional Development Programme co-organised by ICGFM of CAG (India) & IPAI

ADB-OECD Anti-corruption Initiative | 2005 | Two Committees constituted by GASAB

Collaboration between WB and Govt. of India to implement IPSAS | 2006 -2008 | Centre-State Meetings

National Municipal Accounting Training Manual

GASAB Issues Roadmap and operational framework

Figure 5 Timeline of Events Constituting Phase I

Transnational Influences

Local Responses

Figure 5 shows a detailed timeline of transnational and local events that occurred during Phase I. From the sequence of events on this timeline, it could be stated that India's decision to converge with IPSAS in the public sector was triggered by some transnational influences. Communications and collaboration with IFIs for improving public financial management and accountability in the country with specific focus on transition to accrual system of accounting had started as early as 2002. The occurrences of these communications and collaborations have a cyclic pattern that recurs or repeats itself. In other words, while some of the local events are responses to transnational influences, some of the transnational communications are also responses to local communications. Such ongoing communications or events between transnational and national actors constitutes or shapes the decision-making process. Another point to be noted is that there are some events that are initiated in the first year and then developed over the following years. Since the events are narrated according to the time-sequence in which they occurred, the narration of a single event might be spread out under different years as and when they developed. For example, the constitution of CAG task force and the State Financial Accountability Assessment (SFAA), both of which occurred in 2002 and 2003 respectively resulted in the publishing of their respective reports in the following year. So the details of the assessment and the task force constitution precede the discussion of the reports which were published only in 2003 and 2004 respectively.

In February 2002, based on the recommendations of the 11th Finance Commission, the CAG of India constituted a task force to provide or suggest budget and accounting formats of Urban Local Bodies (ULB) (CAG, 2002). The recommendations of the Commission were intended for general reforms in public financial management of rural and ULBs. Although accrual accounting was not specifically mentioned, the subsequent recommendations of this task force constituted a significant step towards accrual accounting.

The Report prepared by the CAG task force was accepted and forwarded by the state in April 2003 to provincial governments for implementation. The Ministry of Urban Development (MoUD) while reviewing the progress of the application of these recommendations decided that the CAG in conjunction with the Indo-USAID Financial

Institutions Reform and Expansions Project-Debt & Infrastructure Component[8] (Indo-USAID FIRE-D Project) should prepare a National Accounting Manual that would then be forwarded to the provincial governments by the MoUD (USAID, 2004).

During the period of February to May 2003, the WB in consultation with the government of Orissa (GOO) had conducted an SFAA in that province. The assessment was conducted by a South Asian Region Financial Management (SARFM) task team which also included members from the DFID and South Asia Poverty Reduction and Economic Management (SASPR). This assessment falls under the Country Assistance Strategy (CAS) for India of the WB wherein financial accountability assessments are to be carried out in all provinces that are preparing programmatic adjustment loans that support reforms related to fiscal and fiduciary risk management. The CAS is a programme where the WB in collaboration with GOI would engage in actively providing both financial and technical advice on various sectorial reforms in the country (WB, 2004). The key message that stands out in this event is the strong presence of transnational influences and the role of these influences in propelling the country towards the convergence decision. The reports of these assessments often contained clear indications encouraging convergence with international accounting standards. For example, one of the recommendations of the SFAA report stated:

"IPSAS requires that final accounts disclose comparative information in respect of the previous period for all numerical information contained therein. Except for the summary statements of finance accounts, such comparative information, which facilitates an understanding of changes in government activity from year to year, is not being provided. We recommend that comparative information for the previous year be provided in all government annual financial statements" (SFAA, 2004).

Hence in 2004 two significant documents were published; the National Municipal Accounting Manual (NMAM) by CAG-USAID, and the SFAA report. The significant point about the NMAM was that it prescribed a shift to accrual accounting principles based on the recommendations of the task force (USAID, 2004).

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[8] The Indo-USAID FIRE-D Project is a joint initiative of the United States Agency for International Development (USAID) and the GOI that assists municipal and provincial governments in India to develop sustainable urban environmental services (NIUA,2003)

On the other hand, the SFAA report, also published by the WB in 2004, pointed out among other things a lack of compliance with IPSAS cash accounting as one of the areas where Orissa was still not making sufficient progress. The report stated that,

"A detailed comparison of the above mentioned IPSAS with standards practices by the GOO (Government of Orissa), reveals significant deviations from IPSAS, which need to be addressed at the national level, where the standards are determined" (SFAA, 2004).

Furthermore the report also recommended that standards should be brought into greater alignment with IPSAS requirements within the confines of the existing framework. From the quote above it can also be observed that the report identifies that a change in the accounting policies is not a provincial issue, and needs to be considered at the national level. It could be due to these recommendations that the GOI started to take action towards IPSAS convergence during the same year.

6.2.1 The Twelfth Finance Commission

One of the first official steps taken towards IPSAS convergence was in 2004 when the Twelfth Finance Commission of India in its report (for the future period of 2005 to 2010) to the central government made a recommendation for implementation of accrual accounting for the central and provincial governments. The central government accepted this recommendation. The explanatory memorandum of the report presented a two-step action to be taken by the Government Accounting Standards Advisory Board (GASAB); a) Recommending or planning a roadmap for transition from cash accounting system to accrual accounting system, b) Preparing an operational framework depicting the structure of the accrual accounting system including the accounting and treatment of assets, liabilities, revenue and expenses and the final accounts of the governments according to constitutional provisions and also satisfying the budgetary requirements (GASAB, 2011a).

The recommendations of the Twelfth Finance Commission could be interpreted as a response of the state to the SFAA report which enables the visualisation of the convergence decision as a two-way interactive process between transnational and national actors. It provides a logically plausible explanation for the occurrence of the events that mark the convergence decision in this time period. There are two reasons which led to this interpretation. The first reason is the time sequence of these events. The SFAA assessment carried out in 2003 and publishing of the report in 2004 occur

immediately before the Twelfth Finance Commission recommendations. The second reason is that although the recommendations of the SFAA report are directly addressed to the provincial government, it indirectly seems to address the central government on the necessity to take action at national level. Also since the provincial governments in dealing with transnational bodies do require central government approval, all such events occur with the knowledge of the central government and hence there is indirect involvement of the latter in these proceedings to a certain extent. The flow of these events show the manner in which decision-making processes are shaped and constituted through a series of transnational and local communications and/ influences.

6.2.2   Association of Government Accountants of Asia (AGAOA)

While the recommendations of the Twelfth Finance Commission were an important event that initiated steps towards IPSAS convergence within the country, there were also some networks on the global front that further accelerated the movement. The AGAOA was formed in 2004 by the member countries to share their experiences in the field of public financial management, accrual accounting, risk based audit and internal controls (AGAOA, 2011). Representatives from the respective ministries of finance of all the member countries constitute the association. The Indian INGAF (Institute of Government Accounts & Finance) which is a training institute of the Ministry of Finance, is secretariat of the association (INGAF, 2011). AGAOA has been receiving financial assistance under the technical assistance IDF grant from the WB for improving the public financial management system in member countries. All the seminars and conference held by the AGAOA are attended by a WB official as an observer (AGAOA, 2011).

The key points to be noted here are firstly the coming together of accountants representing governments of different countries in the region to address common issues and the presence of WB at these discussions. Both these points essentially indicate the transnational nature of national decision-making process. The first point represents local actors transcending national boundaries to communicate with local actors of neighbouring national decision-making arenas to arrive at solutions to common national issues. However, the presence of WB provides a different significance to the cooperation amongst these local accounting bodies. It can be inferred that as the WB is a donor to all member countries (AGAOA, 2011), its influence is probably obligatory on the AGAOA

members which leads to the possibility that this platform/cooperation is a transnational regional strategy (Djelic,2014) used by the WB to influence the national accounting policies of member countries. Hence this event helps to gain understanding of differences in the nature of transnational influences that shape the decision-making process.

Networks involving national and international professional associations and institutes also had influences in shaping the decision-making process. In 2004, a professional development programme on 'Public Sector Accounting and Financial Reporting' was organised by the office of CAG of India, the Institute of Public Auditors of India (IPAI) and ICGFM (GASAB, 2004a). In addition to members of the host organisations, it was attended by chairman of IFAC Public Sector Committee (PSC), delegates representing different fields of accounting, auditing and financial management of the union, and provincial and urban local governments, members of RBI, members of public sectors entities, credit rating organisations, private consulting agencies and members of international financial aid agencies.

The main focus of this meeting was modernising accounting and financial reporting functions in the country. A wide range of issues regarding government financial management such as accounting, auditing, budgeting, debt administration, information technology, tax administration and treasury management were also discussed (GASAB, 2004b). In his inaugural address on this occasion, the CAG of India specifically cited the 'Framework of Accounting Standards' for governments issued by the International Organisation for Supreme Audit (INTOSAI) and cash and accrual based accounting standards issued by IFAC's PSC to be valuable sources of guidance on framing government accounting standards (GASAB, 2004a). The CAG stated,

"We, in the Public Sector in India, are beneficiaries of the substantial contribution made by the Public Sector Committee of the International Federation of Accountants in the field of standard setting" (GASAB, 2004a).

The evidence of transnational influence through such transnational communications and the manner in which they influence national accounting standard-setting is clear in this case. The findings support the theoretical framework of transnational governance with central focus on transnational communications.

The year 2005 also saw events and developments on the local and transnational front that kept the convergence decision-making process moving ahead. On the local front, GASAB in accordance with the recommendations of the Twelfth Finance Commission, held meetings with its members to discuss the matter and constituted two committees to handle the creation of the roadmap and preparation of the operational framework. The members of GASAB include representatives from railways, post & telecom, MoF, presidents of the two main professional bodies, ICAI and Institute of Cost and Works Accountants of India, and director of NCAER (GASAB, 2008). In December 2005, the committee dealing with roadmap made several recommendations during subsequent meetings. It was suggested that the departments of accounts for defence, railway, post & telecom and provincial governments should preferably draw up their own detailed roadmaps for their jurisdictions taking into consideration the difference in the nature of these departments' functions and their level of preparedness (GASAB, 2008a).

On the transnational front also there were important sources of influence that were promoting convergence with international accounting standards. The ADB and the OECD in collaboration with the UN, in 2005, organised an anti-corruption initiative in Pakistan where the significance and necessity of adopting international accounting standards in both the private and public sectors was emphasised. Comparing the two sectors, it was noted that,

"The number of private sector initiatives in the Asia-Pacific region …… has increased over the past few years. On the other hand, governments have not focused as much on establishing and enforcing company management and accounting standards" (ADB, 2005).

The initiative was organised as a series of training seminars. This was the 3rd master training seminar and India was represented at the seminar by a senior member of the central government (ADB, 2005). It is also interesting to note that participants who are Official Development Assistance (ODA) recipients[9] are funded by the initiative and India is among countries receiving funds to attend the seminars (OECD, 2012). Hence it can be observed that the sources of transnational influences that were pushing for convergence were important in terms of their relationship with India. In addition to OECD, the ADB is also an important donor agency which has provided financial and technical support to

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[9] ODA recipients are countries that provided with funds by the OECD Development Assistance Committee

projects in India in the past and continues to do so. For example, financial support was provided by ADB in 2005 for the 'Multitranche Financial Facility (MFF) - Rural Roads Sector II Investment Program' and the 'Kerala Sustainable Urban Development Program' (ADB, 2012).

In 2007/08, the committees constituted by the GASAB drew up a roadmap and an operational framework for transition to accrual accounting. The roadmap proposed that the transition should take place in three stages;

a)   Value addition within the current system by supplementary statements on salaries, subsidies and pension. This could be a short term activity.

(b)   Value addition in the current system with slight alterations to enable greater disclosures such as arrears in revenue and committed liabilities which could be a medium term activity.

(c)   Attaining the required accounting system in the long-term based on accrual system.

The roadmap proposed a period of ten to twelve years as a reasonable time frame to achieve the targets keeping in view the differences in the extent to which different departments were prepared for the transition.

Although the committee dealing with preparation of roadmap suggested that individual departments draw out their own detailed roadmap based on the needs and specific characteristics of their jurisdictions, it did lay out a broad framework of activities/work items that could be used by the former to create a detailed roadmap. Some of these activities included creating a task force/cell for implementation and coordination, building adequate database essential for implementation of accrual accounting and conducting pilot studies on a few ministries/provincial governments to assess the gap between the existing system of accounting and the proposed one (GASAB, 2008a). The preparations of the local actors for IPSAS convergence were even at this point backed by IFIs.

6.2.3   Phase I - Interpretation - Reflective Analysis

The decision-making process in the first phase has been shaped by both transnational and national influences. Classifications of actors and types of influence exerted on the decision-making process have been identified as characteristics that can be used for in-depth analysis.

6.2.3.1 Classification of Actors

Table 8 Analysis of actors involved in the decision

Vocational Classification / Regional Classification	State Bodies	Professional Bodies	Financial Institutions
Transnational	AGAOA, ICGFM, DFID	IFAC, IPAI, INTOSAI, IPSASB	WB, USAID IMF, ADB, OECD
National	GASAB, Twelfth Finance Commission	ICAI, Institute of Cost Accountants of India	RBI

Analysis of actors constituting the decision-making arena in the first phase presented in Table 8 shows that on the transnational front there were significant influences from transnational state and financial bodies. On the national front all the actors are either fully authorised state bodies or agencies of the state. For example, the ICAI and the Institute of Cost Accountants of India are professional bodies that are legally subordinate to the central government. It is perhaps the sole presence of state bodies on the national front that led to contrasting differences in the convergence movement in the public and private sectors. However, there are different views on the reasons for contrasts in the public and private sector. According to a USAID official, the public sector convergence movement is relatively easier when compared to the private sector. Elaborating on this point, the interviewee stated,

".....public sector is not replacing an existing accounting system.....it does not have to undo practices followed for decades now and adopt a new system as in the case of private sector".

The same argument has also been stated by some government officials who cite similar convergence processes in other countries and also the point that public sector is not replacing an existing set of accounting standards. This study infers that the apparent absence of resistance in the public sector could also be a reason for the contrast in the convergence decision-making process in the two sectors. Although it is likely that there may have been some differences of opinion, the official statement has emphasised the presence of consensus among all parties involved. However, government statements may not always reflect reality. A senior government official said:

"We have not had any resistance to the move towards accrual accounting and eventually towards IPSAS... all parties involved are supporting the decision" (G2)

The main message that comes out here is the strong presence of transnational actors and their relationship with the national actors. The presence of IFIs such as WB and OECD with whom the state has a donor-recipient relationship further emphasises the influence of transnational actors on the decision-making process. To gain a better understanding of the decision making process in the first phase it would be necessary to analyse the nature of influence exerted by these actors on the decision-making process. The following section presents an analysis of the type and mode of influence exerted on the decision.

6.2.3.2   Type and Mode of Influence

Analysing the different ways in which people or actors were involved in the convergence decision helps to gain a comprehensive understanding of the events or proceedings in the decision-making arena. Table 9 presents an analysis of influences on the decision:

Table 9 Analysis of Influences on the Decision in the Public Sector in Phase I

TYPE / MODE	DIRECT			INDIRECT
	IFI(s)	Professional	Government	
FORMAL	WB, IMF	IPSASB	DFID, USAID, ICGFM	ADB, OECD
INFORMAL	WB	-	-	

Evidence of decision-making process in this phase indicates that communications have been mostly formal through both direct and indirect means. Table 9 shows three layers of direct influence on the decision-making process from IFIs, professional bodies and state agencies or departments of countries such as the US and the UK. For instance, the direct influence of IFIs on the decision-making process is supported by clear evidence of SFAA assessments conducted specifically in India as also in the case of preparation of NMAM. Also the report on the assessments makes very unambiguous recommendations to the GOI for IPSAS convergence. On the other hand, ADB and OECD have been promoting convergence with international accounting standards through platforms organised for other related issues such as fighting corruption. Hence this influence is interpreted to be indirect.

With regard to the influence of USAID on India's move towards IPSAS convergence, an interviewee stated that the organisation was actively involved in promoting accrual accounting in municipal bodies in India through financial and technical support (IF2). According to a senior member of the USAID, the organisation has its regional offices in India which employs mostly local staff members who actively participate in conferences, seminars and meetings on convergence with international accounting standards. Hence these local offices act as the channels of transnational communication between transnational and domestic actors.

"The meetings and conferences are used as a platform to commence communications with representatives of government bodies and professional associations which are often followed up by informal communications as well" (IF2).

With regard to informal communications, it could be observed that evidence for the same is limited. Talking about informal influences, the interviewee stated that there was an instance where a WB official had offered financial assistance to the ICAI in an informal meeting to facilitate and speed up the implementation of accrual accounting. She said,

"A friend of mine who is a senior member of ICAI was approached by a World Bank official with an offer of financial aid for the transition…the offer was made during an informal meeting" (IF2).

However, at the time the ICAI had other sources of financial support and hence had declined the offer. The interviewee further explained that USAID has also been providing assistance to conduct training sessions and workshops for chartered accountants. Hence it can be observed that in the same year of 2004, two powerful IFIs were playing significant roles in initiating and shaping the decision-making process for IPSAS convergence in India.

One of the important characteristics that can be observed in this phase is the cyclic nature of the decision-making process. Officially the state in its announcements does not cite specific transnational influences as the cause for its actions towards IPSAS convergence. However, from the timing of transnational communications and local developments, it could be interpreted that steps taken by the state were in response to transnational influences. For instance, the publishing of the SFAA report by the WB and the recommendations of the Twelfth Finance Commission both occurred in February and July 2004 respectively. From this it could be interpreted that the recommendations of the Twelfth Finance Commission were in response to the recommendations for convergence with international accounting standards in the SFAA report which was specifically addressed to the state.

Similarly, the professional development programme co-organised by ICGFM in 2004 is also marked by some interesting aspects that further substantiate the theoretical framework used in this study. It represents that transnational networks, in addition to state-non state interactions, also include state to state interactions where one actor is a national state actor and the other is a transnational state actor. Since these transnational networks are the means through which the convergence decision-making process is shaped and constituted by actors, examining these networks would enable to gain a better

understanding of the convergence project. The participation of actors and their actions as part of the network represent the influences exerted on the convergence project. In this case the members of ICGFM include state entities handling financial management responsibilities; that is high level government executives, representatives of MoF, accountants and auditors general from countries across the world. (ICGFM, 2008). Hence the professional development programme that was co-organised by the ICGFM in India was a significant example of state and non-state transnational influences on the decision-making process in India.

The programme was called the 'Joint Professional Development Programme on Public Sector Accounting and Financial Reporting' and it was conducted to enable the sharing of different kinds of experiences on public sector accounting with specific focus on some important aspects in the Indian context; in particular, the move from cash accounting to accrual accounting. In his inaugural speech, the CAG noted,

"A need to revisit the conceptual underpinnings of government accounting systems has been felt in India largely due to realisation of deficiencies in the cash based system particularly for purposes of modern financial management and the need for greater transparency and user friendliness".

The CAG further pointed out that the two main issues that require specific attention are the framing of appropriate financial reporting standards and the training of government accountants to equip them with new accounting skills. The INTOSAI and the IFAC PSC were stated to be significant sources of reference points for the development of standards for government accounts (GASAB, 2004a).

6.3 Phase II - First and Second Stages of Roadmap: Targets Achieved (2009-2015)
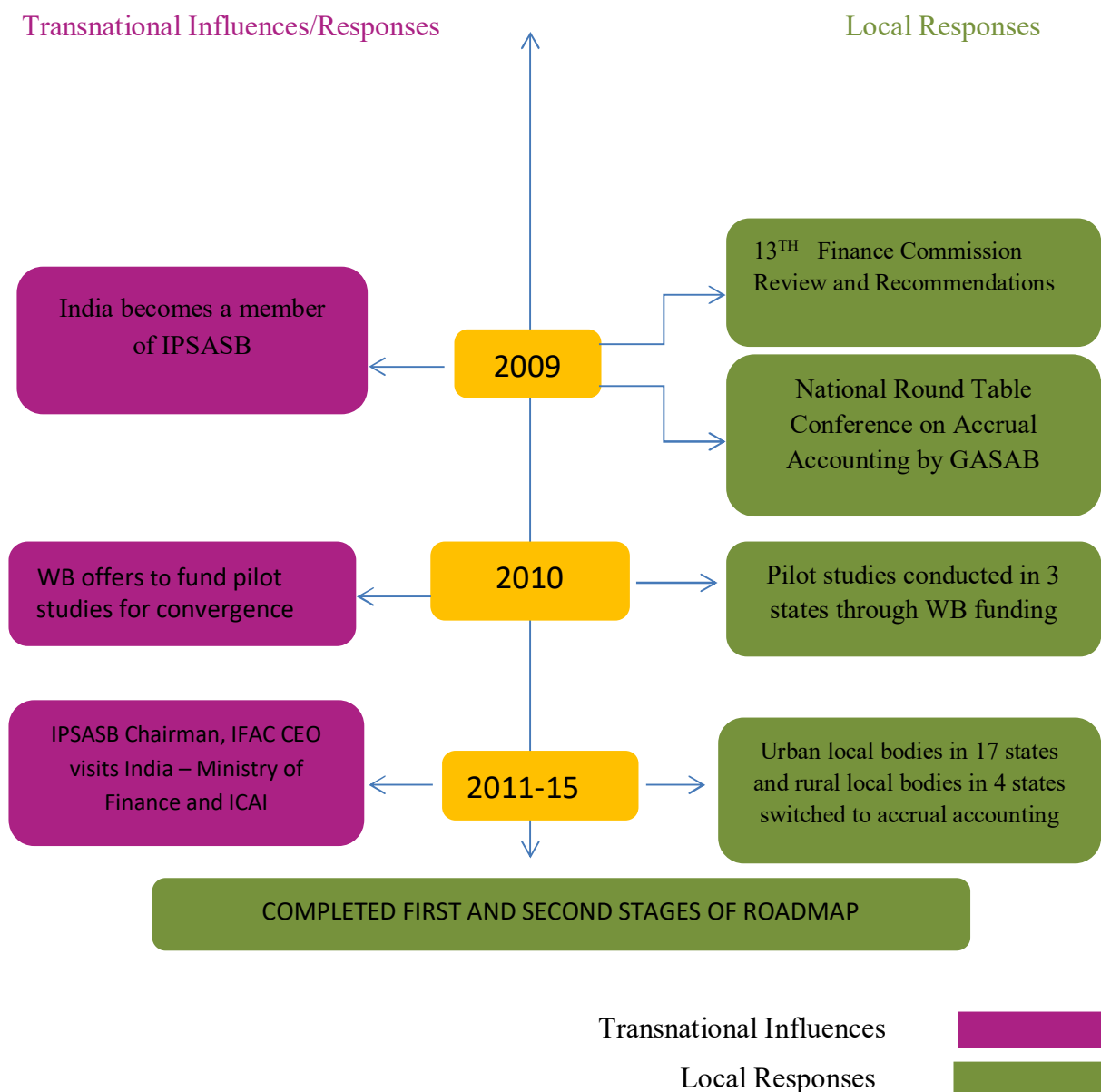
Figure 6 Timeline of Events Constituting Phase II

Figure 6 depicts the transnational and national events that took place during the period of 2009 to 2014. In 2009 India had become a (rotating, voluntary) member of International Public Sectors Accounting Standards Board (IPSASB). Interviews have revealed that the IPSASB conferences and meetings have served as one of the platforms for communications between members representing different countries and transnational

organisations such as IFIs. IFAC as a facilitator of the structures and processes that support the operations of IPSASB, was also involved in these conferences and meetings (CG1). According to a senior member of the government, these conferences were observed by the WB, IMF, UN, OECD and MNCs. Being observers, these organisations have no voting rights. Hence officially any opinion expressed by them could be overruled if the members voted against it; however, interviewees participating in these conferences revealed that in the practical scenario this never happened (CG1). The interviewee further explained,

"The comments/suggestions/opinions made by the observers were almost always accepted and were not opposed. This is because member countries were aware that these huge organisations were wealthy and in powerful positions" (CG1).

This is clear evidence of the powerful nature of transnational influences on such platforms and consequently also influencing the decision-making processes of member countries. Hence India was clearly on the path of IPSAS convergence and as the narration of future events would show, without any of the controversies or debates that surrounded IFRS convergence in the private sector.

In 2009 there were also some local developments. In May that year, GASAB organised the National Roundtable Conference on accrual accounting in which provincial finance secretaries from across the country had participated. The conference was also attended by WB officials. The platform was used to discuss various issues regarding the transition to accrual accounting such as the format of financial statements for the union and provinces, pilot studies in states and a five-year time frame for a national roll out of accrual accounting system (MoF, 2009; MoF 3). By 2009, the central, provincial and local government had also been making preparations for facilitating a 'bubble up' approach to transition to accrual accounting. This meant that the initiative for accrual accounting would start at the local government level and then gradually 'bubble up' to the provincial and central government level (WB, 2010).

In 2009, the Thirteenth Finance Commission took some important steps to push forward the migration to accrual accounting system. It conducted reviews of the previous Finance Commission and also held consultations with provincial and local governments. The Commission sent out exhaustive questionnaires to provincial governments and other

associated organisations to examine issues such as finances of ULBs, accounting and audit practices and implementation stage of recommendations made by previous commissions. On finding the implementation progress unsatisfactory, the Commission laid out 9 mandatory conditions to obtain one half of the grant that was previously available in full amount to all provinces unconditionally. The other half was still unconditionally available to all provinces. Reforms recommended were listed along with compliance mechanisms for the same.

One of the major recommendations of the Thirteenth Finance Commission was,

"The states (provinces) should implement in all ULBs an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual. This implies that all ULBs should introduce accrual based double entry accounting system as per the National Municipal Accounts Manual which has been agreed by all the states (provinces) and are in the process of customizing and adopting the Manual" (MoUD, 2010).

From the review and recommendations of the Thirteenth Finance Commission, it is clear that the state was taking strong initiatives to actually push the application of accrual accounting system in India. The events that followed these steps prove that they had the necessary and intended impact on the provincial and local governments.

Based on the recommendations of the two finance commissions and GASAB, it was decided that pilot studies should be conducted in a couple of provinces before proceeding to the final overall convergence (GASAB, 2008). The provinces of Andhra Pradesh and Madhya Pradesh were ready to carry out the pilot studies for conversion to the accrual system of accounting in their jurisdictions. However, according to a senior government official, funding these pilot studies was an issue.

"They (the provincial governments) were ready to carry out these pilot studies but wanted them to be funded by the central government. The central government, at the time, was not in a position to fund these studies" (CG1).

At this stage, in 2010, the WB stepped in, according to the interviewee and agreed to fund these pilot studies. In addition to financial aid from the WB, these studies also received technical support from transnational professional organisations. For instance, the pilot study conducted in Andhra Pradesh received technical assistance from Deloitte. To carry out the pilot study, two departments under the provincial government were selected.

Model formats for Annual Financial Statements (AFS) were conceptualised, based on IPSAS, IGFRS and few international experiences. The model formats were filled in on the existing cash based AFS and on the new piloted formats in the respective departments. Part of the analysis also included comparison of several aspects of AFS with those of UK, New Zealand, Canada and Australia (GASAB & CAG, 2010). Here again the influence of transnational accounting practices in shaping the national decision-making process can be observed.

In the case of the pilot study in Madhya Pradesh, the technical assistance was provided by the IPAI and was financially aided by the WB. The specific objective of this study was to identify gaps between the existing cash accounting system and accrual system. It aimed to identify issues that would arise on actual migration to accrual accounting specifically in the case of Plant, Property and Equipment and Inventories (WB, 2010). By 2011, more than 48 ULBs across seventeen provinces had switched over to accrual accounting. Four provinces had adopted accrual accounting for Panchayati Raj Institutions[10], and sixteen provinces had adopted the Model Accounting System that is amenable to accrual accounting system (GASAB, 2011b).

The professional bodies at both the national and transnational front have also been communicating to drive the process ahead. These communications between professional bodies include a visit to New Delhi by the Chairman of IPSASB Mr. Andreas Bergmann in 2012 during the course of which he met members of the ICAI and the Joint Secretary (Budget) to the MoF to discuss international convergence to IPSASs. The president and vice-president of ICAI, and a few ICAI central council members were also present on the occasion (ICAI, 2012). In March 2013, the Chief Executive Officer (CEO) of IFAC, Fayezul Choudhury met several members of ICAI and CAG to discuss accounting auditing and assurance issues (ICAI, 2014).

So it appears that the GOI was taking important and proactive steps towards achieving IPSAS convergence. It had made relatively significant progress in terms of achieving a consensus of provincial governments for adopting accrual accounting and being able to actually commence implementation of accrual accounting systems in 21 out of 29

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[10]Panchayati Raj is a system of governance in which 'gram panchayats' or local self-governments are the basic units of administration. It has three levels- village, block and district.

provinces. The following section presents a deeper analysis on the actors and the influences that have been shaping the decision-making process in India.

6.3.1 Phase II - Interpretation- Reflective Analysis

The second phase is characterised by the presence of a few new local actors such as the MoUD and the NIUA which has been involved in preparing reports on the convergence progress in local and provincial governments. Also Deloitte providing technical assistance for pilot studies emphasises the variety of transnational influences on the decision. WB has been seen to be constantly involved through their presence at even national level conferences organised for provincial governments.

As in the case of the first phase, this second phase of decision-making in the public sector has also been characterised by formal influences that are both direct and indirect in nature. There has been no explicit evidence of informal influence although it is probable that informal influences may have been exerted. However, this research has picked up only formal influences which seem to have been successful in driving the process ahead. In addition to the influences presented above, the accounting systems followed in UK, US, Canada and Australia could also be stated to be indirect sources of influences as the GASAB had clearly cited these transnational accounting systems as guiding sources of inspiration for preparing the converged IGFRS.

However, a key point to be noted here is that despite drawing heavily from IPSAS to create the new accounting standards, the government has not fully adopted IPSAS and has only converged with IPSAS since it is maintaining a distinct identity. This means that the newly created standards are named IGFRS and not IPSAS. Further analysis of this aspect of the decision-making process in India will be examined in Chapter Seven presenting private sector evidence.

6.4 Conclusion

The decision-making process of IPSAS convergence in India is mainly led by the state at the local front and IFIs at the transnational front. One of the main points of difference that could be observed in the public sector is the absence of local resistance towards the

change in the accounting systems in comparison to the private sector. Interviewees have consistently stated that there is consensus among all actors involved with regard to the convergence decision in the public sector. Although these interviewees being senior government officials are not likely to diverge from the official version, the progress achieved in the public sector suggests that at least people who matter in the decision-making process do agree on the convergence decision. Some of the government officials defend contrast in the public and private sectors by citing reasons such as the benefits of accrual accounting and that the public sector is not replacing an existing system but is only converging with a readymade efficient accounting system. This according to the interviewees is different from replacing an existing accounting system to incorporate a new system as in the case of private sector. However, these arguments do not hold good when one compares the enormous levels of work that needs to be carried out to achieve IPSAS convergence in the public sector in comparison to the efforts needed for IFRS convergence in the private sector. The contrasts in the public and private sector bring out both the significance of transnational influences in the decision-making process and also indicates that local response to these influences are capable of changing the nature of the decision-making process. Specifically, the analysis brings out the change in role played by the state as the central decision-maker in the two sectors. This is discussed in detail in the next chapter through analysis of empirical evidence in the private sector.

CHAPTER SEVEN - IFRS CONVERGENCE IN THE PRIVATE SECTOR : EMPIRICAL EVIDENCE

7.1 Introduction

This chapter presents and examines the decision-making process surrounding convergence in the private sector, which has been marked by debates and controversial delays. The official stand of the state in favour of convergence with international accounting standards has been contradicted in the private sector by repeated failures to actually translate this policy into action.

The events constituting the decision-making process are narrated in four phases. The narration of events is constructed around three announcements of deadlines for IFRS convergence (with differences) by India. The events constituting all the four phases are summarised below in chart where the events on the left hand side are transnational events and those listed in boxes on the right hand side are local events or responses. A timeline is also shown to highlight events that are not restricted to a single phase and flow through the different phases. The phases are then discussed in detail in the following sections.

4 PHASES OF THE DECISION-MAKING PROCESS IN PRIVATE SECTOR

2000-2007 PHASE- I – EVENTS THAT LED TO THE FIRST DEADLINE PROPOSAL

T / N

- 2000-2004- UNCTAD 10th Session, IOSCO Sydney Resolution , FASB &IASB Convergence project, FSAP Report by WB & IMF
- 2005 - EU's Mandatory IFRS Adoption, ADB/OECD Anti-corruption Initiative, ESMA, MCA & ICAI, EU's permission to Indian co (s)
- 2006 – 2007- ISAR (UNCTAD) Report on India,

- 2001-Establishment of NACAS,
- 2005- MCA (Ministry of Corporate Affairs) & ICAI (Institute of Chartered Accountants of India) respond to ESMA,,
- 2006- 28 IFRS converged Ind AS notified by Govt. of India

2007-2008 PHASE-II- THE FIRST DEADLINE ANNOUNCEMENT

- ISAR Report

- 2007-2008 - Roadmap for convergence, IFRS training sessions, Industrial lobbying, Core Group formed ,MCA ANNOUNCEMENT

2009-2011 PHASE-III- EVENTS LEADING TO THE SECOND DEADLINE ANNOUNCEMENT

- 2007-2009 -IFRSF Meeting,G-20 Commitment
- 2010-2011 - India –Japan IFRS dialogue, AOSSG (Asian – Oceanian Standard Setters Group) WG formed and co-led by India

- 2007-2009 - Roadmap for convergence, IFRS training sessions, Industrial lobbying, Core Group formed
- 2010-2011- ASC formed by CBDT,FICCI request to postpone convergence, MCA notifies 35 IFRS converged Ind AS, New deadline of 2013 announced

2011-2014 PHASE-IV- EVENTS THAT LED TO THE THIRD DEADLINE PROPOSAL

- 2011-2012- Letter sent by AOSSG WG to IASB ,India-EU summit
- 2013-14- IASB accepts AOSSG WG proposal, 8TH IFRS Regional Policy Forum

- 2011-2012- Two sub-groups of Core Group dissolved, IFRS conference
- 2013-2014 - New Roadmap, Core Group Meeting, SEBI & ICAI disagreements, New deadline proposal.

Figure 7 Summary of the Decision-Making Phases in the Private Sector

2000-07	2007-08	2009-2011	2011-

India-ESMA -EU, Concept paper, Core Group   India-Japan dialogue, AOSSG
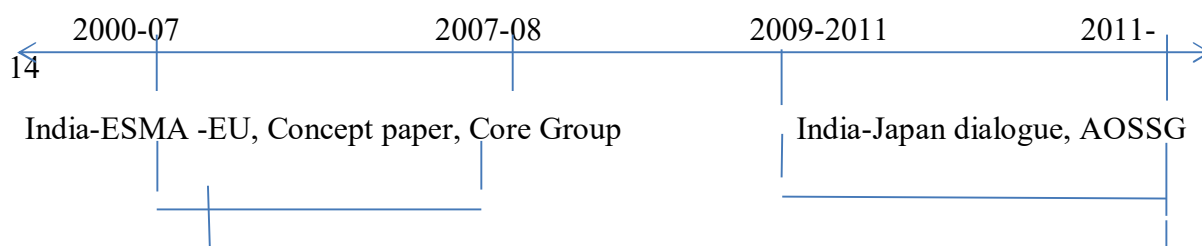
Figure 8 Timeline showing events flowing through different phases

7.2   Phase I - Events that led to the First Deadline Proposal (2000-2007)

The first formal announcement that India would seek to converge with IFRS came in 2007. It was an important milestone in the decision-making process as through this announcement India officially joined numerous other countries which were or still are in the process of moving towards convergence. The events that surrounded this milestone can be broadly classified as those that led to this milestone and those that occurred as a reaction or response to this milestone. The events are presented as a two-way interaction process where transnational influences and responses to these influences from local actors together help to shape the decision-making process. This implies that India's decision on whether or not to converge with IFRS and the terms of convergence are being influenced by transnational communications between transnational and national actors. These interactions have been found to be crucial in determining the direction of the decision-making process.

The purpose of presenting the events in this manner is also to draw attention to the cyclic or recursive nature of the decision-making process (Halliday & Carruthers, 2009). Quite often local responses also succeed in changing the strategies that transnational actors use to influence standard-setting decisions of a country. These aspects of the interactions between national and transnational actors help to gain a better understanding of the ongoing convergence project in India.

While the impact of specific transnational influences such as the WB and the IMF on IFRS convergence decision have been discussed extensively in literature (Tyrall et al, 2007; Peng & Bewley, 2010), relatively less research has been done on the existence of local responses to these influences and the impact that these responses could have on the

decision-making process and the strategies of transnational actors (Carlson, 1997; Watty & Carlson, 1998; Mir & Rahman, 2005). This section attempts to narrate these events through the interactions or communications between different actors (Samsonova, 2009) in a chronological manner. It is divided into two parts:

7.2.1   Timeline of Transnational and Local Events/Communications during 2000-2007

7.2.2   Reflective Analysis and Interpretation of Phase I Events

7.2.1 Timeline of Transnational and Local Communications/Events (2000 to 2007)
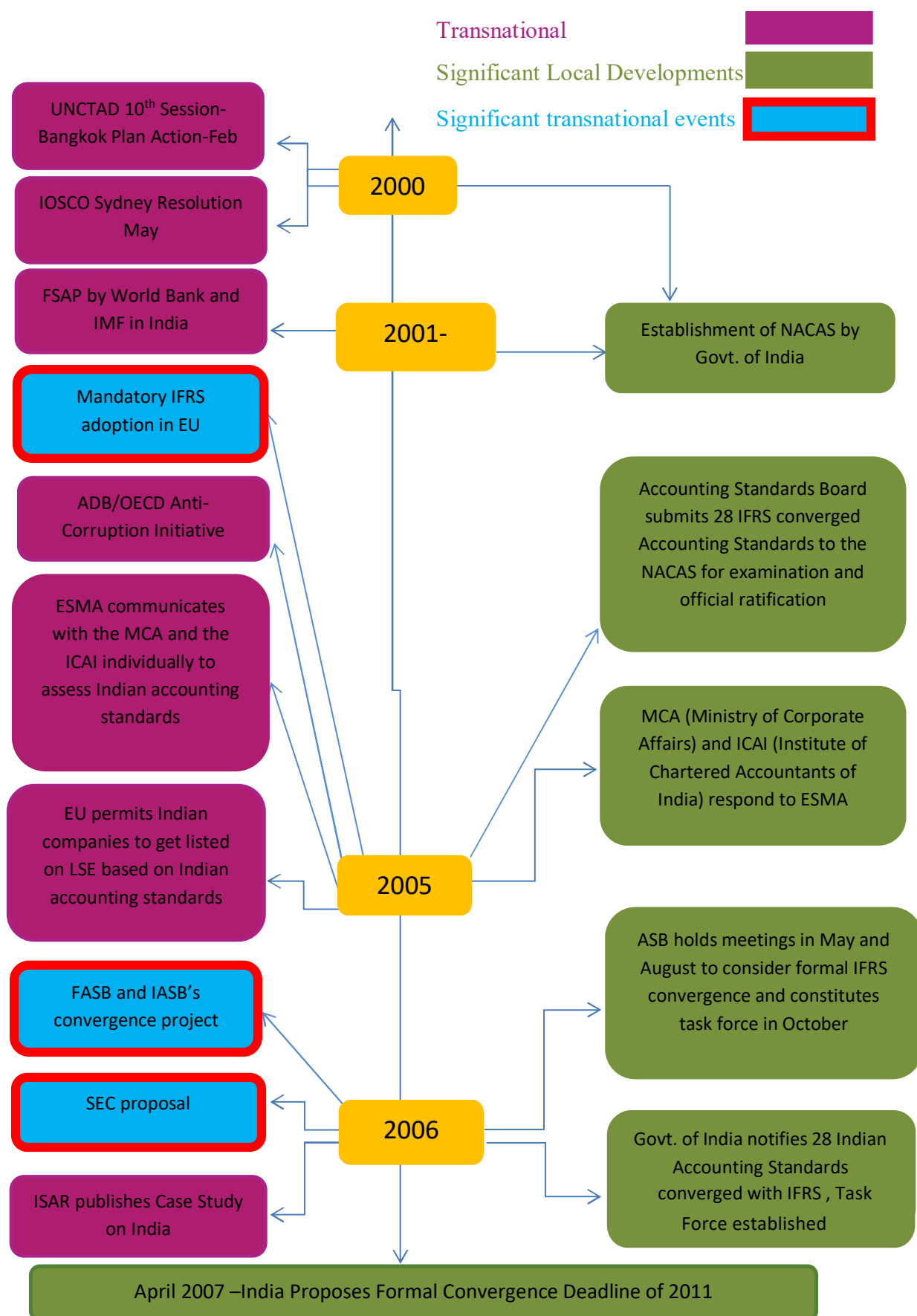

Figure 9 Timeline of Events to Formal Proposal for Convergence

The timeline presented above represents events in both the transnational and local sphere. The presentation of parallel transnational and local events on the timeline has been done only on the basis of their occurrence in the same year. They only indicate a possibility that transnational events might have triggered subsequent local developments or vice-versa. The focus, here is on the cumulative effect of various events on the decision-making process rather than specific events.

The timeline presents two types of transnational influences on the convergence decision-making process; direct transnational communications where India was either a participant along with other countries or cases of one-to-one communication between India and transnational organisations. Out of the ten sources of transnational influences listed on the left side of the timeline, all except three are those in which India had participated. This implies that seven sources are platforms/events/developments such as the UNCTAD conference or the ESMA communications where a representative from India was directly involved. The remaining three sources of transnational influences are those which were independent transnational events which had an indirect impact on the decision.

One of the main observations that could be made during this phase is that, although India was making commitments towards IFRS convergence (with differences) at various transnational forums through membership or participation, the local responses were very slow and limited. For example, the state did not openly declare its intention to officially converge until 2007, although some small steps were being taken to move towards IFRS convergence before that time. Interviewees state that the ICAI has been issuing standards in alignment or quite similar to IFRS since 2005. A senior member of the ICAI said,

"From the time the ICAI has been issuing Indian accounting standards, we have always maintained a policy of following IFRS excepting some principles such as fair value which can be manipulated and misused in the Indian context"(PB1).

However, the state only officially announced its IFRS convergence policy in 2007. This announcement appears to have come as a consequence of mounting pressure from transnational sources and also the growing necessity of foreign investments in India. The events presented on the timeline are briefly discussed below.

In the year 2000, two main transnational events in which India participated were the 10th session of the UNCTAD held in Bangkok, Thailand in February and the IOSCO Sydney Resolution in May. India was represented at the session of the UNCTAD conference by a delegation led by the Commerce and Industry Minister of India (UNCTAD X, 2000). One of the significant issues highlighted during this session was the promotion of,

"Increased transparency and financial disclosure by encouraging the use of internationally recognized accounting and auditing standards." (UNCTAD X, Bangkok, 2000, Plan of Action, paragraph 122).

The 25th Annual Conference of IOSCO in Sydney also promoted greater transparency and financial disclosure through the use of international accounting standards. A resolution was passed which recommended that its members should permit MNCs to use 30 IASC standards. India is represented in the IOSCO through the Forward Market Commission of India, the National Stock Exchange (NSE) and the SEBI as the associate, affiliate and ordinary members respectively (IOSCO, 2000). At the time, regulatory authorities were not officially participating in the formulation of accounting policies. However, interview sources reveal that these regulatory authorities were in favour of IFRS and had informal discussions with the MCA to promote IFRS convergence (with differences). A senior member from industry explained,

".... although officially they (SEBI etc) do not have a role in accounting policies, whenever they got a chance they would prompt the MCA for IFRS convergence" (IB1).

This unofficial role played by SEBI is inferred to be a result of the transnational influence of IOSCO. Hence, it can be observed that although official responses to transnational influences were absent, informal and unofficial communications were setting the stage for India's official announcement for IFRS convergence.

In the local context, steps were being taken by the state along with the professional bodies to initiate the process of harmonising the domestic accounting standards with international accounting standards. In the following year in 2001, the GOI established the NACAS for the purpose of advising the government on accounting policies and accounting standards for companies. NACAS examines the accounting standards

recommended by the ICAI before the government officially approves and announces these standards. According to a senior member of the government,

"NACAS is a significant factor in the decision-making process of IFRS convergence" (MoF2).

The body is constituted of members from different regulatory authorities, professional bodies and industrial associations. The purpose of this body was to take into consideration the expert opinions of all stakeholders since the accounting standards were now being framed in alignment with IFRS. According to an interview source from industry, the establishment of NACAS marked a serious move on the part of the state towards official announcement of IFRS converged Indian accounting standards. And hence the inclusion of regulatory authorities and bodies in the committee could be inferred as a significant response to global pressures for convergence.

"Government was now beginning to get serious although they had not yet thought about official convergence, they didn't want to be left behind in the international scenario…and before officially notifying standards issued by the ICAI, they wanted their own experts to first validate these standards…and this could have been a result of the gradually changing global scenario…" (CG 3).

In 2001, the IFIs also played their part in promoting the international accounting standards. Although in the case of India, it was not as direct and assertive as it was in the case of some of the other countries in the Indian sub-continent (Mir & Rahman, 2005; Ashraf & Ghani, 2005). The IMF and the WB have been jointly conducting the Financial Sector Assessment Programme (FSAP) for the purpose of assessing the stability and resilience of financial systems in member countries. In 2001, India had volunteered to participate in an FSAP and since then has been associated with independent assessments of standards and codes by the WB and the IMF. All these interactions with transnational organisations may be interpreted as having an influence on the government's decision to constitute the NACAS. From the time of its constitution, NACAS along with the ICAI, have been in charge of developing accounting standards in alignment with IFRS (ICAI, 2008). This could further be considered as evidence showing the indirect influence of IFIs on the accounting standard-setting decisions in the country.

The year 2005 was marked by a transnational event that had significant impact on India and several other countries that had not yet moved towards IFRS convergence. The

mandatory adoption of IFRS by the EU added great impetus to the ongoing move towards IFRS convergence in India. According to an interviewee,

"….EU announcement added greatly to the significance of IFRS in the international scene ...and India which had so far not made any official announcement for convergence started to take steps towards this...for example the government notification of IFRS converged standards" (IB 5).

Indian companies[11] listed on European stock exchanges were initially concerned about this move as it meant that they would now have to prepare two sets of standards.

*"Some sections of industry had some concerns about this which they unofficially discussed with us ...and maybe the ministry as well..."*said a senior member of the ICAI (PB5). The main concerns that industries had were taxation issues which also necessitated legislative amendments.

The same year, ICAI prepared and submitted 28 IFRS converged accounting standards to the NACAS for approval. India was now issuing accounting standards that were almost exactly similar to IFRS with some specific exceptions (Jain, 2011). According to one ICAI member, the ESMA had communicated with the MCA and the ICAI individually to collect information that was required to assess the Indian Accounting Standards for the purpose of allowing Indian companies to be listed on European stock exchanges.

"....in 2005, ESMA had discussed these issues with the ICAI, the MCA and the SEBI individually…. they asked for some information ...they sent us questionnaires, sometimes they also visited us and the MCA...after they satisfied themselves about the developments in India, they allowed equivalent status for Indian accounting standards for a period up till 2011…" (PB 6).

So all three bodies had accordingly provided the necessary information and in response, the ESMA permitted Indian companies to be listed on the London Stock Exchange on the basis of statements prepared according to Indian accounting standards (EICC, 2012). It is to be noted here that the time limit allowed by the EU coincided with the first deadline

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[11] During 2003-2012, Indian companies invested $56 billion in Europe. During this time-period Indian companies financed 511 Greenfield projects and acquired interests in 411 companies. UK, Germany, Netherlands and Belgium are the four main countries attracting Indian corporate investors. UK attracts the major share of investments with approx. 43% of Indian corporate investments ($ 24 billion) followed by Germany ($ 6.9 billion). Major acquisitions include Tata Motors $ 2.3 billion purchase of Jaguar and Land Rover and Tata Steel's $13.3. billion acquisition of Anglo-Dutch steel maker Corus (EICC Report,2012).

for IFRS convergence from which it could be inferred that this extension of time limit allowed by the EU did influence the decision-making process.

In 2005 India was again a member at a transnational forum where the necessity for convergence with international accounting standards was further emphasised. The ADB, a regional development bank and the OECD in cooperation with the UN had been organising training seminars to assist Asian and Pacific countries in capacity building to implement the anti-corruption plan. The third training seminar held in Pakistan in February 2005 clearly listed convergence with international accounting and auditing standards as a significant theme and recommendation to prevent corruption (ADB, 2005). Both the ADB and OECD grant significant financial aid to the country for development project (MCA 2). According to a senior official of the MCA, these organisations do not require the mandatory use of IFRS;

"...as of now all these institutions are accepting Indian accounting standards....in their reports they only monitor the progress made towards IFRS convergence" (MCA1).

Although this is the case, sometimes such communities do emphasise the necessity for convergence with international accounting standards. This is done in several ways. For example, a case study on India published by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) in 2006 makes the following statement regarding IFRS interpretations issued by the ICAI;

"…interpretation or guidance that diverges from the general thrust of IFRS might defeat the purpose of adapting IFRSs in the first place..." (UNCTAD, 2006).

So while India was not under coercion from transnational organisations, through its membership in various transnational communities, it was in effect under indirect pressure to make a commitment towards full IFRS convergence.

Some other changes taking place in the global stage also had an indirect impact on the decision-making process for IFRS convergence in India. The Financial Accounting Standards Board (FASB) and the IASB were now working together towards the convergence of US GAAP and IFRS. Also the Securities Exchange Commission (SEC) had mooted a proposal that now permitted IFRS complaint statements (ICAI, 2008). It was in response to all these transnational influences that, in 2006, the ASB held several meetings in the months of May and August, with members of the ICAI to discuss the

issue of formal convergence. During these meetings, some of the reasons that were identified as drivers of need for convergence were the coming together of the FASB and IASB for convergence, SEC's proposal to permit filing of IFRS compliant financial statements without reconciliation statements between US GAAP and IFRS and also official convergence deadlines announced by countries such as Canada and China (ICAI, 2008). In addition to this, the risk factor of being non-IFRS compliant in terms of foreign investment opportunities was also identified as an important reason to achieve IFRS convergence (ICAI, 2008).

Taking these factors into consideration, the ASB decided to come up with a concept paper that could be used to discuss the issue of formal IFRS convergence with the government, NACAS, regulatory authorities and other stakeholders. For this purpose, the ASB, in October 2006, formed a task force constituted of representatives of the ICAI, the ASB, one representative each from FICCI and CII, a representative from the RBI, a member of the trustee of International Accounting Standards Committee Foundation (IASCF) and a member of the standards advisory council of the IASB.

The constitution of the task force clearly indicates the presence of transnational influences through representatives of IASCF and the IASB. The main message that the narration of the events so far attempts to convey is that transnational influences and local responses to these influences played an important role in taking India to the stage of its first official announcement for IFRS convergence.

7.2.2 Reflective Analysis and Interpretation of Phase I Events

Overall, this part of Phase I is characterised by significant transnational networks promoting and committing to IFRS convergence in which India actively participated. However, the official Indian response to the commitments made at these events in terms of actual steps taken to proceed with IFRS convergence was limited. And since no official announcement by the state was made, not many local actors had entered the decision-making arena at this stage. Since an important part of examining the decision-making process is to identify the actors and the manner in which they influence the decision, the next sections attempt to classify the actors identified up till this stage with reference to their nature as transnational or national, their position on IFRS convergence at the time and also the type of influence they exerted on the decision-making process.

Table 10 Nature and Classification of Actors Involved

Vocational Classification / Territorial Classification	State Bodies	Professional Bodies	Regulatory Authorities	Financial Institutions
Transnational	UNCTAD, OECD, ISAR	IASB	ESMA, IOSC, SEC	WB, IMF, ADB
National	MCA (Ministry of Corporate Affairs)	ICAI	SEBI	None

One of the main points that could be inferred from Table 10 are that the numbers of transnational actors during the time period of 2000 to 2006 are greater than the local actors. This implies that although the transnational sphere was very actively promoting international accounting standards and India was symbolically present at the events organised by these transnational organisations, the local actors including the state took limited or no action towards fulfilling the IFRS convergence commitments that the country made at these forums. Interview sources state that one of the main reasons for this was the political situation in the country. A senior member of the industry who was previously working for the government (IB5) said:

"The previous government which has been recently replaced was suffering from a sort of policy paralysis due to the coalition form of government ....it has been very slow in making policy decisions due to the issues faced from political alliances"

Around 2005, the situation in the transnational sphere had taken a considerable turn due to EU's mandatory adoption of IFRS. It was at this time that things began to warm up in the local sphere, with actors such as the SEBI entering the arena.

To gain further understanding of the IFRS convergence project, the influences exerted by actors on the decision were examined and analysed.

7.2.2.2 Type and Mode of Influence

The decision-making process for convergence is shaped through influences exerted by the various types of actors. These influences can be of different types and can often lead to significant events and hence constitute the decision-making process. The following table presents an analysis of influences of these organisations on the decision by classifying them as direct/indirect and formal/informal.

Table 11 Analysis of Influences on the Decision in the Private Sector in Phase I

Type / Mode	Direct	Indirect
Formal	ESMA, ISAR, ICAI, IASB, IASCF	WB, IMF, ADB,OECD IOSCO, SEC
Informal	SEBI	

From the analysis of events and interactions between the different actors during Phase I, it has been inferred that the ESMA and the ISAR have had direct influences on the decision to converge. This is firstly because EU's mandatory adoption had affected a section of industries in India and hence the authorities were compelled to take a decision. Also the nature of permission granted by the ESMA in 2005 was such that it involved a specific time limit (up to 2011). The fact that the state in 2007 announced that 2011 was to be the deadline for achieving convergence suggests that the EU time limit was taken into consideration by the state while deciding to make the announcement. Similarly, ISAR is interpreted to have had a direct influence on the decision as it had carried out a case study on the accounting and financial reporting systems of the country which emphasised the necessity for IFRS convergence. Although there is no evidence to indicate that this was a coercive influence, this did exert a direct influence on the decision for IFRS convergence. Such influences in the regulatory arena have been described as soft power that is exerted for convergence with international accounting standards (Djelic & Andersson, 2006).

Although SEBI was not formally involved in the decision-making process at the time, interview evidence had suggested that they had direct but informal communications with the state where the former supported and encouraged the move towards IFRS convergence. The other transnational actors who engaged with representatives of the Indian government such as the ADB, OECD, and IOSCO can only be said to have indirectly influenced the decision as India was a member country of these communities and the interaction was not one to one as in the case of ESMA and ISAR.

The following two sections represent the timelines for Phase II and Phase III. The reflective analysis of events constituting these two phases is presented in a combined section as they are closely linked.

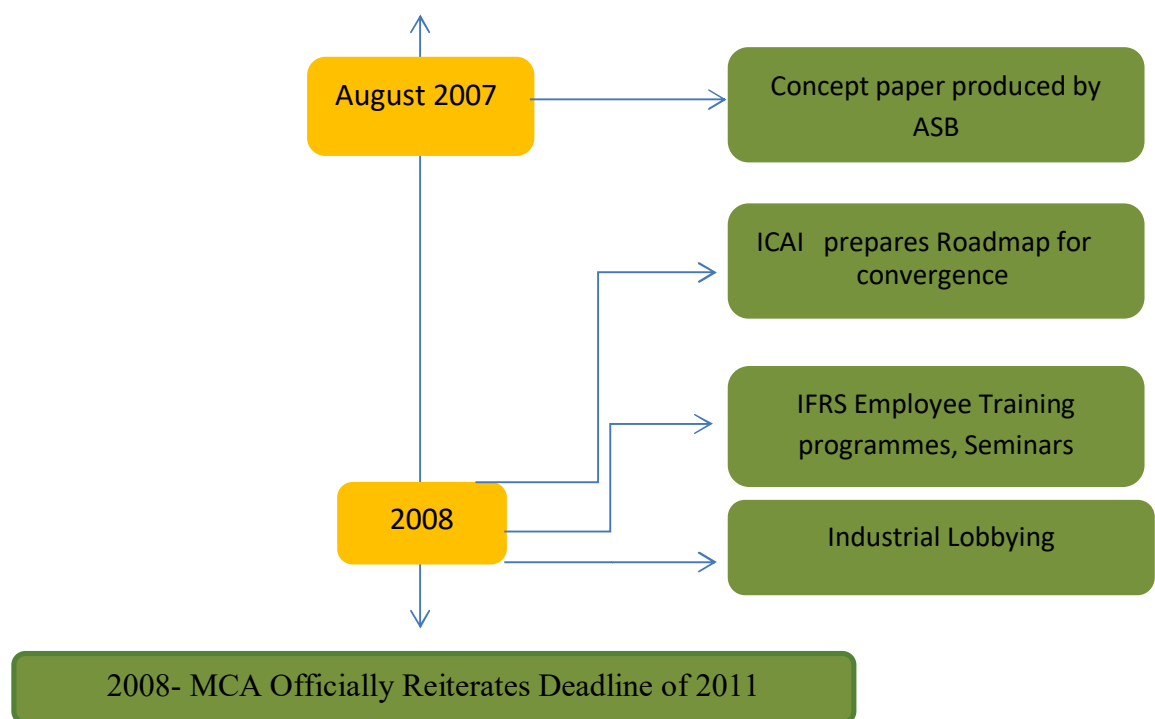**7.3 Phase II - The First Official Deadline Announcement by MCA (2007- 2008)**

Figure 10 Timeline of Events Leading to First Official Announcement for Convergence

In June 2007, the ASB submitted to the council of ICAI a concept paper prepared by the task force. After several meetings, the concept paper was finalised in July 2007. The two main objectives of the concept paper were to explore approaches to achieving IFRS

convergence and the preparation of a roadmap for convergence (ICAI, 2008). The events that proceeded after this were formal communications that were not, however, available in the public domain. A senior member of the MCA stated,

"The members of the ASB and the council of the ICAI were in agreement with the recommendations of the task force which were then presented to the NACAS which also thereafter approved of the recommendations. The NACAS then presented these recommendations to the MCA which accepted the proposal to consider formal IFRS convergence in India" (MCA 3).

In 2008, MCA announced the official deadline of April 2011 for IFRS convergence. The ministry published its announcement through a press note released on its website (MCA, 2008). Following this announcement, ICAI in 2008 prepared a roadmap for convergence which was submitted to the NCAS for approval. The roadmap was approved and finalised the same year (PB1).

As soon as the roadmap was issued in 2008, the industrial sector in India commenced to prepare for convergence, at least, on the official front. Several seminars and conferences on IFRS were organised by the CII which is one of the significant industrial associations in India. In addition to the members of the hosting organisations, these meetings were attended by members of the MoF, representatives of Big 4 audit companies, members of NACAS and senior executives of large industrial corporations in India (PB2).

Companies had commenced IFRS training programmes for their employees. A senior chartered accountant who was involved in these training programmes said,

"At the time most companies had set up a separate department for IFRS training for employees and we were regularly invited to different companies to conduct training sessions" (PB3).

Some of these training sessions were also organised by the regional offices of Big 4 audit companies. A senior director at one of the Big 4 audit companies said that the regional office regularly organised seminars and training sessions on IFRS for companies (PB8). Hence different sources of the media reported that corporate India was getting ready for IFRS convergence.

However, at the same time there were undercurrents of resistance to immediate convergence from industry (IB1). Although, the general rhetoric was that large companies with international operations would benefit from IFRS convergence, it was also a known and acknowledged fact that taxation issues would arise on IFRS convergence and to resolve these issues, major law amendments would have to be made by the government (Srivats, 2012). Indian tax laws do not recognise accounting standards. Amendments in tax laws are necessary to ensure that tax authorities recognised IFRS compliant financial statements (Jain, 2011). Paragraph 3.21 of the concept paper issued by the ASB clearly recommends revision of laws by government and other regulators as a high priority step to be taken to facilitate IFRS convergence. Despite these facts being discussed with NACAS which is a state body constituted of members from professional bodies, regulatory authorities, and representatives of MCA, there was very little done after the first deadline announcement to resolve these issues. The lull in the pace of the convergence process and the reasons for this was revealed by interview sources who were directly involved in the decision-making process,

"… taxation is a very big issue for industries… Unfortunately, Central Board of Direct Taxes is not very accustomed to accounting principles of IFRS and they are not participating in the discussions/meetings/conferences for IFRS convergence in India" (CG3).

The Central Board of Direct Taxes (CBDT) is a department functioning under the MoF. In India all tax issues come under the purview of the MoF. Hence, although the MCA was in charge of IFRS convergence in India, coordination with the MoF was necessary to proceed with IFRS convergence. Thus lack of coordination between the ministries seems to have played a role in overall slackening of the decision-making process.

The reasons for lack of participation by CBDT members was explained by the interviewee who was a member of the core group,

"CBDT members say that they cannot do anything because Income Tax laws in India can be changed only by the budgetary process in Parliament which is a very bureaucratic and legislative process. CBDT justifies their lack of participation by saying that even if they participate in these meetings, they can only recommend to the MoF which then has to include these aspects in the budget…" (CG 3).

Interviewees from industry, on the condition of anonymity, revealed that they were aware of informal communications made by the industrial groups to the state where it was emphasised that IFRS convergence was not preferred until law amendments were made,

"Industrial groups have issues with taxes. They have strong political links and so they have discussed these issues with people from Ministry(MCA) on various occasions…. this is a coalition government and they cannot take the risk of displeasing powerful industrial groups…they (government) need the support of these huge corporates….and right now they (industries) will not let this go ahead…" (IB 3).

This was denied by a senior member of the MCA who said that there has never been any such communication (MCA2). The statement of the MCA member however is contradicted by a member from the industry who had been present at the meetings organised by the MCA with members of the industry, professional bodies and state actors to address the issues faced in IFRS convergence. The member said,

"Industries have been raising lots of issues…they feel that as long as there is no clarity on taxation aspects, they cannot go ahead with convergence. IFRS will use fair value method of accounting which will bring about a lot of differences in taxable profits…" (CG2).

Hence, taking into consideration the fact that the delays did occur later on and in a few years' time, it is inferred that the statements from IB3 and CG2 are credible. Since the Indian print media had also begun to say that the industry was stalling convergence, it is interpreted that industrial lobbying was partly responsible for the state's lack of enthusiasm during these two years. From the empirical evidence, it was also interpreted that taxation issues were the driving force behind the strong industrial lobbying.

On further investigating the taxation issue with interviewees, it was found that some specific industrial sectors would be significantly affected by IFRS convergence. According to a member of the industry,

"…. some specific industrial sectors such as real estate, few infrastructure segments, trading companies and software developers etc are not happy … their balance sheets will be badly hit if there is full IFRS convergence and since the market for these sectors are not good at the moment, it would mean a double hit on their financial statements which in turn will affect their chances of international funding" (IB 2).

Interviewees also pointed out some other reasons related to the taxation issue such as a debate between full adoption versus convergence with difference. However, it appears that the option of full adoption was dismissed by both the state and the industries. The ICAI was initially supporting full adoption but due to industrial lobbying decided along with the state to alter its stance to convergence with differences (CG2). A member from the industry and professional bodies who was a participant in decision-making groups stated,

"The professional bodies in India were very interested in complete adoption of IFRS…. initially they virtually copied everything from IFRS. However, the industrial sector was seriously hit by IFRIC 15 that had a very different accounting treatment for real estate companies…. IFRIC 12 also affected many projects such as road transport projects, airport projects etc. through implications on direct and indirect taxes…so they objected..." (CG2).

In its concept paper, the ICAI attempts to justify the differences between national accounting standards and IFRS by providing the following definition of convergence:

"to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs" (p.12).

The concept paper further refers to Paragraph Fourteen of International Accounting Standard (IAS) 1 stating that 'unreserved statement of compliance with IFRS' does not require word by word adoption of IFRS and that adding disclosure requirements or elimination of optional treatments to suit the local context does not imply non-compliance with IFRS (ICAI, 2007). This justification of the ICAI encourages one to believe that the newly framed Ind AS will be globally acknowledged as IFRS compliant. However, this does not seem to be the case. With eight carve-outs in Ind AS it has been suggested by several analysts that financial reports prepared according to Ind AS is not likely to be accepted as IFRS equivalent by the global investor community (ICAI, 2007). The ICAI however has been quite vocal in its claims of substantial convergence with the IFRS. Through its concept paper the ICAI identifies and discusses the key issues that shaped the decision to 'not adopt' international accounting standards:

a) **Maintaining consistence with legal and regulatory requirements** - Some examples of national accounting standards which are formulated to suit the legal requirements are AS 21 Consolidated Financial Statements, AS 25 Interim Financial Reporting and AS 31 Financial Instruments. In the case of AS 21, the definition of 'control' is based on requirements of Companies Act 1956 and hence is different from the definition provided in IAS 27 Consolidated and Separate Financial Statements. Similar differences based on legal requirements have been cited as examples in the case of the other two accounting standards as well. The ICAI, however also states that it has commenced the practice of including IFRS compliant treatments not compliant with the law in the national accounting standards. These treatments have been stated to be included in anticipation of legal amendments which would then enable the application of these accounting treatments.

b) **Economic factors or environment** - The key issue discussed under economic factors is the use of fair value approach by IFRS. The paper states that the markets in India do not possess the necessary dimensions to arrive at reliable fair values for various assets and liabilities. This point has been validated by one of the interviewees from the industry:

"There is a dire need for developing professional elite services such as valuation. There should be valuation standards in India without which there will be no uniformity in the reports presented and fair value system will be a failure" (IB5).

This indicated that the ICAI, the academia and the industry were all of the opinion that India was not prepared to successfully implement the fair value system.

c) **Level of preparedness -** Under this point, the ICAI recognises hardships that the industry would have to face if IFRS is adopted verbatim. Example of AS 15 Employee Benefits has been cited which was modified to suit the structural changes that the industry was undergoing at the time of introduction of this standard. This led to differences with the corresponding international accounting standard IAS 19. Under the voluntary retirement scheme, IAS 19 does not permit the deferment of expenditure in case of termination of services. AS 15 permits the deferment of such expenditure taking into consideration the ongoing structural changes in the industry. The modification of the standards by the ICAI to suit the industry is interpreted in this study as a result of

informal influences of the industry on the ICAI due to lack of evidence of formal influences and interviewees stating the presence of industry pressure on ICAI (CG2).

d) **Conceptual Differences -** The recognition of provision has been pointed as a difference using the examples of AS 29 and IAS 37 Constructive Obligation. The requirements of IAS 37 stipulate the creation of provision on the basis of constructive obligation which would result in the recognition of provision at an early stage. The concept paper cites an example of restructuring of an enterprise where an early recognition of a provision would not be appropriate since a liability cannot be stated to be crystallised at such an early stage. The discussion of such conceptual differences in the paper reflects differences in the opinion of the ICAI with regard to the timing of recognising the provision and also the judgement of related determining factors. Hence these are differences that appear to arise directly from the ICAI by its choice and not due to the compelling influence of other factors discussed in previous points such as legal and economic factors. In the following phases, this chapter will examine and compare the reasons for convergence vis-a-vis adoption cited above in the light of evidence collected from interviewees and documents.

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The main point to be noted here is that there was strong industrial lobbying as well as possible unofficial resistance from the ICAI during the decision-making process. Hence behind the official front of preparations for IFRS convergence, there was significant resistance to convergence and pressure was being put on the state to delay the process. Despite the resistance, MCA in 2008 officially reiterated the deadline of 2011 for IFRS convergence.

7.3.1 Reflective Analysis and Interpretation of Phase II Events

Phase II has been characterised by events that represent national resistance from the industrial lobby as well as the state's official commitment to IFRS convergence. The analysis of events in this phase draws the following key messages:

1) Adoption versus convergence with difference and preparations towards IFRS convergence marked by disagreements between national actors.

2)   Presence of strong national resistance in the form of industrial lobbying observed in the issue of adoption versus convergence.

3)   Disparities in the state's official versus actual commitment to IFRS convergence

7.3.1.1   The Issue of Adoption versus Convergence - Industrial Lobbying

The decision to converge with IFRS rather than adopt the standards seems to have been driven by a variety of reasons some of which were formally provided as part of official statements or press releases by the government and the ICAI while some other reasons were cited as part of informal explanations. The concept paper issued by the ICAI cites reasons such as legislative hurdles, lack of sufficiently developed professional services such as valuation and conceptual differences. In the case of legal hurdles, the paper states that the ICAI expects legislative amendments to be made by the state in the future which would enable national accounting standards to be aligned with IFRS. However, the issue that then arises is the reason for delays in making the necessary legislative amendments by the state. The examples of IAS 19 and AS 15 Employee benefits and conceptual differences cited through IAS 37 and AS 29 indicate the influence of industries as they would in the future be affected by the possible implementation of these standards.

During this time (2007-08) there was a general perception that the IFRS convergence decision was welcomed and supported by the industry (IB7). This also seemed to be corroborated by the training sessions and seminars organised for employees by large companies. Professional bodies such as the ICAI were also taking proactive steps such as the issuance of the roadmap to speed up the decision-making process. The media also reported that corporate India was preparing for IFRS convergence. However, interviews with members of professional and industrial bodies revealed that there were significant taxation issues which were being strongly lobbied by all companies that would be implementing IFRS if the decision were to be finalised. Some specific issues that were of concern to the industry were the IFRIC 15 and 12. At the time, an official platform had not yet been set up by the state to discuss these issues.

7.3.1.2 Disparities in the State's official vs actual commitment to IFRS Convergence

Furthermore it could be observed from the events presented in this phase that there were very few steps taken to resolve the taxation issues. There seemed to be a communication gap and lack of coordination between state entities that were required to work in synchronisation to bring about law amendments necessary to overcome the tax hurdles. Hence in addition to industrial lobbying, inactivity on the part of the state also marked the lull in the decision-making process during this phase. The announcement made by the state in 2008 to reiterate the deadline of 2011 actually brought out a contradiction in its actions and statements. This could be interpreted as an attempt by the state to keep up its commitments on the global front while struggling to handle the local resistance. The role played by the state as the central decision-maker is further examined and analysed through narration of events in the following phases of this chapter.

7.4   Phase III - Events that led to the Second Deadline Announcement
(2009- 2011)

Transnational   National
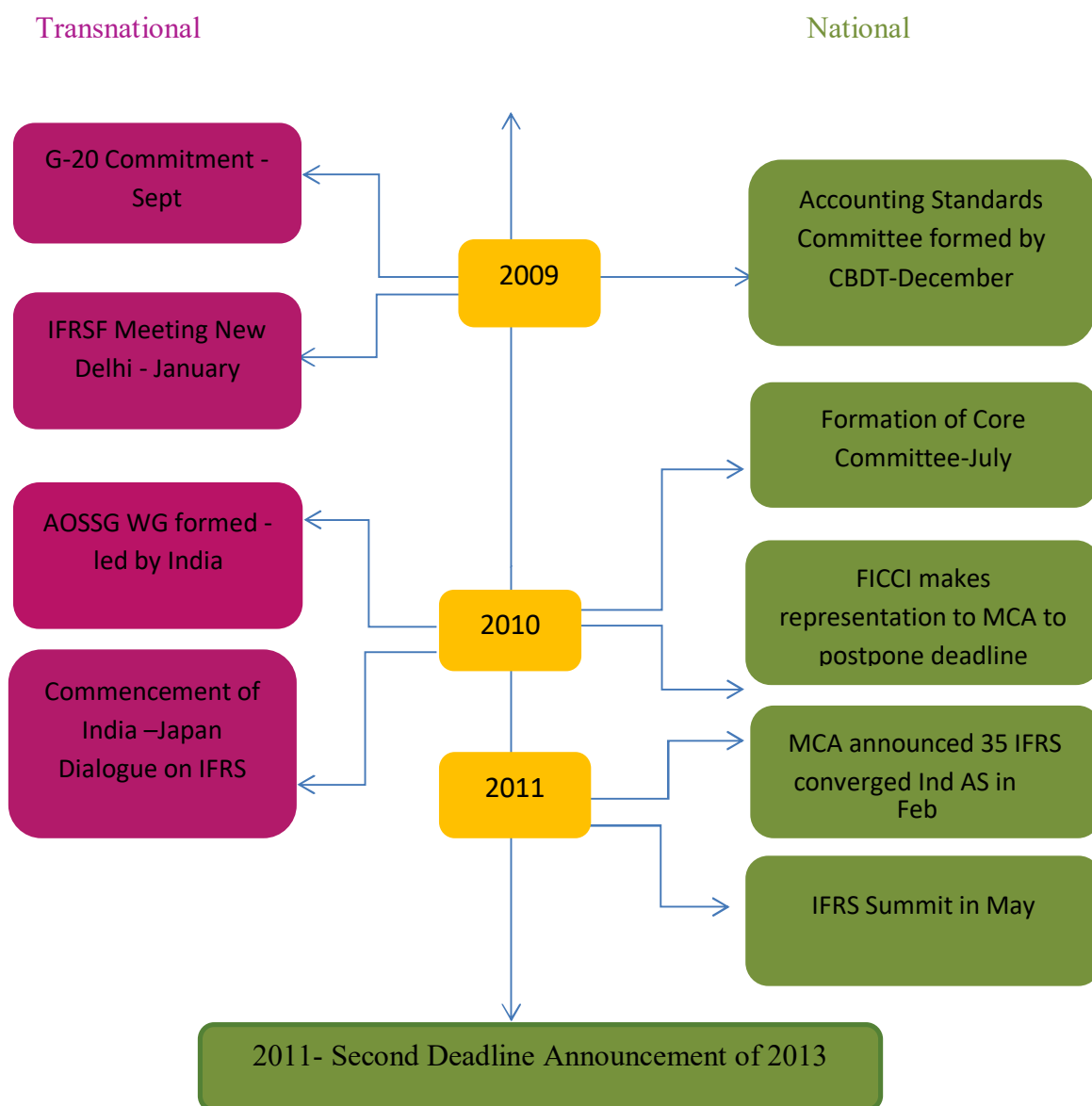
Figure 11   Timeline of Events Leading to the Second Deadline Announcement

7.4.1   Transnational Influences - Pressures for and Against Convergence

The year 2009 brought a fresh round of transnational influences that succeeded in getting the state to take some steps towards fulfilling its official commitment. The year started off with an International Financial Reporting Standards Foundation (IFRSF) meeting held in New Delhi in January. At this meeting it was decided that a Monitoring Board constituted of a group of capital market regulators should be formed to enable formal

communications between capital market authorities and accounting standard setters. The board comprised of representatives of IOSCO, EC, SEC and Financial Services Agency of Japan. While the chairman of SEBI being a member of IOSCO was present at the meeting, members of the ICAI were not. Although the meeting venue was in India, the issue discussed was not focused on IFRS convergence in India. This is the reason cited by ICAI members for not being present at this meeting, although according to an interview source they were invited for a post meeting dinner. A senior member of the ICAI said,

"…. *we were invited for dinner by the IFRSF people and during the event we informally discussed the convergence progress in India…mostly we discussed technical issues of accounting standards…*" (PB7).

Although specific evidence of transnational actors exerting influence on national actors to speed up the convergence decision was not available in this particular instance, it could be inferred that informal communications at such forums may have played a part in influencing the decision-making process.

In August 2009, the MCA set up a high powered group to discuss and resolve challenges faced in the IFRS convergence project. This 'Core Group' was constituted of members of different stakeholder groups and was headed by the then Secretary of MCA, Mr. Anurag Goel. The Core Group was supported by two subgroups. The first subgroup was headed by the chairman of NACAS, Mr Y.H. Malegaon and mainly dealt with the identification of regulatory and legal amendments required to enable IFRS convergence in India (CG1). The second subgroup was constituted by CFOs and headed by Mr Mohandas Pai, the Director of one of the largest MNCs of India, Infosys. The aim of this subgroup was to analyse the preparedness of industry and also to examine the issues of other stakeholders in IFRS convergence (CG2).

On 6th August 2009, a joint meeting of the Core Group and the two subgroups was held in Mumbai for the purpose of assessing industry preparedness and discussion of the roadmap for convergence (IB1). The meeting was chaired by Mr. Anurag Goel and was attended by the chairman of SEBI, chairman of NACAS, director of Infosys, deputy governor at RBI, member of IRDA, president, ICAI, senior government officials, CFOs from industry, representatives of ICAI, and other stakeholders. Both subgroups presented their perspectives on the possible implementation challenges related to legal aspects and the accounting framework (CG3).

Some of the key issues on which the Core Group specifically focussed during the meeting were a) industrial sectors specifically affected by IFRS convergence b) update on capacity building measures for IFRS convergence by professional bodies and c) the official declaration on the status of progress and support for IFRS convergence (MCA, 2009). The main focus of the Core Group was on the insurance, banking, shipping and SME industries as these sectors would be particularly affected by IFRS convergence. The professional institutes (ICAI and Institute of Cost Accountants of India) also presented detailed plans on capacity building measures that need to be taken (CG4).

The official press release by MCA notified that there was complete support for the convergence decision and that the industry was in process of getting prepared for convergence although there were 'some concerns from small companies'. This view was also supported by members of professional bodies. A member of the ICAI said,

"…*most large companies are enthusiastic for IFRS, maybe smaller companies might have problems, but these can be resolved, these issues have been faced by other countries as well…*" (PB6).

Overall the MCA notification declared that satisfactory progress was being made to achieve convergence by 2011. Although the official notification indicates that only small companies would face problems and that the rest of the industry was supporting the convergence, this was negated by a senior tax consultant working for several large industrial houses,

"*Although it has been accepted that India will have to converge with IFRS someday, none of the industrial groups are at this point ready to go ahead…whether large or small…at this point if IFRS convergence is declared, companies will have to disclose a lot of information and the moment it is done, the tax authorities will hound these companies and they know it…so the industrial sector as a whole wants amendments in tax laws before anything is done.*" (IB 6).

According to this interviewee, large industrial groups in India were already preparing two sets of financial statements and any additional cost that was being incurred was nothing in comparison to the damage that would be caused if IFRS was implemented in India without tax law amendments. Since IFRS convergence in India has not taken place to date despite claims of 'full support' by the MCA, it is inferred that the information provided by the interviewee is true. Also the existence of tax issues was later on

acknowledged by the state on various occasions (IB6). Hence it can be observed that there are discrepancies in the official story being presented and the realities on the ground.

Another significant international event at which India reiterated its commitment towards IFRS convergence was the G-20 summit held in Pittsburgh in September 2009, attended by finance ministers of member countries. India's central finance minister emphasised that the country would achieve IFRS convergence by 2011. Later a press release from the MCA on IFRS convergence mentioned this G-20 commitment as one of the significant needs for achieving convergence (MCA, 2010a).

An interesting aspect of government reiterations made towards IFRS convergence especially at national forums was the insistence of the government that India had never seriously considered the option of full adoption of IFRS. For example, in 2010, the then Union Minister for Corporate Affairs, Mr. Salman Khurshid stated at a press meeting,

"From Day 1 we have said we will converge, not adopt. There will be different standards on specific issues in which we need to have different standards" (Hindu Business Line, 2010).

In addition to the reasons for convergence suggested by the ICAI in its concept paper, some newspaper articles suggested that the IASB did not pay enough attention to the issues raised by the Indian standard setters. According to a newspaper report by an eminent academician and ex director and technical director of the ICAI Mr. Ashish K Bhattacharyya,

"Indian viewpoints do not receive adequate attention at IASB. Those are not debated adequately at IASB before rejection. It is natural that Indian accounting standards reflect Indian position, which is significantly different from the position taken by IASB. I consider this a very strong reason for adopting the policy of carving out of and carving in formulating Indian accounting standards." (Business Standard, 2011).

The views of the author were strongly refuted by members of both the ICAI and the MCA. A senior member of the ICAI expressed disagreement over the views of Mr. Bhattacharya stating that while there have been occasions where the IASB has not been able to accommodate the suggestions of the ICAI, it has taken on board the proposals made by India. The member went on to say that this was certainly not the reason for India's decision to not adopt IFRS (PB 7).

The interviewee pointed out that even before the first official announcement for convergence was made, the ICAI had published a concept paper prepared by the task force titled 'IFRS Convergence' in India. This he said indicated that from the beginning there were no discussions on adoption of IFRS. The ICAI member cited the same reasons given in the concept paper. His views were corroborated by government representatives working on the IFRS convergence decision in the country. A representative of the MCA stated that there were fundamental differences in the Indian economic, legal and political systems which rendered adoption of IFRS an implausible option. While examining discussions in the print media on the IFRS convergence decision, it was observed that most articles focussed on tackling issues constituting these fundamental differences rather than on the issue of full adoption. For example, some prominent academicians in the accounting field emphasised that the government needs to develop a well-regulated valuation profession to address the concerns of the opponents of the fair value approach which was one of the significant changes that would have to be made on converging with IFRS (Business Standard, 2010). Most articles expressed approval on the decision to converge instead of adopting IFRS. Hence from the information gathered from interviews and media articles published at the time, it appears that there was consensus among different national actors involved in the decision-making process that convergence and not adoption was the appropriate step towards accepting global accounting norms.

The year 2010 also saw the arrival of regional players such as Japan into the decision-making arena of IFRS convergence in India. The dialogue established between the two countries was officially acknowledged and announced in 2010. On 26 July 2010, the MCA entered into a Memorandum of Understanding (MoU) with the IFRS Council of Japan where in there was an agreement to form a Joint Working Group consisting of members of the Core Group from India and the IFRS council of Japan, in addition to forming subgroups for joint training programmes and also for jointly representing issues to IASB (CG5). Both delegations were led by the state.

The Core group from India, led by the secretary of MCA was constituted of representatives from state bodies such as MoF and the CAG office, regulatory authorities such as the SEBI, the RBI, NSE and pension and insurance regulators and professional

bodies such as ICAI (MCA, 2010a). However, the IFRS Council of Japan, in addition to these representatives, included representatives from the Japan Business Federation (JBF). Hence the key point to be noted here is that India appears to have excluded members from industrial associations such as FICCI and CII while Japan included them for this dialogue.

The India-Japan dialogue was a state driven transnational communication conducted to discuss and solve common issues faced in the decision-making process. This relationship is likely to be significant because Japan is currently India's third largest source of foreign direct investment[12]. Also India is the largest recipient of ODA[13] (Official Development Assistance) from Japan. Hence Japan has been providing financial assistance to India for infrastructure development projects such as the Delhi Metro Rail Project (DMRC, 2014). Thus the India-Japan IFRS dialogue is a clear example of inter-state transnational networks that influenced the decision-making process in India.

However, the impact of this network is different from that of other transnational influences. All transnational influences observed so far have most definitely been in favour of immediate IFRS convergence. Although there is no official evidence to prove this, a senior member of the MCA revealed that the Japanese delegation was not very keen on immediate convergence,

"...yes I was a part of this meeting last year....and their opinions were slightly different from ours...they were suggesting 2017 for convergence which at the time we thought was quite late.... they were not in favour of immediate convergence, although none of this was officially declared" (MCA1).

This evidence brings in a new angle to the decision-making process. It suggests that some transnational influences could also have been partly responsible for delaying or supporting those who wanted to delay the IFRS convergence process in India.

7.4.2 Significance of US Delays on the Decision-Making Process in India

The reason suggested for this unofficial stance of Japan, by the MCA representative was the delay in US's decision for IFRS convergence. Since US and Japan were significant

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[12]In 2006 the prime-ministers of both countries signed the "Joint Statement towards Japan-India Strategic and Global Partnership"

[13]ODA is a term used to indicate international aid flow by the DAC (Development Assistance Committee) of OECD.

trade partners, the latter was in no hurry to go ahead with convergence in a situation where the US had not yet made a final decision. In fact, the US economy dependence reason has also been quoted by a few members of the Indian industry and the MCA as a reason for India's reluctance to go ahead with the convergence process. According to one individual member of the industry,

"...a significant percentage of Indian economy is dependent on US economy in terms of fund raising or customisation etc. maximum amount of private equity and FDI is received from the US economy via Mauritius or Cyprus route but the original source is the US economy" (IB 4).

Further explaining the situation, the interviewee states that India would not like a situation where it had implemented IFRS and the US did not converge with IFRS. Noting that US GAAP is very investor friendly, the interviewee also stated that,

"All big 50 companies in India are following US GAAP...they are preparing a second set of financial statements..." (IB 4).

The views of the MCA representative on this issue are of a different nature. According to this interviewee, there are several others also within the government sphere who hold his point of view that US GAAP is far more advanced and unambiguous in comparison to IFRS.

"Many people in the government also have the view that US GAAP is better...it is advanced and unambiguous unlike IFRS which is complicated and most people do not understand IFRS here...if IFRS is so advanced and efficient, then why is the US delaying convergence..." (MCA3).

The evidence from the India-Japan IFRS dialogue and the opinions of government representatives quoted above suggest that delays in the IFRS convergence decision-making process in the US has influenced the decision-making process in India in a dual manner. Firstly, through India's dependence on Japan as a significant trade partner and secondly through the alliance of the Indian and US economy. In both contexts, the US acts as a significant source of indirect and direct influence. Analysing the nature of the relationships between the actors indicates that exchange of resources is an important aspect defining the relationship and hence acting as the cause of flow of influence. The relationships between the actors and their medium of influences will be discussed in detail in the last chapter of this thesis. Hence these were some influences from the

transnational sphere that indirectly provided support to the rising local resistance to the convergence process in India.

Another example of transnational support for local resistance was the Asian-Oceanian Standard Setters Group (AOSSG) Working Group (WG) formed specifically to address the issue of valuation of agricultural assets. It is at the third meeting of AOSSG in 2010 at Tokyo that the group agreed to set up an AOSSG WG on agriculture with China, Hong Kong, India, Indonesia, Korea and Malaysia. This WG was to be led by India and Malaysia (AOSSG, 2011). Since India was not in a position to convince the IASB on a one to one basis, this platform was used by the ICAI to join forces with professional bodies of other countries and approach the IASB. During the same year, two meetings of the National Standard Setters took place in the months of April and September in Seoul and Rome respectively where representatives from Brazil, Canada, France, India, South Africa, Taiwan and Sudan also expressed their support for IASB to consider IAS 41 for review.

Local resistance from corporate India came into the public domain when one of the main industrial associations of the country FICCI made a formal request to the MCA in December 2010 to delay the planned April 2011 implementation of IFRS. The following reasons were given by the association:

a)   Unworkable deadline - according to the representatives of the FICCI the companies need more time to get accustomed to the new standards and regulations.

b)   Ambiguity - there is no clarity as to the preparation of financial statements-whether they should be prepared according to IFRS or according to the schedule VI of the Companies Act 1956.Since the Companies Bill and the Draft Code Bill are still pending, it is not possible to prepare a clear and non-ambiguous plan for implementation.

 c)   Ongoing revision of IFRS - In their representation, FICCI also listed out the changes being made in IFRS specifically pointing out financial instruments such as derivatives, loans, investments, accounting for income taxes and revenue recognition that were undergoing major revisions.

d)   Dual set - preparing two sets of financial statements would only lead to greater confusion and increase the levels of cost and time spent (The Economic Times, Feb, 2011).

It is interesting that this intervention from one of the major industrial lobbies of the country came at a time that was so near to the first deadline. Indeed, this intervention was the first clear public revelation of strong local resistance to immediate IFRS convergence. Although there was no immediate official response from the state either acceding or dissenting to this demand, it was probably already clear that the first deadline for convergence would not be met. The state however, did take some steps towards resolving issues raised by the industrial lobbies.

Based on suggestions received from industrial associations, the MCA took up the matter of resolving tax issues with the MoF. The CBDT, in December 2010, formed a committee comprised of tax officials and members of professional associations to resolve tax issues that would arise due to IFRS convergence. The three main aims of the committee were:

a)   Harmonisation of the currently independent tax accounting standards with Ind AS (In India tax accounting standards are currently independent of the Indian GAAP and the current Ind AS).

b)   Method of determination of tax base (book profit) for calculation of Minimum Alternate Tax (MAT) - MAT is calculated on book profits of a company, which does not pay any tax due to various exemptions allowed under Indian GAAP. Under the IFRS, the companies will be required to calculate profits based on fair valuation, different from the way they calculate it currently.

c)   Amendments required in the Income Tax Act- Based on the recommendations of the committee, in October 2011, the MoF issued a discussion paper on tax accounting standards (MoF1). If these recommended tax standards were to be approved in the parliament and subsequent amendments were made in the income tax laws, then tax payable (excluding MAT) would be calculated on the basis of tax accounting standards and would not be affected by the accounting standards used to prepare financial statements. However as of date, MAT is the most important tax issue which still needs to be resolved (MCA 2).

In February 2011, despite the outstanding taxation issues, the MCA officially published 35 Ind AS converged with IFRS (MCA, 2011). However, the deadline of April 2011 was not met and in the same year MCA made an announcement that a new deadline of April 2013 had been set for IFRS convergence (ICAI, 2012).

Another local event which also involved an international representative was the IFRS summit that was organised in May 2011. This was among the last sessions organised by the CII. The MCA was the National Partner for this summit, which was also supported by the ICAI, ICSI, the Institute of Cost Accountants of India, NSE, the Bombay Stock Exchange, National Institute of Securities Markets (NISM), the Chamber of Tax Consultants (CTC) and the Sales Tax Practitioners' Association of Maharashtra. KPMG was the knowledge partner for the summit. The objective of the summit was to discuss the possible implementation issues of Ind AS from the perspective of various local and international stakeholders such as locally MCA, ICAI and internationally the IASB, SEBI, NACAS, the MoF and Indian companies (CII, 2011). The point that can be inferred from these events is that the first deadline was not met. This is despite numerous discussions at various local platforms and the state's continued stance that India was preparing for IFRS convergence and this project was receiving full support from concerned stakeholders. However, the inability to meet the deadline was a clear contradiction to these claims of the state and was a sure indicator of the presence of strong local resistance.

7.4.3 Reflective Analysis and Interpretation of Phase III Events

Analysis of the events constituting the second and third phases of IFRS convergence decision-making process from 2007 to 2011 show the presence of both transnational influences and local responses to these influences. These phases were characterised by a flurry of activity in the local sphere as compared to the relative inactivity from 2000 to 2007. As for the earlier period the main characteristics used to analyse these events are the actors involved, their stance on the convergence decision, and the type and success of influence they exerted on the decision.

7.4.3.1 Nature and Classification of Actors Involved

From the classification of actors, the main message that stands out is the increased number of local actors in the decision-making arena as compared to the time period from 2000 to 2007. Once the official announcement was made, all the actors that would be affected by the decision became active. The industrial associations had started to play a much more significant role than in the pre-announcement stage. Although the FICCI was quiet in comparison to the CII in terms of organising seminars and training sessions, it was the FICCI that came up with a formal request to the state to delay the convergence process. Some of the new local actors had entered the arena in response to the industrial lobbying in resistance of immediate convergence. For example, CBDT was a new participant in the arena and was present to resolve taxation issues.

It could also be observed that new transnational actors have entered the decision-making arena. Both the G-20 and the Japanese dialogue were based on political and trade relations of the country. The presence of the Japanese industrial association and regulatory authorities in the IFRS dialogue also signifies that this network extended beyond state-to-state relations and it emphasises the extent to which the decision-making process for convergence is influenced by transnational sources. The significant indirect influence of US delays in IFRS convergence is also to be noted. The flow of the influences between different countries, in this case the US, Japan and India highlights the transnational nature of the IFRS convergence decision-making process.

7.4.3.2. Stance of actors on the Decision for IFRS Convergence

Table 12   Analysis of views and standpoints on the decision

View on Decision / Standpoint	Convergence	Delay Convergence	Full Adoption
Official Standpoint	MCA, CII, ICAI, Japanese IFRS Delegation	FICCI, SEC (US)	IASB
Unofficial Standpoint		MCA, Japanese IFRS Delegation	

During the phase of 2007 to 2011, stakeholders involved in the decision started to group around one of the three main views on the decision for IFRS convergence in India which

are: a) to go ahead with convergence with differences b) to delay convergence and c) full adoption: adopting IFRS completely without any carve-outs.

From Table 12 it can be observed that out of the three standpoints on the decision, the third standpoint of full adoption is solely supported by the IASB and does not include any national actors. This inference is drawn from the statements of government representatives and ICAI members. Table 12 also shows that there are apparently no actors who are absolutely against the idea of accepting IFRS in India. Hence the focus of the debate in the country is not focused on whether or not to converge with IFRS, but on how to converge. This is derived from interview sources who say that all concerned actors in the decision-making process are aware that IFRS convergence in India is eventually inevitable. A senior member of the industry said:

"Everyone knows that the economy needs a lot of foreign investment in addition to what we have and for that IFRS has to be brought in…" (IB1).

The debate in India is regarding the timing of going ahead with convergence meaning that there is no absolute opposition to the idea of convergence itself. Despite the resistance on timing, the state, due to its commitment towards IFRS convergence at various transnational forums such as the G-20, maintained a façade of going ahead with IFRS convergence in 2011. Hence representatives of the MCA give statements that are quite the opposite of the actual scenario in the country. For example, during the year 2010, the MCA made press releases reiterating that the deadline of April 2011 will be met (MCA 2010b, c and d). But at the same time industries in India were unofficially lobbying for delaying convergence and due to its political links with industry the state was not able to meet its first official deadline. Even the 35 IFRS converged Ind AS announced by the government represented a compromise with the lobbyists, since these standards provided several exemptions to Indian companies. A leading Indian daily stated

"Most of these changes that form the Indian IFRS were adopted after intense lobbying by local companies who feared reduced profitability for their companies by migrating to global IFRS" (The Economic Times, 2011).

Furthermore, there were some significant influences from trading and economic allies that provided support to this resistance.

The India-Japan IFRS dialogue officially supports the IFRS convergence process since its purpose is to discuss and find solutions to convergence issues. However, the unofficial stance of the delegation seemed to be in favour of delaying the convergence process. Since India and Japan have traditional ties of trade and financial relations, it is inferred that the state in its role as the central decision-maker had taken serious note of the Japanese preference to delay convergence. Since these opinions were exchanged informally, officially Indo-Japan dialogue was perceived as an effort to speed up the convergence decision. It is also interesting to note here the flow of influence from the US to Japan with the SEC's delay in decision-making acting as the indirect reason for Japan's decision to delay and the extended influence of Japan's decision to delay convergence on the Indian convergence decision-making process. This could be interpreted as the flow of influences from the transnational to the regional and local decision-making arena.
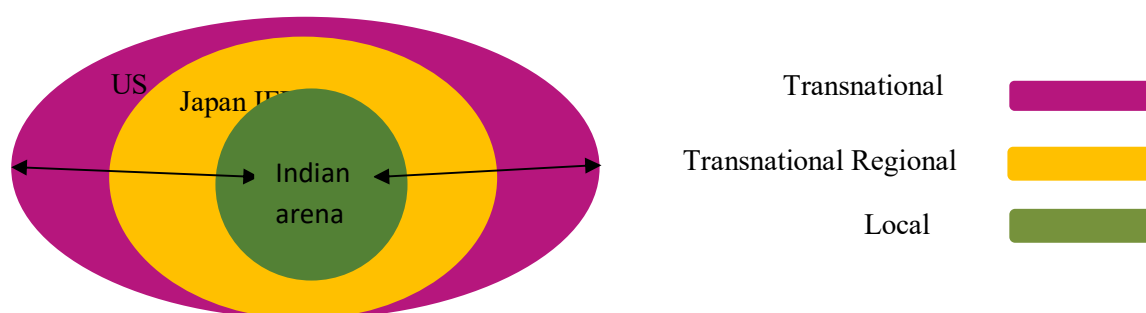
Figure 12   Flow of Influences from US and Japan

The arrows passing through the three regions indicate the flow of influences from the US through Japan to the Indian decision-making arena for IFRS convergence. Interestingly the flow of influences between the US and India could also be interpreted at a two-way flow of influence. While discussing US approach to integrating IFRS with the US GAAP at a national conference of AICPA in 2010, SEC's Deputy Chief Accountant, Paul Beswick stated,

"To give you an example, India is set to move to IFRS in 2011. However, they describe their approach as a convergence approach to IFRS and have indicated that they may not fully adopt IFRS if they believe an exception is warranted…majority of jurisdictions are either following a convergence or endorsement approach. If the US were to move to IFRS, I will call it a 'condorsement' approach" (Whitehouse,2011)

Through the above statement the SEC representative seems to suggest that US's decision on IFRS convergence also draws from the experience of convergence projects in other countries including India. It could also be interpreted that this is a way of explaining and justifying the course of actions of the US. In any case, such examples of transnational references in the context of national decision-making of different countries further emphasises the exchange of influences between global, regional and local decision-making arenas.

Only when the FICCI made a public demand for delays, it became clear that convergence would not take place in 2011. The state, at the time, made no public reference to this demand by FICCI and remained silent on the approaching deadline of April 2011.

Here it becomes evident that different types of influences were exerted on the decision-making process by different actors. The following section analyses the types and mode of influence exerted by the actors on the decision-making process.

7.4.3.3 Type and Mode of Exerting Influence

An interesting aspect about the influence exerted by the Japanese delegation is that they have had both formal and informal influences on the decision-making process. While the formal stand has been to engage in resolving convergence issues, the informal and it would seem genuine stand has been to delay convergence in response to US delays. Both opinions have been expressed directly since the delegation engaged with the state led decision-making group in India. Similarly, IFRSF, which in its formal gathering did not discuss the convergence issues in India, did however have informal discussions afterwards. This indicates that an informal and direct influence was exerted by this body on the decision-making process in India. Both the G-20 and FICCI on the other hand represent formal and direct influences on the decision-making process. The difference lies in their positions on the decision. While G-20 was a transnational influence supporting immediate and full adoption, it could be said that FICCI represents the formal front of local resistance to IFRS convergence in the country. This is because while CII, the other major industrial lobby of the country was quite actively involved in preparing for IFRS convergence by hosting seminars, conferences and training sessions until 2011, FICCI was relatively quiet. So it could be interpreted that FICCI was not very keen on

IFRS convergence from the beginning. However, when lack of any actual preparations for the approaching deadline was shrouded in silence and mystery on the public/official front, FICCI's representation publicised demand to the state for delay in convergence confirmed the reports that there was strong resistance to the process.

From the decision-making arena in India it can be observed that different actors have had different types of influence on the decision. At times, the same actor would play different roles in conjunction with actors having different stances on the decision. For example, members of the Big 4 audit companies in India have been involved in the decision-making process as some senior members of these companies were a part of the Core Group that was constituted by the MCA. This is clearly a type of direct and formal influence on the decision-making process. At the same time, members of these Big 4 companies were also working with industrial groups in providing IFRS training to staff members and also advising these groups on the benefits of IFRS. This could be interpreted as an indirect formal source of influence on the decision-making process. According to a senior member of one of the Big 4 audit companies who was also a member of the Core Group,

"We have been working at different levels with different people involved in IFRS convergence in India…. we work closely with the government and are also trying to prepare the industries for IFRS convergence" (PB 4).

This variation in the forms of influence and roles played by the same actor in the decision-making arena indicates the complexity of the network that drives the convergence process in India.

Thus it could be stated that while there is a presence of both transnational influences and local responses to the influences in the decision-making process, the extent to which these actors have been relatively successful or had positive results in exerting the influence has been different based on their stand on India's decision for IFRS convergence .The following table presents a broad representation of the different actors and their success in influencing the decision-making process so far in India:

Table 13   Analysis of Effects of Influence

Desired Influence& its Result Actors	Delay in Convergence: Positive Influence	Full Adoption/Immediate Convergence: Limited Influence
Transnational	Japanese delegation	IASB, G-20,
National	FICCI, CII, Industrial groups	MCA, ICAI, Institute of Cost Accountants of India, NANCAS

Hence it could be observed that both transnational and local actors played a role in delaying IFRS convergence in India. The state and professional bodies which at least officially hold the view that India should proceed with IFRS convergence have not been able to translate their views into action. It could be inferred here that the state was able to sustain the local demand for delays in the face of the transnational push for convergence due to similar delays being favoured by significant political and economic allies in the region such as Japan. The stance of actors of importance to the domestic interests of India such as Japan could have attributed the state with greater assurance to delay the convergence decision. Hence, the unofficial stance of the Japanese delegation indirectly supported the cause of industrial lobbying in India. The following section discusses the next phase of IFRS convergence in India which led to the third deadline of April 2016.

7.5 Phase IV - Events That Led to the Third Deadline Announcement (2011-2015)

Under Phase IV, the time period from 2011 to 2013 was relatively quiet in terms of the ongoing preparations for IFRS convergence by industry. Interviews revealed that the ongoing employee training sessions on IFRS that were being conducted by companies had either slowed down or were completely abandoned. A senior tax consultant of the industry said,

"Two years back I attended these meetings and conferences on IFRS which were very much in demand but now the frequency has gone about 20 times below ...so hardly any conference or meetings are taking place...even the companies which had set up departments for IFRS convergence have abandoned those departments now...." (IB1).

It had become known that the state which was the central decision-maker had suddenly decided to slow down the process. This was again stated by the interviewee,

"Actually IFRS convergence in India has been put on hold by the government." (IB1).

Some of the reasons that were cited by interviewees and by the print media were legislative issues on taxation and lack of preparedness by industry (The Economic Times, 2013). To obtain a clear picture of the situation after the first deadline had passed, the few events that occurred are presented in the timeline below:

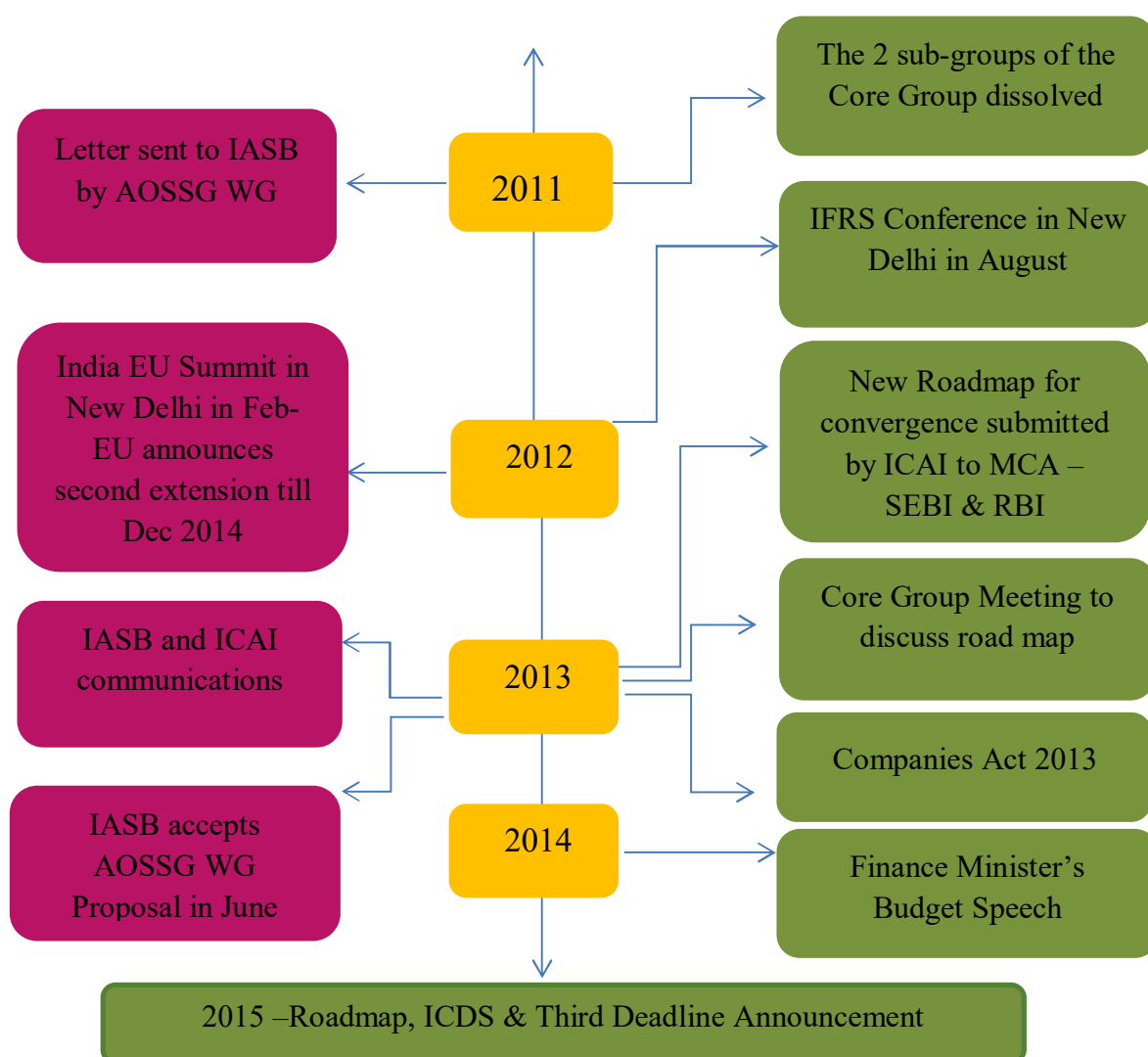### 7.5.1. Events after the Announcement of the Second Deadline (2011-2015)

Figure 13   Timeline of Events Leading to the Third Deadline Announcement

Although 2011 was quite uneventful in terms of any actual progress towards achieving IFRS convergence in India, the professional bodies continued to try and sort out technical issues. The AOSSG WG led by India and Malaysia discussed IAS 41 by teleconferencing and sent a letter to the IASB asking for a revision to IAS 41. When examined through the theoretical perspective of recursivity of decision-making process (Halliday & Carruthers, 2009), this could be viewed as a local response to a transnational influence where the local actors attempt to alter the strategies of the transnational actors or negotiate the terms of going ahead with convergence.

At the same time the official and central decision-making group for IFRS convergence in India underwent a change which although not officially recorded was revealed by a senior interviewee who was a part of this group,

"...after two years of forming the Core Group, the other two subgroups that were supporting it were dissolved by the Government..." (PB2).

The reason given for this was that the purpose of the sub-groups was to take into consideration the views of different stakeholders. Since all concerned issues were identified and put to the Core Group by these subgroups, the purpose was achieved. However, from interview sources it was clear that the industry continued to have communications with the state on these issues. According to a member of a professional body,

"The industry does have formal and informal meetings with government representatives on these issues and the government has been taking them into serious consideration (PB 3).

Some of these occurred through the very few seminars that were still being organised by professional bodies (The Economic Times, 2013) and others through informal channels,

".... whether there is any formal platform or not, industry has strong links with the polity.... they do not always need a formal platform; they can discuss this informally on the sidelines of discussions on other issues as well..." (IB5).

Hence from this point onwards the Core Group was constituted solely of government officials.

A notable development in the transnational field in 2012 was the silence of the SEC with regard to the US GAAP and IFRS convergence project. The indecisive silence of the SEC was reported by several online articles. One article discussing the issue stated,

"The SEC has been largely silent on IFRS in the United States since it issued a report on IFRS in July. The report made no recommendation on whether adoption should be allowed or mandated for US public companies…the report discusses the pros and cons of IFRS in the United States listing many obstacles to adoption" (Tysiac, 2012).

In continuation of the discussions in Phase III of the indirect influence of the US decision on the IFRS convergence decision-making process in India, this indecision on the part of the SEC could also be interpreted to have influenced the slackening pace of the convergence project in India.

Despite the lull in the convergence process, the state continued to make official statements which declared that the second deadline of April 2013 would definitely be met. For instance, at an IFRS seminar in New Delhi in August 2012, the then Minister for Corporate Affairs, Mr Veerappa Moily said,

"India will implement IFRS from April 1 2013" (Srivats, 2012).

The message that comes from this reiteration is that the state was keen on conveying the message that India was certainly moving towards IFRS convergence even while no real progress was made.

7.5.2 Local Influences on Strategies Used by Transnational Actors to Influence Decision

The 12th annual India-EU summit was held in New Delhi in February 2012, during which it was announced that European Commission (EC) had extended the period allowed for IFRS convergence to Indian companies listed on EU stock exchanges from 2011 to December 2014. The relationship between India and EU is quite significant as the EU is India's largest trading partner and also the largest source of its foreign direct investment. This may be seen as a clear example of local actors succeeding in changing the strategies of transnational actors since this was the second time that the EC was allowing an extension. Another example of a local response succeeding in altering the strategies of a transnational organisation is the acceptance of the AOSSG proposal by the

IASB in June 2013. This acceptance also represents the two-way interaction process between local and transnational actors that constitutes the decision-making process. In this context, IAS 41 was perceived by professional bodies in India to be one of the hurdles to convergence and had to be addressed by the IASB. For this purpose, it joined hands with local actors belonging to neighbouring national decision-making arenas facing similar issues to put the matter to the IASB and succeeded in its aim. Each of the actors involved in the AOSSG WG, including the ICAI from India, were participating in that network as local actors attempting to defend their national interests. IASB's acceptance of the proposal can also be inferred as an adjustment made by this transnational actor to push forward the convergence decision to its conclusion in the local context.

Similar communications had also taken place between the ICAI and the IASB on issues regarding IAS 16 where the ICAI claims that it succeeded in getting the IASB to revise the standard. According to a senior member of the ICAI (PB2), the previous version of IAS 16 had issues in the Indian context, specifically for the accounting of spare parts. To resolve this problem, the ICAI had communicated with the members of the IASB through several e-mails;

"We wrote to them through e-mails and gave our suggestions on ways to address this issue; then there was a lot of discussion… they also sent their suggestion through e-mails and formal communications" (PB2).

The communications were also used to resolve or clarify disagreements and according to the interviewee face to face meetings were more effective in some cases.

"At first they didn't agree with our views… then Wayne Upton had come to India and at that time also we discussed this issue……primarily face to face meeting helps better many times" (PB2).

The series of communications between the local actors and this major transnational organisation reflects the recursivity of the decision-making process. Viewing the series of communications described above through the theoretical lens of recursivity helps to identify the flow of transnational influences and the responses to such influences. In this case, while the ICAI as a member of the IFAC is officially a supporter of IFRS convergence in India, it also conveys the local responses by voicing the country-specific issues through transnational platforms.

While these communications with the IASB were being made by the ICAI partly to negotiate the terms of IFRS convergence in India, the ICAI was also on the other hand engaging with the state to push the decision-making process on the official front. A new roadmap for convergence was prepared and submitted to the MCA for approval in 2013 (MCA2). According to a senior member of the MCA, the Core Group met in August 2013 to discuss the new roadmap (MCA 2). As per the new roadmap, Ind AS is to be implemented for preparing consolidated financial statements of listed and unlisted companies starting from April 1st, 2016. It would be applicable for entities with more than Rs 500 crore (approx. US$ 78515755) net worth from the accounting year starting on or after April 1st, 2016, with previous year comparatives in Ind AS for the year 2015-16. The roadmap does not include banking, non-banking finance and insurance companies (IICA, 2014).

Such evidence combined with that of the participation of the ICAI at global accounting networks such as EEG (Emerging Economies Group) and IFRSF meetings that drive the agenda of IFRS convergence illustrate the balancing act of the ICAI on the global and national front in terms of attempting to play its role of representing the agenda of the global accounting community on the national arena and at the same time presenting national concerns at the global front.

The year 2013 also saw the government take an important step to accommodate IFRS convergence in the country through revisions in the previous Companies Act 1956. The Companies Act 2013 includes two tiers of accounting standards; the newly drafted IFRS converged Ind AS for large and listed companies and the currently followed Indian accounting standards (The Gazette of India, 2013). Although the MCA had previously issued Ind AS, they were not included in the Companies Act 1956. Hence the inclusion of Ind AS in the Companies Act 2013 is seen as an important step towards IFRS convergence.

On 10th July 2014, the finance minister of the new Indian government in his budget speech proposed mandatory implementation of Ind AS by the financial year 2016-17. While this announcement reiterates India's commitment to IFRS convergence, the dates for implementation have yet to be announced by the MCA which is the main body handling IFRS convergence. Given that as of July 2014 the MCA has yet to make an

official deadline announcement and also approve the new roadmap, this deadline is already under pressure.

A senior member of the ICAI revealed that the delay in approving the roadmap has been due to issues raised by regulatory bodies such as the SEBI and RBI,

"MCA has asked us to discuss the revised version with the RBI and SEBI. So we are discussing this with them… We had said that we'll go for IFRS for Consolidated Financial Statements instead of individual financial statements but SEBI has some reservations, they want IFRS for consolidated as well as individual financial statements" (PB6).

Hence discussions regarding this had been going on between the ICAI, the SEBI and the RBI. In February 2015, the MCA approved and officially published on its website the new roadmap for IFRS convergence (KPMG, 2015). This official announcement also included the issuance of Ind AS which now came to a total of 39 standards (KPMG, 2015). Through this official publication the new deadline for IFRS convergence has been set for April 2016. Despite pursuing the policy of convergence, the ICAI claims that the newly framed Ind AS is 99% similar to IFRS (PB5). The IASB itself while insisting that convergence will not fully reap the benefits of IFRS, recently used the term 'substantially converged with IFRS' for Ind AS (IFRS Foundation, 2015). The question that then arises is the reason for maintaining independence in its transition to IFRS by naming the newly framed standards as Ind AS. This policy of aligning with and at the same time maintaining what would seem a distinct identity suggests that there could be other reasons for deciding to converge and not adopt IFRS. An interviewee from the industry who also had experience working with professional bodies stated that there are members of professional bodies who consider that full adoption of IFRS would be a loss of sovereignty over the accounting standard-setting policies in India to a foreign body (IB 6). Although this is certainly not the official stand point of the ICAI, there could be grounds for reasonable contemplation on such a possibility. In a speech at an IFRS Conference co-hosted by the ICAI and KPMG in India in February 2015, the IASB chairman, Hans Hoogervorst acknowledged this perspective,

"I know that some people in India, but also other parts of the world are worried that adoption of IFRS leads to a loss of national sovereignty in accounting standard setting. Let me not beat around the bush: it is certainly true that the adoption of IFRS puts a constraint on national preferences in accounting standards. Most countries around the

world adopt IFRS lock, stock, and barrel and have resisted tinkering with our Standards, no matter how big the temptation can be."

The statements of the IASB chairman and the interviewee lead us to the possibility that one of the factors that shaped India's decision to converge and not adopt IFRS could be the apprehension of the national accounting standard-setters of losing control over accounting standard-setting decisions to a foreign organisation. This inference points to the disparities between the rhetoric and actual reasons driving the convergence decision. It also draws attention to IASB's not very appreciative views on the carve-outs which India had been quite clearly engaging in since the beginning of the process. Despite the carve-outs, the state kept taking some steps towards achieving some level of convergence with IFRS at the official front.

Following this in March 2015, the MoF officially published the Income Computation and Disclosure Standards creating a new framework for calculation of taxable income. These standards have been published to address the taxation issues of companies that would be required to implement Ind AS from April 2016. However, one of the pending tax issues is the MAT basis of computation for companies that will use Ind AS which has yet to be resolved.

It could be observed that several significant steps are being taken by the government to speed up IFRS convergence. According to a member of industry the implementation of Ind AS will be a reality this time as the companies are prepared to implement the standards (IB 6). Since several such steps and statements have been made very close to pending deadlines by the government and even members of industry, it would be too early to arrive at the conclusion that this is the final convergence decision for India which would depend on the actual implementation of Ind AS by companies.

7.5.3 Interpretation and Reflective Analysis

From the analysis of events presented above, it is clear that the actors present are the same as in the previous phase. The only significant progress that has direct impact on the IFRS convergence decision-making process has been through communications between the Core Group now constituted of only members of the government and the ICAI.

An interesting aspect of the ICAI as a decision-maker is the dual role it portrays in convergence. While on one hand it stays committed to promoting the agenda of the global accounting community, it also voices national concerns and responds to global push for convergence by presenting alternate or substitute strategies as in the case of the AOSSG working group. To achieve success in exerting influence on a powerful transnational organisation, in this case, the IASB, it collaborates with other accounting bodies from neighbouring countries to present its agenda to the IASB. The dual role played by the ICAI is an example of the multiple ways through which a single actor in the network can influence the convergence decision.

This once again highlights the significance of collaborations between local actors from different national decision-making arenas to respond to powerful transnational organisations. The presence of other countries such as Malaysia, China, Korea and Indonesia show the wider applicability of this particular issue of the convergence decision-making process. This phenomenon is an example showing that studying the dynamics of the convergence decision of a country is not restricted to its specific national interests and hence is not unique in its applicability. It is applicable to other countries going through similar processes in their decision-making spheres.

The decision-making process continues to be delayed and a senior member of the industry stated that this delay was a planned one,

"...now the government has been caught up with these corruption scandals etc and so the accounting issues have taken a back seat." (IB6).

The 2G scam and the Commonwealth Games corruption scam were a couple of the scandals that shook the country over the last few years. Both these scams involved several high level politicians and senior government officials and caught the attention of the entire nation during the period of 2011 to 2013. These scams cost billions of pounds to the government and it pushed all other projects to the back-burner (The Times of India, 2011). Another important characteristic that marked this phase was the approaching general elections in the country. Politically, this was a time when the state needed the support of industry. This support is often in the form of political donations made by industry. According to a senior member from industry,

"The first priority of the government at that point was the election ...it would not have taken any decision that would have upset the industrial lobbies because it needed their financial support during elections" (IB6).

In addition to corruption scams and elections, the state is yet to make law amendments to resolve taxation issues (IB 6). Such indecisiveness or inaction is interpreted as lack of serious commitment on the part of the government. Unless these root causes of local resistance are resolved by the state, IFRS convergence in India will keep getting delayed.

The key message that is conveyed here is that the actions of the state do not match the rhetoric. The behaviour of the state and the ICAI throughout the two phases, when viewed through a theoretical perspective presents some features of an interesting phenomenon termed 'Foiling' by Halliday & Carruthers (2009). This term is used by the authors to represent techniques used by local actors to resist transnational influences. National resistance to transnational influences depict the convergence process in a complex realistic manner by presenting it as a recursive cyclical process. An example is India's stance of pursuing convergence despite IASB's repeated insistence on the benefits of full adoption due to several issues such as valuation, taxation, legislative issues and possible sovereignty issues. The slow processing of taxation and legislative amendments and the possible existence of sovereignty issues suggests that there could be discrepancies in the actions and rhetoric of not just the state but also the ICAI since accounting standard-setting decisions are the domain of the ICAI. While these national actors seem keen to be seen as conforming to global norms they also resist complete surrender to transnational influences. Such resistance, as represented in the case of the AOSSG WG, often includes attempting to alter the strategies of these transnational actors. Hence recursivity of the convergence decision-making implies that both transnational and national actors influence each other and change the course of events as opposed to a linear process where national actors succumb under transnational pressure. Existing literature mostly focuses on describing the submission of national actors to transnational pressures. Halliday & Carruthers (2009) used the concept of foiling to explore the ways in which local actors evade or resist transnational pressure. A couple of these techniques of resistance are used to analyse a few characteristics of the Indian scenario;

a)   Deferring Compliance - From the events presented in this chapter it is clear that the GOI has definitely been deferring compliance and has done so twice in the last eight years. From among different factors such as the state, professional bodies, regulatory

authorities and the industry, it is the industry that would be most affected by IFRS convergence. They had put up a strong resistance and were unofficially supported even by few members of the state who hold the personal opinion that IFRS is not as good as US GAAP. The point is that the industry succeeded in getting its demand translated into action and the state continued to present to the global stage a façade of full support for IFRS convergence. The tactics used have been to cite need for legislative and regulatory amendments. However, eight years have passed since the first deadline announcement and such a long time period should have been sufficient to make these amendments if the state intended to go ahead with convergence immediately.

It is interpreted that in addition to taxation issues requiring legal amendments, decision-making process of other countries is also a part of the reason for local resistance. As discussed earlier in this chapter, the India-Japan IFRS dialogue and the US's decision to delay convergence has also been cited as reasons for delays in India.

b)   Substituting a Solution and Accepting Recommendations Selectively - These two tactics in the Halliday & Carruthers (2009) framework have been used specifically at transnational professional platforms. While the process of convergence with differences as opposed to adoption of international accounting standards does involve the adaption of standards to suit the local context, providing or suggesting a substitute solution is a different case altogether. In India, it has been observed that most of the accounting standards have been framed in alignment with IFRS (ICAI, 2008). However, as discussed earlier in this thesis, there are also some major differences between the Ind AS and IFRS (Jain, 2011). The ICAI had demanded carve-outs in IFRS to suit the local environment which was received with displeasure by the IASB (The Economic Times, 2011). At the 5th IFRS International Forum held in Indonesia, it was observed that the then chairman of IASB, Sir David Tweedie was reported to have stated that he had,

"Warned them (Indians) that they were on a dangerous path".

Commenting on this reaction by the IASB chief, Kerry Hicks, the head of ICAA (Institute of Chartered Accountants of Australia) remarked that,

"India is such a huge player in all of this, even if they are not such a big player in the capital markets compared to the United States. If we see countries tweaking and changing, it will not be a good outcome for IFRS" (Getter, 2011).

The IASB's response to carve-out demands from India have not been positive and the organisation till this day attempts to convince the representatives of the ICAI and other local actors that adoption of fully compliant standards is the best solution and that convergence with difference is not as effective as full adoption (Kalavacherla, 2011). So it can be observed that local responses to transnational influences also involve direct attempts to alter the strategies of transnational organisations. It is interpreted that the failure of the ICAI to successfully influence the IASB partly resulted in further delays in the convergence process in private sector. However, in some cases the ICAI did succeed in indirectly influencing the IASB as in the case of AOSSG Working Group (AOSSG WG), co-chaired by ICAI and constituted specially to address the agricultural assets issue with the IASB. This time, the IASB did concede under combined pressure. It can be observed here that professional platforms have been used to make demands for carve-outs and provide substitute solutions. This is cited as an important technique used by countries to delay the convergence process. The local actors in the Indian context, are hence seen to use a combination of the two tactics of 'substituting a solution' and 'accepting recommendations selectively'. The latter technique helps the local actors to maintain their official stance of being committed to IFRS convergence and the former tactic of demanding carve-outs is used to exert influence on the decision by bargaining for terms and conditions of convergence.

7.6   Conclusion

IFRS convergence in India in the private sector has been driven by both transnational and national actors through different transnational networks. Analysis of evidence indicated that right from the initial phases, the decision to converge with IFRS was simultaneously shaped by the decision to not adopt IFRS. While legislative, economic, conceptual and tax issues were significant reasons, sovereignty over accounting decisions could perhaps be one of the minor factors leading to India's decision to substantially converge and yet remain distinct from IFRS. This aspect of the decision was conveyed through the emphasis on 'not adopting' IFRS by both government and ICAI representatives at various phases throughout the decision-making process. This is one of the several instances indicating that while the process has been influenced by different sources of transnational

actors, there has been significant local response to these influences which have played an important role in shaping the decision-making process. Since in India, the process needs to be officially validated by the state, the target of exerting influences from both the transnational and national side has been the state. The mutual dependency and relationships between actors in the decision-making arena at various levels and the political implications of the decision-making process had resulted in changing the role played by the state. It has been observed that while, the state, in the private sector, played an active role in the initiation of IFRS convergence process in response to transnational influences, it was compelled to step back in response to local resistance. This alteration in the role played by the state has been going on in a cyclic manner in response to influences from actors both transnational and national.

CHAPTER EIGHT - DISCUSSION AND CONCLUSION

8.1   Introduction

This research commenced with the main objective of studying convergence with international accounting standards as a decision-making process in India. Most studies analysing convergence start their narration from the point of actual implementation of international accounting standards (Zeghal & Mhedhbi, 2006; Tyrall et al, 2007). There are not many studies that have analysed the process through which a country arrives at the decision to converge with international accounting standards (Mir & Rahman, 2005; Carlson, 1997). The purpose of this study has been to examine and compare the convergence projects for IFRS and IPSAS in India as a complex decision-making process.

This chapter presents a comparative analysis of the evidence collected from private and public sectors for IPSAS and IFRS convergence. The evidence from both these sectors was presented in Chapter Six and Chapter Seven respectively. A comparison of this evidence helps bring out the complexity of the decision-making process. Further this chapter presents and analyses the findings through the theoretical framework constructed for this study. Finally, the chapter is concluded wherein the research gaps are revisited through a brief analysis of the literature review to help explain the contribution of this research to the existing literature. The rest of this chapter is laid out in the following structure;

8.2 Comparative Analysis of Convergence progress in Public vs. Private sector - This section compares the progress made so far in IPSAS and IFRS convergence in India and discusses the significance of the differences in the two sectors.

8.3 Sources of Transnational and National Influence - The purpose of this section is to discuss and compare the empirical evidence for different sources of influences on the convergence through the theoretical prism of transnational governance.

8.4. Channels of Influence on the convergence decision - A Comparison. This section presents a comparative analysis of the transnational policy networks through which the convergence decisions in public and private sectors were influenced.

8.5 Recursivity of Decision-Making Process - Contrasts in Public and Private sectors. Further comparison and analysis of evidence from the public and private sectors is presented through empirical themes of recursivity identified in this study.

8.6 Conclusion – This section summarises and concludes the findings and analysis presented in this chapter. It also presents a brief analysis of the existing literature and a comparative analysis of findings of this study with those of existing studies wherever comparison is possible.

8.2   Comparative Analysis of the Convergence Progress in Public vs. Private Sector

It would be appropriate to commence the discussion of the decision-making process in India through a comparison of the progress achieved in terms of convergence or preparations for convergence in the private and public sectors. The progress achieved in this context is measured through an assessment of targets set and achieved (or not achieved) by the respective authorities leading IFRS and IPSAS convergence in India. The differences in the progress made in the two sectors would set the stage to analyse the transnational policy networks and communications that have been shaping the decision-making process in the country. Table 14 represents a few significant milestones in the convergence decision-making process for IPSAS and IFRS. Detailed analysis of significant events will be presented later on in this chapter. The purpose of this section is only to present an overview of the context and situation in convergence projects for IPSAS and IFRS. Hence a comparison of the timeline of main milestones leading to progress in convergence is shown in Table 14 which would help build the premise to discuss the differences in the nature of the decision-making process that justifies a study of IPSAS and IFRS convergence decision-making process in India.

Table 14   Convergence Progress in Public Vs Private Sectors

Events	Year	IPSAS Convergence	IFRS Convergence
Setting up Committee for Preparing Roadmap	2005	GASAB set up two committees to prepare framework and roadmap	
	2006		ICAI set up task force to prepare roadmap
Deadline Announcement /Proposal	2005	Committees constituted by GASAB estimated ten to twelve years i.e.2015-16 for IPSAS convergence	
	2007		MCA announced deadline of 2011 for IFRS convergence
Issuance of Roadmap for convergence	2007	Operational framework and roadmap issued	
	2008		Roadmap issued for IFRS convergence
Steps towards achieving targets set in Roadmap	2007-2011	Pilot studies completed in three provinces as per roadmap, implementation of accrual accounting commenced in local governments	
	2008-2012		AS committee set to resolve tax issues in 2010, MCA announced 35 IFRS converged standards in 2011, but deadline for commencing implementation not met, new deadline of 2013 set
Progress Achieved	2013	21 provinces have switched to accrual accounting	
	2013		Second deadline not met, new roadmap issued and new deadline of 2015 set for IFRS convergence
Latest Update	2015		Progress according to targets
	2015		Third deadline not met and new deadline of 2016 set

From Table 14 it can be observed that preparations and process of convergence had commenced earlier in the public sector. The committee for preparing the roadmap for convergence in the public sector was established in 2005 (GASAB, 2008) and task force

for IFRS convergence was set up in 2006 (Jain, 2011). Similarly, deadline announcement was made in 2005 for public sector (GASAB, 2008) and 2007 for IFRS convergence in private sector (MCA, 2008). A roadmap for convergence in the two sectors was also issued in the consecutive years of 2007 and 2008 for public and private sector respectively (GASAB & CAG, 2010; MCA, 2009). Although there are time-differences in the events representing convergence progress, it can be observed that the differences are not significant.

Another point to be noted while comparing the two sectors is that the public sector requires the consensus of 29 provinces of different sizes, composition and status of development (Adukia, 2012). Since, the public sector was following a bubble-up (bottom-up) approach to the accrual accounting transition; the implementation was started at the local government level (GASAB, 2011a). The number of local municipal governments in a province depends on the size and population and reaching the stage of actual implementation in 21 provinces is no mean achievement. If this is to be compared with the progress made in the private sector, it can be observed that relatively lesser progress has been made. Specifically, the targets set in the roadmap for convergence in the public sector such as pilot studies have been carried out and completed on time (GASAB, 2011b). This is in contrast with the private sector where the targets set in the roadmap were not achieved due to which a second roadmap had to be prepared (KPMG, 2015).

Similarly, the deadline for convergence in the private sector has been missed twice in the last seven years. Although the deadline set for the public sector is a couple of years ahead, the point to be noted here is that the public sector has been meeting targets set in its original roadmap successfully. Hence, the comparison made here is not on the basis of the speed with which progress has been achieved in the two sectors. Rather, it draws attention to the extent to which progress has been made in terms of achieving goals set within a time-frame that was considered reasonable and sufficient by experts and policy makers alike. In case of the private sector, the NACAS (National Advisory Committee on Accounting Standards) which is an advisory committee of the MCA (Ministry of Corporate Affairs), had verified and approved the roadmap drawn out by the ICAI (Institute of Chartered Accountants of India) task force in 2007 (CG1). The reiteration, by the MCA, of its determination to achieve IFRS convergence very close to the first deadline in 2011 (which was not met) and also couple of months before the second

deadline in 2013 (which was also not met) presented contrasts between the official statements being made and the actual progress. A comparison of the same context in terms of state announcements or declarations in the public sector shows that the behaviour or role of the state in this particular aspect is exactly identical in both the sectors. The state appeared to be quite positive and determined to achieve convergence with international accounting standards. However, the difference in the two sectors becomes visible only when one examines the convergence progress.

The question that arises here is if the state was able to achieve reasonable progress in the public sector, why was it not able to do the same in the private sector as well. The rest of this chapter attempts to answer this question as part of analysing the decision-making process by further analysis of evidence. This study has used three main theoretical concepts which have been used to carry out the analysis - sources of transnational influences, recursive nature of the decision-making process and transnational policy networks and communication. The change in the role played by the state is inferred to be the consequence of these three aspects. The following sections interpret empirical evidence through these three theoretical constructs.

8.3   Sources of Transnational and National Influence

This section addresses the first research question of this study which is,

RQ: 1 "How and why did India decide to converge with international accounting standards?"

Significant sources of transnational influence triggered the decision-making process in India. The diversity of transnational influences signifies the complex nature of the decision to converge with international accounting standards. India being a nation in transition presents a contrasting situation within itself in terms of its relations with transnational organisations in the public and private sector. Transnational influences in both the public and private sectors have been channelled or exerted through different actors. A comparison of decision-making arenas in the two sectors shows that transnational actors driving the decision-making process in the private sector are international associations such as the G-20, IOSCO, significant international trading partners and political allies and MNCs of the country. Convergence process in the public sector is clearly driven by IFIs and professional associations (see Table 15).

Table 15   Classification of Sources of Transnational and National Influences

Sources / Actors	Transnational		National/Local	
	Public	Private	Public	Private
State Actors	AGAOA members, ICGFM members	International state bodies such as Ministry of Finance of Japan, DFID, SEC	State Bodies	Ministries of Finance, Corporate Affairs, SEBI
International Organisations	IPSASB, WB, IMF, USAID	G-20, IOSCO AOSSG, IASB	-	Large Indian corporates such as TATA and Reliance which have international operations
Economic and Societal	OECD	International industrial lobbies such as the Japanese Business Federation	-	FICCI, CII

In Chapters Six and Seven, the actors involved in decision-making were classified into specific occupational categories. Table 15 presents a broader picture of the constituents of transnational policy networks that are used as channels of influencing the decision. The difference in transnational influences or actors in the two sectors is inferred to be one of the causes of difference in the willingness to converge with international accounting standards in the two sectors. This is better explained through the concept of resource dependency between these transnational and national actors.

One of the significant sources of influence that could be identified here is resource dependencies or exchange of resources such as knowledge, information, finances, and technical support. Resource dependencies had also been theoretically identified as a significant source of influence (Richardson, 2009; Samsonova, 2009) in Chapter Three of this thesis. While resource dependency as a source of

influence is usually referred to in the context of relationships between transnational organisations and national/local actors, this study found that resource dependencies amongst national actors also play a significant role in influencing the convergence decision. Hence one approach of explaining the different pace of convergence progress in the two sectors is to analyse the dynamics of resource dependence amongst national actors and between national and transnational actors.

In the context of this study resource dependencies were found to exist between the state and both transnational and national actors. Since the state is the key official decision-maker in the convergence decision, a brief analysis of the nature of relationships between the state and few main actors in the decision-making arena is presented below:

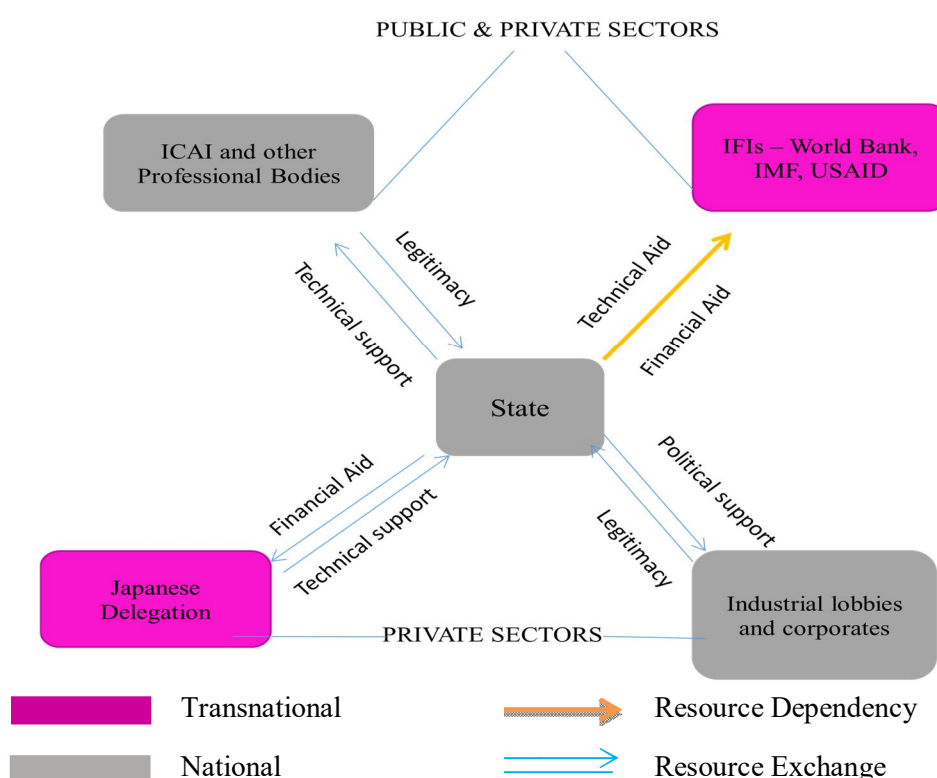**Figure 14   Resource Exchanges/Dependency between the State and Other Actors**

From Figure 14, it can be observed that the government has resource exchange relationships with professional bodies, industrial lobbies and the Japanese delegation and it holds a resource dependency relationship with IFIs in the decision-making arena. The relationships with professional bodies and IFIs are present in both public and private

sectors as the figure indicates and the other two cases refer to the private sector. In each case the resources are different. In the first case, the government provides legitimacy and authority to the ICAI and the ICAI provides technical support and knowledge regarding standard-setting. The ICAI, although autonomous to a great extent, still exists under the supervision of the central government. The standards issued by the ICAI become mandatory only when authorised and announced by the government. Similarly, the NACAS is also composed of members from professional bodies such as the ICAI. Between the government and IFIs, there exists a clear case of resource dependency - both financial and technical. Examples are the pilot projects funded and technically aided by the WB and technical aid provided by the USAID in the public sector. In the private sector also, SFAA reports prepared by the WB and addressed to various provincial governments could be cited as an example of inflow of technical resource from IFIs. The industrial lobbies or corporates have also been stated to provide political support to political parties by interviewees. This has been validated by reports published in newspapers and articles (Srivats, 2012).

The government could also be inferred to have a resource exchange/ dependency relation with the Japanese delegation with the Official Development Assistance (ODA)recipient status of India and India-Japan IFRS dialogue which can be viewed as a forum of technical knowledge sharing. The source of influence from Japan had been further traced back to US's decision to delay convergence. In addition to the donor-recipient relations between Japan and India, significant trade relations between Japan and US and the international operations of major Indian industries also acted as a source of influence. As presented in the Chapter Seven, all major Indian companies have been preparing financial reports according to US GAAP in addition to the reports based on the previous Indian accounting standards. In this context, it is interesting to observe and compare the influence of US on the convergence projects of public and private sectors in India. While the SEC's decision to delay IFRS convergence has been a significant source of indirect influence on India's decision to delay convergence in the private sector, USAID seems to have a very direct influence in shaping and promoting India's move towards accrual accounting. This flow of influence could be rationalised through resource exchange relationships between the actors. Figure 14 depicts the two-dimensional flow of influences from the UASID and SEC's convergence decision to the Indian decision-making arena.
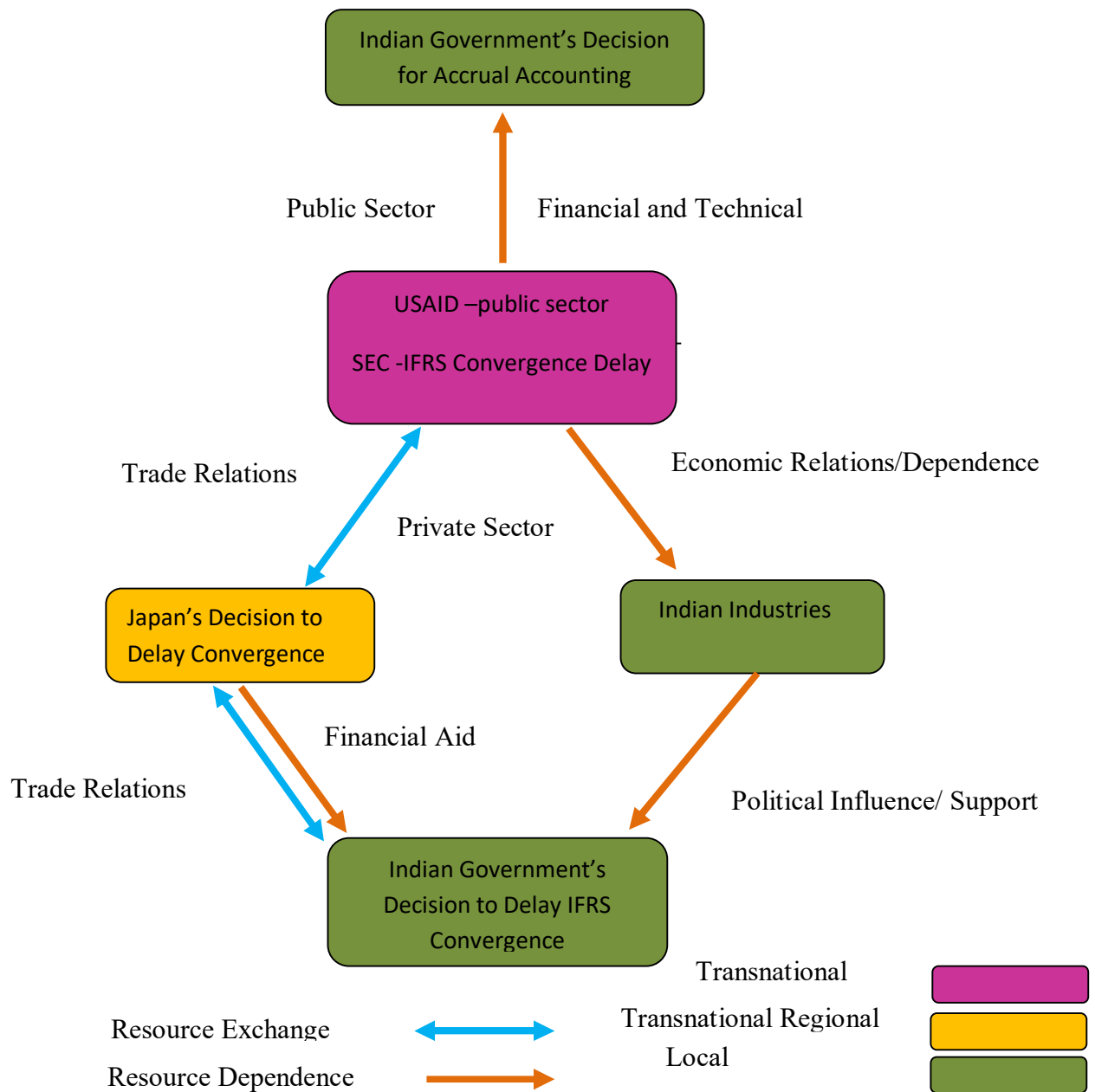
Figure 15 - Flow of Influences through Resource Exchanges/Dependence-US to India

It could be observed from Figures 14 and 15 that flow of influences is determined by subtle power dynamics which are balanced on the resource dependence or exchange relations between actors in the decision-making arena. There is a power imbalance amongst actors in the arena that results in part or full to the flow of influences. The theoretical constructs of power imbalance and mutual dependence proposed by Casciaro & Piskorski (2005) leads to the inference that power imbalance in this context is determined by the mutual dependence of actors. Mutual dependence in the convergence decision translates into resource exchanges and resource dependence between transnational, regional and national actors. The type and nature of dependence or exchange of resources could place one actor in a relatively more powerful position than the other. For instance, in the case of USAID and the state in public sector, the financial aid provided by the former places the latter in a position that could be susceptible to influence. In the private sector, the power balance between the state on one hand and on the other hand actors such as industries and Japan seems to be heavily tilted towards the latter due to substantial resource dependence relationship with both Japan and industries. The influence of the US that managed to permeate into the decision-making processes of both the sectors through direct and indirect mediums in the two sectors partly contributed to the different convergence processes in the public and private sectors.

Key Observation One - Differences in the relationships of resource dependence between local and transnational actors

One of the key points of contrast that emerges from the analysis of sources of transnational influence in the public and private sectors is the impact of IFIs on the convergence decision in the two sectors. In both sectors, the IFIs had a direct link with the government. However, the impact of the government's relationship with the IFIs is different in the two sectors. For example, FSAP assessments in 2001 providing recommendations for IFRS convergence and the SFAA assessments in 2003 promoting IPSAS convergence both conducted by the WB led to some important initial decisions being made by the government as presented in Chapters Six and Seven. The point to be noted here is that although the initial responses to the IFIs in both sectors were similar and favourable to the influences, they took different directions as the decision-making process proceeded to include more national actors in the private sector.

Analysing these relationships in terms of resource dependencies/ exchanges provides a better explanation for the power dynamics observed in the transnational policy networks that constitute the decision-making arena. The resource exchanges and dependencies presented in Figure 14 could be interpreted as the sources that provide an influential position to certain actors and place others in a position to be influenced. For instance, despite a similar resource relationship between the government and IFIs in public and private sectors, the impact of this relationship is different in the two sectors. While IFIs continued to play a role throughout all the phases in the public sector decision, they seem to be absent in the private sector decision after Phase I. This implies that after Phase I the decision-making arena in the private sector had undergone a change in terms of the actors influencing the decision. This could be partly explained by other resource relationships that exist between the government and national actors from the private sector. To gain a further understanding of the significance of these sources of influence on the convergence decision, it would be necessary to analyse the transnational policy networks.

8.4.   Channels of Influences on "Convergence Decision" – A Comparison

This section addresses the second research question of this study which is stated below;

RQ:2 "What is the network of national and transnational actors involved in the decision-making with regards to convergence in the private and public sectors and how do such actors attempt to influence the decision?"

Table 16 presents a snapshot of the transnational policy networks in both the public and private sectors that were organised to discuss convergence issues. The networks have been classified on the basis of actors who arranged or organised platforms for conducting meetings, conferences and discussions between concerned parties on issues regarding convergence with international accounting standards. While these networks in the public sector were driven by the government, networks in the private sector were driven through different platforms organised by different actors.

CLASSIFICATION	TRANSNATIONAL NETWORKS	
	PRIVATE SECTOR	PUBLIC SECTOR
Inter-Government	1) Ministry of Finance (MoF) and G- 20 commitment 2) India-Japan IFRS Dialogue 3) OECD /ADB Anti-Corruption Initiative for Asia Pacific	1) GASAB, ICGFM and IFAC 2) INGAF and AGAOA
Professional Associations	1) AOSSG (Asian Oceanian Standard Setters Group) and The Issue of IAS 41 2) Networks Between the ICAI and the IASB: The Issue of IAS 16	1) GASAB and IPSASB 2) GASAB and IFAC
Regulatory Authorities	1) Membership of Indian Securities Regulatory Authorities in IOSCO. 2) IOSCO and Sydney Resolution 2000 3) IOSCO, G-20 and FSB network 4) IOSCO and IFRSF (IASB) network	1) IOSCO, IPSASB and GRG
International Financial Institutions	1) WB and IMF	1) GASAB, USAID, WB and IMF 2) Anti-Corruption Initiative for Asia Pacific by ADB and OECD

From Table 16 it can be observed that the transnational networks influencing the convergence decision were composed of national and international bodies belonging to different categories. While national state actors were involved in both sectors, important transnational actors in the private sector were the Japanese delegation, AOSSG and G-20 and the public sector was influenced by transnational actors such as IFIs and IPSASB. While the private sector decision was influenced through both direct and indirect platforms, the public sector decision was influenced through direct platforms. For example, in the case of the private sector, influences from the Japanese delegation were conveyed through the India-Japan IFRS dialogue which was a platform that was specifically created to discuss the convergence decision in the two countries. On the other

hand, influences from G-20 conferences were conveyed through a relatively indirect platform where IFRS convergence decision was one of the several issues discussed. In the case of public sector, it can be observed that the influences on the decision were conveyed through direct platforms that were specifically organised to discuss the convergence decision.

While it is evident that the network was composed of both transnational and national actors, within these categories the actors held significantly different views on the decision depending on their role in the network as rule takers, rule makers or rule intermediaries (Abbott & Snidal, 2010; Levi-Faur & Starobin, 2014). For example, the role of transnational professional bodies in both public and private sectors such as IASB, IFAC, IPSASB is clearly that of rule makers which led these actors to assume a clear stance of promoting full adoption of standards as discussed in the empirical chapters. On the other hand, the role of some transnational and national actors such as the IFIs, the G-20 members, the state and the ICAI in the national context are rule intermediaries who engage with both rule makers as well as rule takers such as the industry and local governments. These roles of actors participating in the network determine their stances on the convergence decision-making process and the manner in which they attempt to exert influence. This study finds that while rule makers or regulators do play a significant role in the decision-making process, rule intermediaries and rule takers play equally significant roles in determining the terms of convergence. This visualisation of the accounting regulatory space as being shaped through negotiations between a wide variety of actors draws attention to the evolution of accounting regulatory spaces beyond the realms of the regulator/regulated dyad (Huault and Richard, 2012). It further emphasises that accounting regulation is a continuously evolving process that is co-built by various actors operating in the market, the civil society, including state actors at transnational and national levels (*ibid*) .

A deeper analysis of the ways in which these interactions influenced the convergence decision is discussed through the concept of recursivity presented in the next section.

8.5   Recursivity of the Decision-Making Process: Contrasts in the Public and Private Sectors

Recursivity was a significant theoretical element that helped in analysing the transnational policy networks in the two sectors. The concept of recursivity helped in viewing the interactions between transnational and national actors to be cyclic and

responsive. National responses to transnational influences further complicated the process and brought about significant differences in the convergence decision in public and private sectors of the country. These interactions when theoretically analysed exhibit several characteristics. Characteristics of transnational policy networks identified by Djelic & Quack (2010) have also been used to gain an understanding of the channels through which the convergence decision is being shaped. The five characteristics identified by Djelic & Quack (2010) are; multiple affiliations, rooted in national identity, fluid and dynamic, complexity and heterogeneity and time-bound/limited liability. Some of the common themes that were drawn from the analysis of networks are presented in Figure 16:
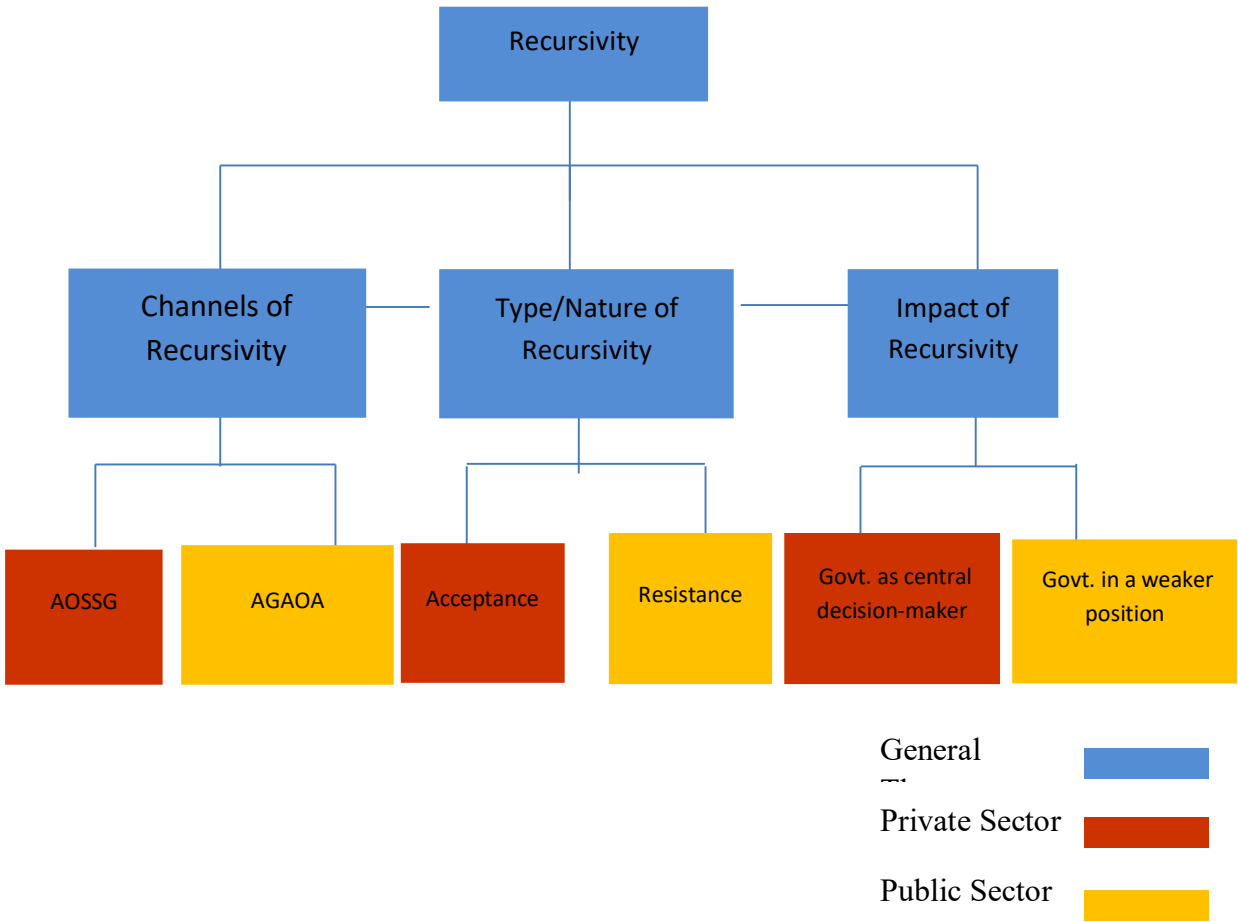

Figure 16 Empirical Themes of Recursivity

The three themes of recursivity identified are channels of recurisvity, nature of recursivity and impact of recursivity. Three examples each from the evidence collected from private and public sectors have been presented under each theme to compare the decision-making processes in the two sectors. The following subsections elaborating on the themes identified above partly addresses the third research question which is stated below:

RQ: 3 What are the arguments put forward by proponents and opponents of convergence and how do they contribute towards our understanding of the contrasting dynamics of convergence observed in the private and public sectors?

The first part of this question about the arguments and stances of actors was discussed in detail in Chapters Six and Seven. Some of the key points put forward by the proponents of convergence in both the sectors were greater transparency and accountability, financial comparability leading to greater cross-border investment and consistent accounting practices. While the public sector did not appear to have opponents of convergence, the private sector had faced resistance to immediate convergence from industrial lobbies due to taxation issues. The following sections address the second part of the question. The themes aim to bring out the implications, contrasts and key observations of the events discussed in the empirical chapters.

An interesting aspect that characterised some of the networks that shaped the convergence decision in India was co-operation between local actors belonging to different national decision-making arenas. Djelic (2014) has discussed the role of networks that act as intermediaries between global and local actors in the context of competition regulation in Africa. Some important milestones in the IFRS convergence decision-making process are networks formed through platforms solely to address common local issues faced by nation states having similar characteristics, for example, the AOSSG network. Although these platforms, formed beyond national boundaries are transnational by territorial definition, they were formed by a group of local actors from different national decision-making arenas who were not sufficiently influential to individually negotiate with powerful transnational organisations. This study views these platforms as being more of local channels of recursivity.

For instance, the AOSSG network and the India-Japan IFRS dialogue could both be interpreted as co-operation among countries in similar stages of convergence decision. In the case of the IFRS convergence decision, both the AOSSG networks and the India-

Japan IFRS dialogue formed an important part of the decision-making process. The AOSSG working group formed to address the IAS 41 issue with the IASB was constituted of agricultural economies such as India and Malaysia belonging to the same region facing similar issues in their respective decision-making arenas. Hence the actors constituting these networks while transcending national boundaries were acting and participating in these networks to defend and negotiate local interests. The two networks could be differentiated in that while the India-Japan IFRS dialogue was formed to serve common mutual interests on the decision-making process for convergence, the AOSSG WG was a platform created to negotiate with IASB on a common local issue faced by member countries

The AOSSG was a platform that would enable a national professional body such as the ICAI to address the IASB to make amendments in IAS 41. In the context of convergence decision in India, the AOSSG Working Group (WG) is viewed as a national response to transnational pressures to go ahead with IFRS convergence. Hence it can be interpreted that such co-operation is often used as a channel of recursivity or channel of national response to engage and negotiate with powerful transnational organisations. In this context, the AOSSG working group actually succeeded in getting IASB to approve the proposed amendments in IAS 41 which can be theoretically interpreted as a local actor making use of a regional platform consisting of actors from other national decision-making arenas in the region together succeeding in altering the strategies of a transnational organisation. This leads us to one of the important conclusions of this thesis:

Key Observation Two - Recursivity of the decision-making process can induce transnational actors to alter their strategies for promoting convergence

While the private sector witnessed such clear efforts at resisting transnational pressure, there seems to have been no such responses in the public sector. A similar regional professional platform, however, was formed in the public sector to promote convergence with international accounting standards and address common issues. The INGAF-AGAOA platform was another example of an inter-governmental regional professional cooperation discussed in Chapter Seven of this thesis. INGAF being a training institute of the Civil Accounts Organisation set up by the MoF is clearly a government supervised body and also a part of the wider regional network of accounting institutes striving to improve public financial management systems in their countries. The AGAOA was also

being financially assisted by the WB. This again is an example of a regional platform acting as an intermediary between global and local actors. However, there is a striking contrast in the two examples of regional cooperation amongst local actors of different national decision-making arenas. AOSSG WG was formed with the intention of influencing a powerful transnational organisation (IASB) and the AGAOA was a platform through which a powerful transnational organisation (WB) was exerting its influence on the local actors. The contrast in the functional purpose of these two networks is a reflection of contrast in the larger decision-making scenarios of the two sectors.

The India-Japan IFRS dialogue is another example of cooperation between national arenas that played a significant role in the shaping of the convergence decision-making process in the private sector. For instance, the reason for establishing an annual dialogue with Japan could be significant trade relations between India and Japan and also due to regional affiliation. The composition of the two delegations discussed in Chapter Six clearly shows the multiple affiliations of the actors. The interesting aspect about this dialogue was the difference in the official and unofficial stance of the Japanese delegation and its impact on the Indian convergence decision-making process. The interview findings had clearly indicated that the unofficial stance of the Japanese delegation to delay convergence was taken into consideration by the government. It could be observed from the analysis presented above that the government which is the official decision-maker in both the public and private sector is influenced by significant political, economic and diplomatic ties. These networks provide clear evidence of the multi-variant nature of the sources of transnational influence on the decision-making process.

One characteristic that can be found in such transnational policy networks is the multiple affiliations of the actors constituting these networks. Multiple affiliations of different examples of networks belonging to different categories such as inter-governmental, professional and regulatory associations shape the stance of the actors on the convergence decision and hence their influence on the decision. It has been found that this complex characteristic of transnational networks is more prevalent in the private sector due to the wide variety of factors involved in contrast to the public sector convergence decision.

For instance, the steps taken by the ICAI are better explained through the traits of multiple affiliations and national identity. It is associated to the professional association of the country, the government and is also a part of a number of transnational

professional associations such as the IFAC and AOSSG. Being a part of IFAC and other professional bodies, the ICAI was on one hand officially committed to promoting convergence with international accounting standards in the country. However, due to its unique relationship with the government explained in Chapter Five and its links with industry, the ICAI is also obliged to advocating national interests. ICAI while co-chairing the AOSSG working group on IAS 41 along with Malaysia was also on the other hand, working with government agencies such as SEBI and RBI to push the convergence decision ahead. These steps of the ICAI are perceived to be a consequence of its multiple affiliations and its role in the decision-making process as a rule intermediary that engages with both rule takers and rule makers.

The dual nature of the actors in terms of multiple affiliations and national identity of networks discussed above represents the complexity of the decision-making process and the impact that it could have on the strategies pursued by global standard-setting bodies to promote convergence.

The nature of recursivity observed in the cycle of decision-making for public and private sectors were quite different. While recursivity in the IFRS convergence decision-making arena was marked by resistance on the local front, the public sector convergence decision seemed to be characterised by relatively positive local responses. This difference in the nature of recursivity could be attributed to a major difference in the decision-making arenas of the two sectors that is the composition of networks driving the decision. Despite differences in the network compositions of the two sectors, the initial phase of decision-making in both the sectors were similar in terms of the actors involved. During the initial phase, both the sectors saw the flow of influences from transnational sources and the government at the national level responding positively to these influences. However, a significant aspect of this initial phase in both sectors was that despite positive responses to transnational influences, the state in both sectors had decided to only converge and not fully adopt with international accounting standards. The newly framed accounting standards were to be named Ind AS in the private sector and IGFRS in the public sector. This shows that although the state was keen on conforming to global norms, there seems to have been a clear idea from the beginning to maintain a distinct identity for the accounting standards. Here the state while allowing itself to be influenced by transnational actors resists complete conformation by citing incompatibility reasons.

Despite the subtle resistance, significant steps were taken by the state in both sectors to go ahead with convergence in the initial phases.

However, the scene in the private sector began to change with the entry of other national actors into the arena. Since the public sector was more or less represented at the national level by the government, the initial optimism and positivity has been maintained so far. The actors involved at various stages of both sectors have been discussed in detail in Chapters Six and Seven. The main point to be noted here is the contrast in the networks in the private and public sector where the private sector networks are composed of wide variety of actors with strong influences at both the local and transnational level while the public sector networks are marked by strong transnational influences but relatively weaker local influences. The key observation that comes out here is:

Key Observation Three - Greater diversity of transnational policy networks may lead to greater recursivity in the decision-making process

This could be due to the variety of opinions that get voiced with increasing number of actors in the decision-making arena. However, a large number of voices or opinions do not mean that all of them get successfully translated into action. Actors in strategically advantageous positions in terms of supplying or exchanging resources have relatively more chances of success in favourably influencing the decision. In the context of IFRS convergence decision, it could be observed that there was a significant resource exchange relationship between the government and industry as also with Japan. This relationship may perhaps have outweighed the influences from other global transnational actors. The point at which the stories in public and private sectors began to diverge and the way in which this played out is explained better as an impact of recursivity.

The empirical evidence on IFRS and IPSAS convergence had been presented as a cycle of transnational and national events, responses and developments. To gain an understanding of the decision-making process, it is important to examine the manner in which these cyclic interactions or developments shaped the convergence decision. The events presented in the empirical chapters could also be viewed as independent events. Some independent events in the global arena have been identified to have a trickledown effect on the convergence decision in India, for example the EU decision to adopt IFRS. However, several other events have been interpreted to be responses or developments in response to communications from the transnational or national level. While the empirical

chapters present a closer and detailed look at the way in which the convergence decision in each sector has been shaping up, this section presents a comparative view of the manner in which the differences in recursivity led to differences in decision-making process of the two sectors. The two main issues identified are presented below.

8.5.1 The contrast in changing network compositions of the two sectors

The importance of the network compositions at different times during the decision-making processes in the two sectors helps to understand how and what led to the different stories in the public and private sectors. For this purpose, a broad comparative timeline of some significant changes in the composition of the networks constituting the two decision-making arenas is presented in Figure 17:
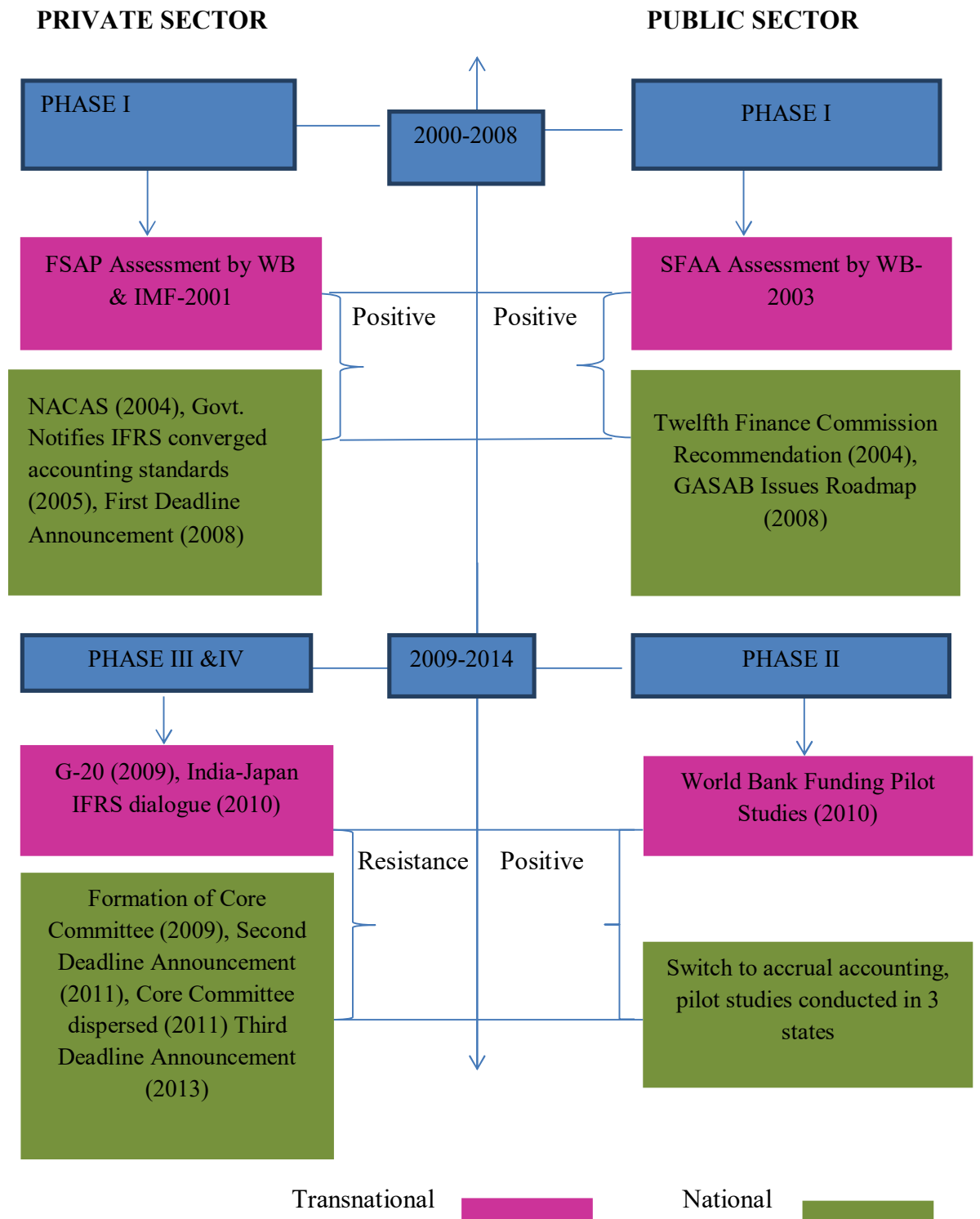
PRIVATE SECTOR		PUBLIC SECTOR

PRIVATE SECTOR   **PUBLIC SECTOR**

PHASE I — 2000-2008 — PHASE I

FSAP Assessment by WB & IMF-2001   SFAA Assessment by WB-2003

Positive   Positive

NACAS (2004), Govt. Notifies IFRS converged accounting standards (2005), First Deadline Announcement (2008)

Twelfth Finance Commission Recommendation (2004), GASAB Issues Roadmap (2008)

PHASE III &IV — 2009-2014 — PHASE II

G-20 (2009), India-Japan IFRS dialogue (2010)   World Bank Funding Pilot Studies (2010)

Resistance   Positive

Formation of Core Committee (2009), Second Deadline Announcement (2011), Core Committee dispersed (2011) Third Deadline Announcement (2013)

Switch to accrual accounting, pilot studies conducted in 3 states

Transnational   National

Figure 17 Comparative Analysis of Significant Milestones in Private Vs Public Sector

Figure 17 presents some of the common sources of transnational influences and some contrasts in the two sectors. During Phase I both sectors had experienced transnational influences from IFIs through FSAP and SFAA assessments conducted for private and

public sectors respectively. The main point to be noted here is that during this phase, the IFIs were dealing with the government which implies that at that point there were very few actors involved. The response to these influences also seems to be positive in both sectors with official recommendations and notifications made by the government to propel the convergence decision. However, as the decision-making process proceeded to include other actors in the private sector, it was observed that significant differences had begun to be visible in the two sectors. The private sector did not have any apparent evidence of influences from the IFIs in Phase II, III and IV, although the WB continued to play a significant role in promoting the convergence decision in public sector through financial and technical assistance. New transnational actors arrived at the decision-making arena in the private sector during the period of 2009-2014. The two transnational influences shown in Figure 17 are G-20 and India-Japan IFRS dialogue. Both these influences had different influences on the decision. On the one hand the G-20 was committed to promoting IFRS convergence and the government had made an official commitment to achieve convergence by 2011. Hence this influence was representative of the official stance of the government that is immediate convergence. On the other however, the India-Japan IFRS dialogue had a different impact on the convergence decision. It indirectly and unofficially supported the local resistance to immediate IFRS convergence. Hence it could be interpreted that the private sector witnessed the exit or fading of global transnational influences such as IFIs during the period of 2009-2014. At the same time, the public sector convergence decision was obtaining financial assistance for funding pilot studies. This is identified as a catalyst in altering the dynamics of decision-making in the two sectors.

The entry of new local actors into the decision-making arena during the later phases (III and IV) also transformed the initial responses that were sent out to transnational influences. It could also be inferred that strong local resistance to immediate convergence had led to the exit of IFIs from the decision-making arena in the private sectors while continuing positive responses to their influences in the public sector led to sustained involvement of IFIs in the public sector.

A comparative analysis of these events suggests that the exertion of transnational influences is shaped by the extent and nature of local responses to these influences. The events highlight recursivity of the decision-making process and also display the fluid and

dynamic characteristic of networks (Djelic & Quack, 2010) where actors enter and exit at different points of time during the decision-making process.

Another important issue that is highlighted through this analysis is the change in the behaviour of the government as the central official decision-maker in the two sectors which answers the fourth research question of this study which is;

❖ *RQ: 4 What is the role of the government in the decision-making process in the two sectors and how does it affect the contrasting dynamics of convergence there?*

8.5.2 Changing Role of the Government in the Private and Public Sectors

In the Indian context, irrespective of the source of influences, the decision to converge is officially driven by the government. Hence the government is the official and central decision-maker in both private and public sectors. The government has been an important channel through which transnational actors have exerted influence in both sectors although there have also been cases of influence through local actors such as the ICAI in the private sector. The communications between the ICAI and IASB as well as the ESMA for example has been discussed in Chapter Six. These communications were examples of instances where transnational influences used non-government channels as an additional means of communication. However, most of the transnational influences on the decision have been channelled through the government.

While the government has been acting as the in-charge of convergence process in both sectors, its role in the private sector has been observed to be weaker or having relatively lesser influence in comparison to the public sector. The reasoning for this observation is built around two points - a) a comparison of the responses of the government in the two sectors during the different phases, and b) the actual steps taken by the government for the convergence decision during the phases

Figure 17 presents an overall view of local responses to transnational influences at various phases of the decision-making process. This section specifically focuses on the response of the government. It can be observed from Figure 17 and from evidence presented in Chapters Six and Seven that during Phase I the local response involved only government actors who had taken some positive steps to drive the decision ahead. The

nature of the local responses in the private sector changed in Phases II, III and IV. However, the point to be noted here is that the official government stance or response did not change in the private sector. It still continued to respond positively to transnational influences. The reason for such positive response despite knowledge of the local circumstances could be theoretically interpreted as a result of foiling technique wherein local actors maintain a positive stance towards the transnational community and yet defer compliance. In this case the local actors were constituted of the state and non-state actors such as industry. It could be stated that the non-state local actors 'foiled' the strategies of transnational actors to speed up the convergence decision and the state was balancing local and transnational influences by adopting a positive stance on the transnational front and deferring compliance on the local front. Thus the combined result of local resistance and transnational influence is manifested through the dual stance of the state.

For instance, in Phase III, the government response to G-20 commitment for IFRS convergence was reiteration of the 2011 deadline. So officially, the government rhetoric remained the same. However, its rhetoric was not matched by actions in the private sector. Three unmet deadlines of convergence in the private sector corroborate this observation. This strikes an interesting contrast with the convergence decision in the public sector which has managed to keep up with targets set in the first roadmap while the private sector has recently drafted its third roadmap for convergence after the previous two had not been complied with.

The comparison between the two sectors is not being made on the basis of the time taken to make progress with the convergence roadmap. It would not be possible to do a comparison on this basis as both sectors started the process at different times and require different levels of effort due to the sheer difference in the scale of administration and preparation for actual implementation. In the case of the public sector, the Central Government needs to achieve consensus of the 29 provinces which form the country and preparation for implementation needs to be started at the local government level. In a large country like India, achieving that is a colossal task, especially if one considers that all provinces are not equally developed and technologically advanced. On the other hand, the private sector requires individual companies to carry out the preparations for implementing the new system which according to evidence collected had been started by several companies in terms of employee training and development. The main point that

comes out here is that inability to achieve targets due to lack of preparation in the private sector cited by some government representatives, cannot be taken as a valid reason for repeated delays. Especially since evidence collected from members of the industry and professional bodies suggest that employee training programmes had started in Phase II (2007-2009).

The government, on the other hand, has been insistent on declaring that it receives complete support from all stakeholders for the convergence process and that lack of preparedness of the industry is the reason for delays. However, setting up of the Core committee in 2009 to discuss convergence issues with industrial representatives and professional bodies followed by subsequent delays suggest that there is a controversial debate going on in the private sector that significantly contrasts the relatively smooth progress in the public sector. This contrasting situation specifically highlighted by the dual stance adopted by the state in the private sector draws attention to the complexity of the decision-making process.

The role played by the government in the decision-making process informs us to a great extent about the decision-making arena in the local context. As found in the case of India, the position and extent of influence of the government in the decision-making process could have interesting implications on the manner in which the convergence decision is shaped especially in the context of developing countries including those in transition. For example, Mir & Rahman (2005) in their study on Bangladesh discussed a few local responses that went unheard as the government had decided to proceed with full adoption, despite local opposition to such a step. This decision of the Bangladesh government to ignore resisting local voices and go ahead with the convergence decision was suggested to be the cause of convergence failure in the country (Mir & Rahman, 2005). The Indian context presents a case where the government attempts to balance the transnational and local pressures. This suggests that power dynamics or imbalances among local actors could significantly shape the final decision. The power dynamics among the national or local actors in a country could often be determined by the extent of development of a country (Risse-Kappen, 1995). One of the major factors that mark the developed nations of the world is the relatively lesser control of the government leading to greater sharing of power amongst national actors (*ibid*). Larger power disparity between the government and other local actors, which is a common factor in developing countries, leads to

government-dominated decisions (*ibid*). From the evidence in India, it could be inferred that the transitional status of India presents the characteristics of both developed and developing nations which is displayed through the differences in the public and private sector. While the government is able to give into transnational pressures in the public sector, it is not able to do so in the private sector as local actors in the private sector are powerful enough to influence the government into delaying the convergence process if not completely abandoning it. The government on the other hand, not being in a position to directly confront transnational agencies, adopts techniques to delay the process by providing justifications. This leads to the key observation that:

Key Observation Four - The position of the government vis-à-vis the other actors in the decision-making arena significantly influences the convergence decision especially in countries where the government occupies the role of the official and central decision-maker

Halliday and Carruthers (2009) also discussed some techniques that are used by local actors to avoid direct confrontation with transnational actors but at the same time succeed in their intention of negotiating the terms of convergence. These techniques have been discussed in Chapter Six of this thesis. The techniques used by the government represent the balancing act played out by the government on the global front while acting in accordance with local requirements. Figure 18 presents the outcome of the analysis of events discussed in this chapter.
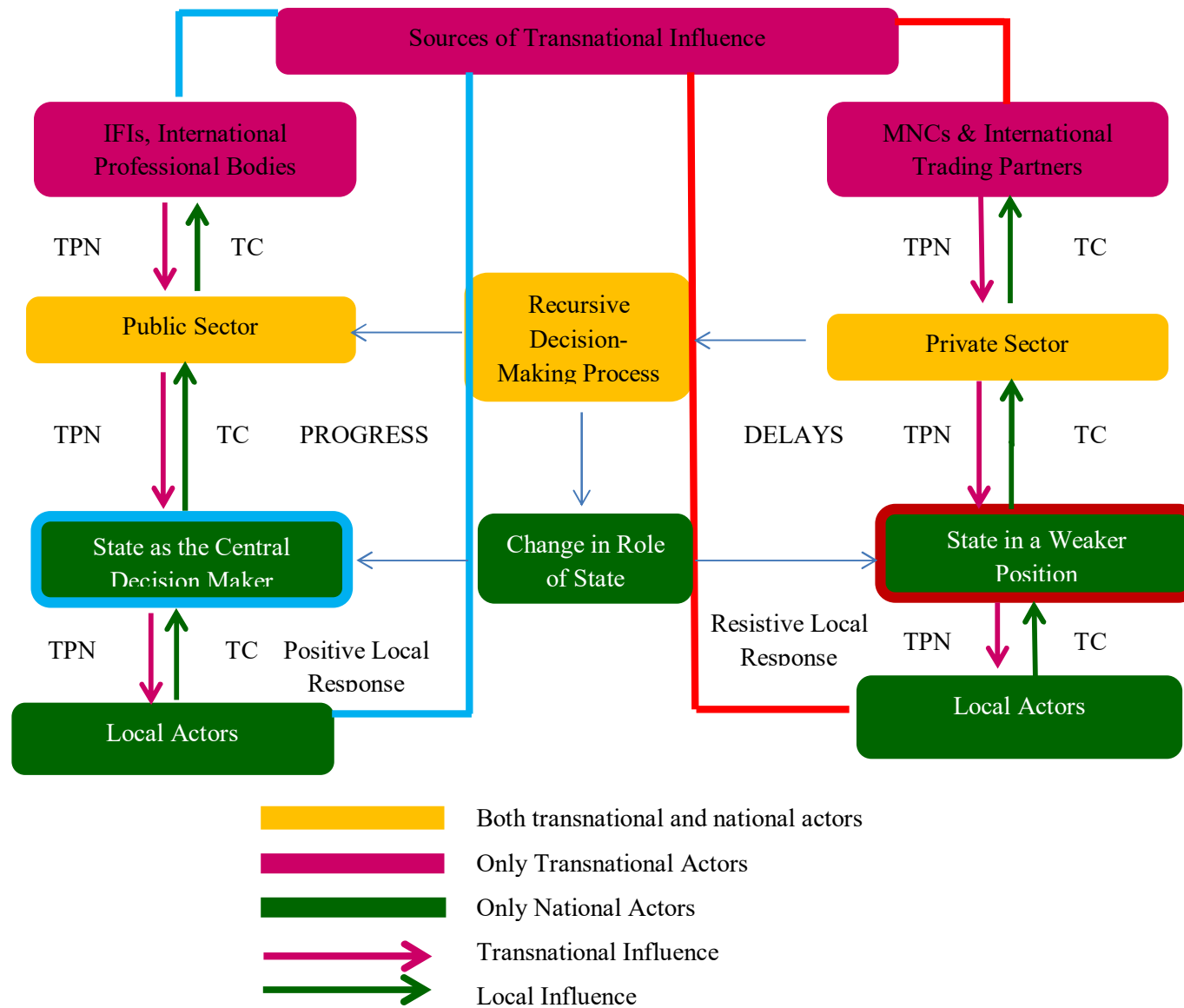
Figure 18 Outcomes of the Analysis of Evidence

230

The contrast in the public and private sectors highlights the significance of the decision-making process. Each of the three criteria represents situations that distinguish the practical scenario in a host country from an ideal scenario that is visualised by standard-setting organisations. These situations need to be analysed and understood if the standardisation movement is to achieve its mission of global convergence. If the decision-making process continues to be dismissed as an event, convergence will also continue to be a symbolic process.

8.6 Conclusion

The repeated delays surrounding the convergence decision in the private sector in India which contrasts with the progress made in the public sector suggests that the country could perhaps achieve greater progress in IFRS convergence if the local response was as positive or as passive as it was in the public sector. One of the major impacts of local response was the change in the role played by the government as the key decision-maker in the two sectors. The ability of local response in the private sector to alter the behaviour of the government resulted in delays in the convergence process. The significant impact that local response could have on the actual convergence progress further emphasises the recursive nature of the decision-making process of convergence with international accounting standards. The controversial nature of the convergence process in the private sector in contrast to the public sector represents the increasingly complex nature of the process of deciding on whether or not and how to achieve convergence. Some of the key observations made in this study are summarised below.

8.6.1 Summary of Findings

Convergence as a decision-making process presents an interesting kaleidoscope of complex networks between transnational and national actors. The analysis of evidence from the private and public sectors presents some interesting issues on the impacts of transnational influences and of local responses. The impacts often materialise through alterations in the strategies of both transnational and national actors. The IASB and the government are two examples of transnational and national actors that altered their strategies to accommodate influences. The IASB had altered its strategy in response to a group of accounting bodies representing the common concerns of their respective countries, the AOSSG and the government altered its behaviour in response to local pressure and the influences of the collaboration with Japan. All these interactions

represent the recursive nature of the decision-making process and emphasise the necessity to analyse the convergence decision as a cyclic process of interactions between transnational and local actors, rather than concentrate on the top-down flow of transnational influences. The top-down flow of transnational influences from the global to the local arena covers only one part of the story. The local responses to these influences form an important part of the decision-making process which can significantly alter the manner in which a decision is arrived at. This point is particularly emphasised through the contrast in the private and public sectors. The initial similarity in transnational influences in both sectors that altered later on in the private sector due to local responses provides further support to the idea. The contrast in the private and public sectors also enabled to identify the change in the role played by the government in the two sectors. The progress made in the public sector represented the potential actions of the government in the IFRS convergence decision if it had similar dominance in the private sector. The wide variety of factors involved in the IFRS convergence decision in contrast to relatively lesser types of actors in the public sector also indicates that intensity of recursivity in decision-making increases with increasing variety of actors.

8.6.2 Contributions of the Study

This thesis adds to the existing literature and makes some significant theoretical contributions which are presented through the following subsections:

8.6.2.1 Contribution to Literature on Accounting Standardisation and Regulation

8.6.2.2 Contribution to Literature on Global Governance and

8.6.2.1 Contribution to Literature on Accounting Standardisation

Convergence with international accounting standards has been analysed extensively by several researchers (Zeghal & Mhedhbi, 2006; Peng & Bewley, 2010). Existing literature on the subject mainly focuses on the proceedings that take place after the decision to converge has been taken (Mir & Rahman, 2005; Carlson, 1997) and hence there are gaps on the pre-implementation decision-making of convergence which has not received as much attention as the post-implementation phases. One of the main distinctions that the study draws in comparison to existing literature is the analysis of the proceedings before actual implementation of standards. The following section presents a table comparing and

analysing research focus and findings of examples from existing literature with those of the present study.

Table 17 Contribution to Existing Literature

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Classification	Findings	Authors	Related Findings in India
Drivers of convergence with International Accounting Standards	Push for standardisation from MNCs and investors in developing countries, influence of IFIs, development of international capital markets	Briston,1984; Samuels & Oliga,1982; Hove, 1986; Abdelsalam & Weetman, 2003; Prather-Kinsey,2006; Tyrall, Woodward &Rakhimbekova, 2007; Peng & Bewley,2010	Influence of MNCs in private sector, influence of IFIs in public sector and private sector. Impact of the influences could vary based on the actors involved in the decision.
Benefits and disadvantages of convergence with International Accounting Standards	Benefits gained by countries after adopting IFRS, disadvantages of adopting IFRS especially for developing countries	Biddle & Saudagaran,1991; Chamisa,2000; Mir &Rahman,2005; Zeghal& Mhedhbi,2006; Peng & Bewley,2010	Decision to converge is determined to a greater extent, by interests of actors involved rather that benefits and disadvantages in general
Issues of compliance with International Accounting Standards	Identifying the degree and rate of compliance, factors influencing compliance, hurdles faced during compliance	Dumontier& Raffournier,1998; El-Gazzar, Finn, & Jacob, 1999; Street & Gray,2001; Dao,2005; Brown & Tarca,2008;	Hurdles faced during compliance could originate during the decision-making process way before actual implementation
Convergence as a Decision-Making Process	Analysis of decision-making process to trace actors left out of process who later hijack the process.	Carlson,1997; Watty & Carlson 1998; Burns,2000; Mir & Rahman,2005	Convergence is a complicated decision-making process involving cyclic interactions between transnational and national actors.

Existing literature on convergence can be broadly classified into the four categories presented in Table 17. The authors of few studies from each category are listed in the table. The findings of studies that investigate the drivers of convergence with international accounting standards partially concur with the findings of this study. Most

studies identify rapid development of international capital markets, demand for a global harmonised set of accounting standards from MNCs and investors and push from IFIs, especially on developing countries to be major drivers of convergence with international accounting standards. While the first two reasons affect the private sector, the role played by international donor agencies was found to be a major driver in both private and public sector. The studies suggested that IFIs in the public sector indirectly influence the convergence process in private sector and directly influence the government in the public sector. This finding is partially consistent with the finding of this study in India where it was found that IFIs exert direct influence on the government in both the sectors. However, the impact of IFIs in the Indian context were different in the two sectors with the public sector evidence confirming the findings of most studies and the private sector displaying the exit of IFIs as the decision-making process progressed. This contrast had led to observations about the nature of transnational influences and the position or role of the government in relation to other actors in the arena.

The second category of studies identifying the advantages and disadvantages of convergence with international accounting standards mostly focus on IFRS convergence in the private sector with very few studies analysing the situation in the public sector. The findings of these studies are consistent with those found in the present study. The initiation of the convergence process in the private and public sector was commenced with announcements by the government that cited several benefits such as greater transparency, reduction of capital costs and greater accountability to the public. The disadvantages identified in these studies quite frequently use the developed versus developing countries argument which have been found to be true in the Indian context. However, it has been observed that in the practical scenario factors determining the decision to converge with international accounting standards have very little to do with benefits and disadvantages. The complex nature of the decision to converge with international accounting standards is determined by several aspects such as the nature of transnational influences and the nature of relationship of the government with transnational and local actors which had been discussed earlier in the evidence analysis section.

The third category of studies that focus on compliance issues identified hurdles during and after the implementation that arise due to differences in cultural, legal, political and

socio-economic environment of host countries and often traced these differences at the implementation stage or while investigating the after-effects of implementation. The findings of this study suggest that these differences manifest themselves a lot earlier than the implementation stage. The decision-making process for IFRS convergence in the private sector was marked by debates that mainly revolved around several issues that stem from the very sources of differences identified in the possible implementation stage. For example, the distinction between tax standards and accounting standards, the need for amendment of tax laws to prevent repercussions of convergence on industry could be cited as legal issues which came to the fore right from Phase II onwards. If these issues were ignored and the state proceeded to mandate an implementation date, the convergence process would probably have been a failure as it happened in the case of the neighbouring country of Bangladesh. The AOSSG case also marks a socio-economic factor that rendered incompatibilities between international accounting standards and the accounting context of India as an agricultural economy. These are real issues which undergo repeated negotiations between transnational and national actors way before the actual implementation of standards by companies. The existing literature while identifying several such issues during or after the actual implementation process does not sufficiently focus on the pre-implementation deliberations that occur on these issues. For example, several studies do identify legislative incompatibilities as a hindrance for compliance as discussed in Chapter Two of this thesis. But most studies do not identify these issues as having arisen and debated over before the actual implementation. The main interpretation that this study draws from this finding is that these issues if resolved during the decision-making process could probably ease the possible implementation stage.

Finally, the review of literature found a few studies that discuss, in part, the decision-making part of convergence with international accounting studies. In addition to highlighting the necessity for studying convergence as a decision-making process, the study by Mir & Rahman (2005) particularly noted that the exclusion by the government, of a significant actor affected by the decision during the decision-making process rendered the implementation a failure in Bangladesh. Although the main focus of the authors was on the role played by IFIs, this particular example provided in the study suggests that the pre-implementation decision-making stage could have an impact on the success or failure of actual implementation. Hence it could be interpreted that the study of

convergence as a decision-making process could help in resolving issues or hurdles that impede the actual implementation process.

8.6.2.2 Contribution to the literature on Global Governance and Regulation

This thesis questions the predominant views on diffusion of international accounting standards as a top-down exertion of influences by powerful transnational actors on weak nation states that concede to the terms dictated to them. The analysis of the convergences decision in this study depicts a more complex picture. It finds that the influence of transnational actors on the convergence process is overstated. It demonstrates that national actors are not only able to build up a strong resistance case but are also capable of shaping the strategies of transnational actors as a result of this resistance. Hence, using transnational governance literature, this study portrays the source of transnational influences but by adding the concept of recursivity, it depicts the role of local resistances in shaping the decision-making process and modifying the strategies applied by transnational actors to promote convergence. This study contributes to the understanding of governance globally by deviating from the prevalent notion of transnational actors holding a monopoly over the convergence process wherein nation states are mere followers of terms set by transnational actors (Chan, 2005; Adhikari & Mellemvick, 2010; Ashraf & Ghani, 2005; Rahman, 2007). It explores and elucidates the means through which nation states fight back to sustain their role in the convergence decision. Studies that explore the ambiguities, challenges, local interpretations and responses to global forces often tend to focus on the implementation phase of convergence wherein those issues occur as a result of standards being used. This study finds that such issues appear in the form of resistance much earlier at the phase when the decision to converge is being made. This thesis demonstrates the exertion of national resistance to transnational influences, the emergence of conflicts during the decision-making process and the means through which these conflicts get resolved or stay unresolved.

It adds to the concept of transnational governance introduced by Djelic & Sahlin-Andersson (2006) and Djelic & Quack (2010) through the application of channels, types and impact of recursivity (Halliday & Carruthers, 2009) to the convergence decision-making process. These two theoretical concepts help to explain the repeated delays in the decision-making

process for IFRS convergence in India and the transformation of the government as the central decision-maker. These two concepts also help to understand the cause of differences in the transnational influences in the public and private sectors in terms of the continued presence of IFIs in the public sector and the absence of IFIs after the initial phase in the private sector. The analysis provides a deeper and contextual view of the role played by transnational agencies and the manner in which their presence or absence alter the decision-making process. Recursivity further helps in re-constructing and viewing the events constituting the decision-making process as series of continuous inter-connected and cyclic interactions that represent the exchange of influences between the transnational and national actors. It shows the exertion of transnational influences being received and processed at the national level and then reverted to the transnational sphere. This is depicted as a continuous and ongoing process.

Recursivity draws out the significant role played by national responses in shaping the convergence decision. The empirical evidences that represent the impact of recursivity as a catalyst of alteration in the strategies adopted by transnational actors is applicable in the context of other countries going through the convergence decision-making process. For example, the case of the AOSSG representation to the IASB is not confined to the national boundaries of India. It provides a glimpse of the convergence decision-making processes of other countries from the region such as China, Korea and Malaysia. This shows that recursivity and its impact form significant aspects of the convergence decision of other countries as well. The impact of recursivity in the AOSSG case is that these countries succeeded to collectively influence a powerful global actor to alter its strategy. This phenomenon represents the growing effort of developing nation states to have a say in the global accounting standardisation and also reflects the ways through which these countries participate in the evolution of the global accounting standardisation movement. The influence of US delays channelled through interactions between Japan and India is important for our understanding of the dynamics of negotiations about convergence. The resource dependency relations between these three countries, analysed earlier in this chapter, provide an explanation for the true sources and the impact of such an influence. As a politically and economically powerful nation state, the US has significant dependency relations with a large number of countries across the world that lead to its national decisions having a direct or indirect impact on the local dynamics in those countries.

8.6.3 Analytical Strengths and Scope for Future Research

This study provides an analytical framework that could be adapted to investigate the convergence decision-making process of other countries. The framework used in this thesis identifies the flow of influences as transnational and national and traces the two-way flow of influences through various national and transnational platforms in deviation from solely highlighting the top down flow of influences from the transnational sphere to the national arena. The framework facilitates the narration of the convergence decision as a story with connecting the links between various communications and developments at the global and local level. It helps to present the evidence for the initiation and growth of the decision-making process as constituted of meaningful and logically consequential communications and developments rather than isolated and random events. In this context the study provides an analytical platform which could facilitate further investigation of convergence as a process.

An investigation of convergence with international accounting standards as an extension and consequence of the decision-making process would provide a fuller and more comprehensive picture of the convergence process. The findings of studies that examine the hurdles to implementation and compliance issues could be further investigated in the light of the events that took place before the decision was made and as a continuation of those events. It would be interesting and informative to explore the networks and people involved at the post implementation stage and the manner in which their presence or absence plays a role in the way in which the implementation process is shaping up

8.6.4 Summary

This thesis makes three significant areas of contribution. Firstly, it examines the decision-making phase of convergence by treating convergence effectively as a process rather than an event. An in-depth analysis led to the identification of a multiplicity of actors involved in the decision-making process, their concerns and opinions on convergence, the medium used by these actors to convey these issues and the ultimate drivers of the decision-making process. Hence, this thesis makes an important methodological contribution by drawing attention to the significance of understanding and fully accounting for the pre-implementation phase of convergence. Such an understanding has the potential to provide a deeper and more comprehensive insight into the primary

sources of the difficulties with standards implementation observed in many countries. Indeed, since the people involved in the pre-implementation phase of decision-making are also those involved in the actual implementation, it is highly probable that there is a carryover effect of these events into the actual implementation process. Hence, analysing the pre-implementation decision-making phase of convergence may perhaps help in providing a better explanation of the events that constitute the implementation and post implementation phases of convergence.

Secondly, this study contributes to the literature on global governance by highlighting the importance of not losing sight of the nation state as an important player in the transnational governance arena. Specifically, literature on global (accounting) regulation devotes a great deal of attention to the roles of organisations and agencies with transnational remits (such as global standard setters and donor agencies) while often downplaying the significant impacts of the more traditional cross-country links forged through economic relationships and resource dependencies. A significant characteristic of the Indian decision-making process is the role of the state driving its accounting convergence project as well as the role of other nation states such as US and Japan in directly or indirectly influencing the decision-making process. This illustrates that, while powerful transnational organisations such as the IASB have been the active promoters of convergence, their efforts are counterbalanced by the nation states that play an equally significant role by a) influencing the convergence decision-making processes of other countries and b) being able to effectively counter the pressure from transnational bodies to pursue full converge with international standards. In this regard, the aforementioned influences of India's links with countries such as US and Japan as well as its regional alliances with neighbouring Malaysia and China on the decision-making process provide a vivid indication of the important roles of cross-governmental relationships in the global governance arena and also questions the position of transnational organisations as pervasive powers in such governance.

Thirdly, this thesis contributes substantially to the existing standardisation literature. In most prior studies the discussion on accounting standardisation broadly revolves around the advantages and disadvantages of convergence, drivers of convergence and issues of compliance with international accounting standards. While this study finds the significant presence of transnational actors, a further analysis traces the reasons for convergence

delays in India to a variety of legislative, political and economic concerns of stakeholders, including actors such as potential users of the standards. This illustrates a high degree of complexity characteristic of the actor network in the private as against the public sector. The stark differences in the local actors' attitudes to and strategies towards convergence have proved problematic to reconcile and presented a significant obstacle to the pursuit of full IFRS convergence advocated by the transnational institutions.

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APPENDIX 1   Gaps and Similarities between IPSAS and Indian accounting standards

Issue	IPSAS Requirement	Gap	Similarity
1.General Purpose FS	Include FS presented separately or in another public document for example annual report	-------	Finance & Appropriation accounts of Central government & provinces constitute General Purpose FS of Govt-Requirements aremet
2. Accounting Basis	Recognise transactions and other events only when cash is received or paid	Not strictly cash basis- in some cases accrual transactions are taken into account. There are also transactions that do not involve cash flows	
3. Accounting Policy	Accounting policy should be unambiguously stated by Government authorities	Accounting policies are not preciselyrevealed on the face of financial statements although the embodiment of policies is laid out in publicly available documents such as GAR.	
4 Financial Statements	General Purpose FS should: include specific components such as statements of cash receipts & payments, separately identify payments made by third parties on behalf of entity.	Transactions made bythird parties are not distinctlyrecognised.	Other Cash IPSAS criteria broadly satisfied.
5. Entity	Recognition of all cash receipts, payments and balances controlled by the entity.	Consolidation of FS with controlling entity not envisaged due to practical	

Issue	IPSAS Requirement	Gap	Similarity
		issues.	
6. Notes to Financial Statements	Present information about the basis of preparation of FS and addition information necessary for fair presentation	No such requirement in India at present-needs to be incorporated into the system	
7. Reporting Date	Issue FS within 6 months of the reporting date	Not currently mandatory- Most often accounts are not placed in parliament or state legislature within 6 months	In practice accounts are targeted to be prepared within 6 months of reporting date as per instructions of CAG
8. Authorisation Date	Entity should disclose the date when FS were authorised and by whom. If a third party has power to amend FS, that should also be disclosed	No official authorisation date ate present	Date at which CAG signs accounts or accounts are presented in parliament/ state legislature could be identified as authorisation date
9. Disclosures	Should disclose entity's – domicile and legal form, nature of operations and principal activities, relevant legislation governing operations	GAR currently do not require such disclosure	
10. Cash out of control	Should disclose in notes to FS cash balances not available for use by entity and subject to external restrictions, significant undrawn borrowing facilities available	No such requirement under GAR at present	
11. Consistency	Presentation and classification of items in FS should be retained from one period to the other		Preparation of FS in govt accounting system is consistent
12.Comparative Information	Comparative information w.r.t to previous period should be presented as part	Comparative accounts incorporated only in	Comparatives are provided in Appropriation

Issue	IPSAS Requirement	Gap	Similarity
	of narrative and descriptive information	some statements of financial accounts	accounts
13. Prior period adjustments and errors	Amendment of presentation/classification of items in FS should be accompanied by amendments in comparatives	At present comparative amounts are not restated for prior period amendments	
14. Identification of financial statements	FS should be clearly identified and distinguished from other information in the same document.		FS are clearly identified under government accounting
15. External Assistance	Disclosure requirements on external assistance by third parties, terms and conditions of assistance yet not complied to in case of cancellation	All requirements not met	Partial disclosure of details
16 Elimination of inter-departmental transactions	Transactions within various wings/departments of the same entity to be eliminated	In govt accounting, no elimination done of recoveries carried out by one department from another.	

Source: "A study on gap analysis of Indian Government Accounting with International Standards"(GASAB,2008)

APPENDIX 2   Gaps between IFRS and Indian GAAP

SUBJECT	IFRS	Indian GAAP
Firsttimeadoption	Full retrospectiveapplicationofIFRS toPL and BS. Reconciliation ofPLandBSin Respect oflastyearreported NumbersunderpreviousGAAP.	No needs to preparereconciliation on first time adoption
ComponentsofFinancial Statements	Comprises of Balance sheet,Profitand Loss A/c. CashflowStatement,changesin Equityand accounting policy and notes toAccounts	ComprisesofBalancesheet,ProfitandLoss A/c. Cashflow Statement(ifapplicable),andNotesto Accounts
BalanceSheet	No particularformat, a current/noncurrentpresentationofAssets andliabilitiesisused.	AsperFormatPrescribedinScheduleVI for Companies, Adherenceto BankingRegulationForBanksetc.
IncomeStatement	No particular format Prescribed(IAS-1)	AsperFormatPrescribedinScheduleVI (AS-1)
CashFlowStatement	Mandatoryforallentities(IAS-7)	Level 3 entities are exempted(AS-3)
Depreciation	Overtheusefull lifeoftheasset.(IAS-16)	Overtheusefull lifeoftheasset,Orscheduleexivrates,whichever is higher(AS-10)
Dividends	LiabilitytoberecognizedinthePeriod when dividend isDeclared.(IAS-10)	Recognized as an appropriationagainsttheProfit,andrecordedasliability atB/Sdateevenifdeclared Subsequentto reportingperiod ButbeforetheapprovalofFinancialstatements(AS-4)
Costof majorrepairsandoverhaul expenditure on fixed assets	Recognizedin carryingamountoftheassets(IAS-16)	Expensed off. Only expenses,whichincreasestheFEB aretobe capitalized.(AS-10)
Revaluation	Revaluation (if done) to be updatedperiodically sothat carrying amountdoesnotdiffer from fairvalueattheendperiod. Revaluation tobedoneforentire classofassets(IAS-16)	No specificrequirementforRevaluation.Revaluationcan bedoneonsystematicbasis likeforonelocationleavingaside theassetsofotherlocation.(AS-10)

SUBJECT	IFRS	Indian GAAP
Change in the method of depreciation	Considered as a change in Accounting estimate.To be Appliedprospectively. (IAS-16 andIAS8)	Considered as change in Accountingpolicy, retrospectiveComputationandexcess ordeficit isadjusted insamePeriod. Requiredto beDisclosed(AS-6)
Earningspershare	Disclosure to be made in onlyconsolidated financials of theParentCo.(IAS-33)	Disclosure of EPS in bothConsolidated and separateFinancials.(AS-20)
Componentaccounting	Required each major PropertyPlantEquipmentwith acostthat issignificantinrelation tototal Cost, should bedepreciated separately(IAS-16)	No suchrequirement(AS-10)
Intangibleassets	Intangible assets can have indefinite usefull life and hence such assets are tested for impairmentand notamortized.	Thereisnoconceptofindefiniteusefull life. Assetshave definitelife.(usually10years)
Reportingcurrency	Requires the measurement ofProfit usingthefunctional Currency. Entitiesmay,however, Present financialstatementsina differentcurrency.(IAS-21)	Schedule VI to the CompaniesAct,1956specifiesIndianru pees as thereporting currency. (AS-11)
Key management personnel(KMP)	Includes Executiveaswellasnonexecuti vedirectors(IAS-24)	Excludes non-executiveDirectors.(AS-18)
Compensationto KMP	Disclosureto be made for total Compensation suchasshortterm employee benefits andpost-employmentbenefits	AS-18doesnotrequiretheBreakup ofcompensationCost.
FringeBenefitsTax	Included as part of relatedExpense (fringe benefit)which gives rise to incurrence of theTax.	DisclosedasaseparateitemafterProfitb eforetaxonthefaceof theincomestatement.
Uniformaccountingp olicies	Prepared using uniformAccounting policies across all entitiesinagroup.(IAS-27)	Policies may differ due toimpracticability.(AS-21)
Disclosureofextraor dinaryitems	Prohibitssuchdisclosure(IAS-1). No suchterminIFRS	DisclosuretobemadeinNotes(AS-5)

APPENDIX 3   MAJOR INDUSTRIAL SECTORS OF INDIA

Industrial Sector	Indian GAAP	IFRS	Impact
1.Real Estate	*Percentage of Completion Method*-Revenue is recognised as and when the project is constructed	*Completed Contract Method*-Revenue is recognised after project is completed and sold.	• Income tax liability would get deferred • Lower revenue in initial years • Negative effect on decisions by investors
2.Banking	• Revenue Recognition – accrual basis • Hedge a/c-no need to classify • Financial Assets- initially recognised at cost • ESOP- intrinsic value or fair value • Securitisation – assets securitised are de-recognised from books • NPA-interest/instalment unpaid for >90days	• Revenue Recognition – Effective interest rate basis • Hedge a/c- need to classify • Financial Assets – initially recognised at fair value • ESOP- fair value • Securitisation – slightest control retained over asset could lead to asset being retained in books • NPA- based on objective evidence of impairment	• Upfront feeincomewillget amortised as effective interest rate • Securitizedportfoliowillretaininbanks bookswillhaveimpactonCAR • Non Performing Assetsprovisioningwillbe comesubjectiveas comparedto rulebased
3.Insurance	• Revenue Recognition (RR)-Premium-recognised in first year and provision made • RR-policy originating exp- charged to IS in initial year of policy	• Revenue Recognition (RR)-Premium- deposit portion at fair value and insurance charges as income and amortised over policy term. • RR-policy originating exp-exprecog to be amortised over policy term	Amortisation of expensesmay leadto higherprofitinearlieryearand earlybreak–even

Industrial Sector	Indian GAAP	IFRS	Impact
4.Mutual Fund (MF)	• Investment by MF- MTM losses in revenue a/c and gains in reserves in BS. • Investment by Asset management companies – classified as current or long term and valued at cost or FV whichever is lower	• Investment by MF- co: can designate financial assets as FVPL and account for change in FV in PL. • Investment by Asset management-financial assets can be classified as FVPL,AFS (both at fair vaue),HTM & L&R (at amortised cost).	• MF Investmentgainwillget accountedinProfitandLoss Account • Classificationand measurementoffinanciala ssetsforAssetsManageme ntCompanies willchange whichwillresultineitherhi gheror lowervaluation of investments
5.Telecom	• RR- multiple element contracts-No guidance • RR-content revenue agreement- Gross amtrecog as revenue and amt paid to supply as cost • Fixed Asset- asset retirement obligation (ARO) – provision for undiscounted amount	• RR- multiple element contracts-RR criteria applicable to separately identifiable component of transaction or both elements if necessary. • Fixed Assets- obligation is accounted under PV of estimated cost of dismantling and removing asset	1)Multipleelementcontractli kehandsetwithplanetcneedst obesegregated,whichwill have impactonrevenuerecognitio n 2)Revenue from Content revenue agreement having agency contracts needs to berecognisedonnet basis 3)Dismantlingcostn eedsto berecognisedat present value
6.Technology	• RR- multiple element contracts-No guidance. RR on basis of value specified in contract • Sale with free services- No guidance • Outsource contract- recorded as service contract and exp recorded accordingly	RR- multiple element contracts- contracts to be split and revenue recognised separately at fair value of each component Sale with free services- revenue recognised upfront and sale of services deferred over period of rendering services	
7.Pharmaceuticals	• RR- collaborative arrangement – No specific guidance	• RRcollaborative arrangement –apply revenuerecognition criteriato separately identifiablecomponentsofa	• Revenuerecognitionwill get impactedfor CollaborativeArrangeme nt • Intangibleswillberecogni

Industrial Sector	Indian GAAP	IFRS	Impact
	• RR-acquisition cost- not mandatory to follow fair value • RR-Intangible assets- amortised over estimatedusefulli vesand needpersuasive evidenceto justifyusefullifea bove10 years	zingletransaction. • RR-acquisition cost- follow fair value method • RR-Intangible assets- needto determinewhetherintangib leassethasfiniteorindefinit eusefullife. In case offinitelife,needto amortisedoverestimatedlif e.In case ofindefinitelife, intangibleassetis not amortisedbut testedannuallyforimpairm ent	sedat fair value onacquisitionwillresultin reductionin goodwillcomponent • Intangibles willget amortised over its actuallifeand willget testedforimpairment
8.Media& Entertainment	• RR-Revenue from services-% of completion method or complete contract method • Barter-advertising- no specific guidance • Free/discounted sales- no specific guidance	• Revenue from services-only % of completion method • Barter –advertising- fair value • Free/Discounted sales-total revenue to be split between initial slot and discounted slot	• Revenueand profit willpreponedfor companiesfollowingco mpletedcontract method for revenuerecognition • Revenuefrom barteradvertisingcontrac tto berecognisedat fairvalueof services provided • Revenuefor free/discountedslotwilld eferred
9.Power	• Power Purchase Agreement (PPA)- treated as sales or service agreement and revenue recorded accordingly • Fixed Asset- No specific requirement to identify, capitalise or depreciate each separate component of fixed asset	• PPA- analysed vis-à-vis principle of IFRIC4 to identify whether transaction contains lease agreement • Fixed Asset- each component of fixed assets having different useful life needs to be identified,capitalisedandde preciatedseparately	• Profit willincreaseinearlieryear on de–recognitionof assetandlowerinsubsequ ent year to theextent • Componentisationof fixedassetswillimpactde preciationamountover year onyear
10.Retail	• Customer loyalty	• Customer loyalty –fv of	

Industrial Sector	Indian GAAP	IFRS	Impact
	and agency relationship transaction-no specific guidance • Contract manufacturing-on-job contracts recorded as service contracts and exp booked accordingly.	CL points needs to be reduced from total revenue for the period • Agency relationship transaction –amt resulting in increase in equity recognised, amt received 'on behalf' not recognised as revenue • Contract manufacturing- if contract contains lease agreement accounting to be done as a lease transaction	
11.Automobile	• RR- Sale with free services-no specific guidance • Fair value- revenue recognised at actual value irrespective of payment terms of transaction • Asset used by ancillary-noaccountingdoneforassettransferredandasset remainsinthebooksof theVehiclemanufacturer • Asset owned by ancillary - assetsoprocured/ ownedbytheancillaryarecapitalisedinitsbooksanddepreciatedover theusefullife	• RR- Sae with free services- Revenue from sale of vehicle is recognised upfront and sale of services is deferredover periodofrenderingof services • Fair value – Revenue recognised at fair value Asset used by ancillary- , if Vehicle manufacturer transfers control over the asset in exchange indissimilargoods/services ataconcessionalrate,thetransferofassetistreatedasdeemedsaleandcomponents to bereceivedisto berecordedat fairvalue • Asset owned by ancillary- exclusiveuseofaparticularvehiclemanufacturer,mayleadtorecognitionoftransactionasdeemedleaseandwillhaveto be accountedaccordingly	• Revenue for free services needs to be split and recognised over period of service will lead to reduction in initialrevenuerecognition • Fairvaluationrevenuerecognitionandinterestrecognitionof deferralpayment willlead to postponementof revenuerecognition • Assetsgivento componentmanufacturer willbeleadto reductioninfixedassetsand depreciationandincrease incostof componentforvehiclemanufacturer • Assetsspecificallypurchasedandusedfor aparticularvehiclemanufacturerand conditionsof IFRIC 4 satisfies,transaction needstobeaccountedasfinancelease,which willresultincapitalisationof assetandrecognitionof liabilityinvehiclemanufacturer's books

APPENDIX FOUR - KEY INTERVIEW QUESTIONS

Introduction – Position and Role of Interviewee in Decision-Making Network

a) Could you please confirm your designation and role in your organisation?

b) How is your organisation involved in this drive for convergence and how have you participated in the decision-making process?

c) Who were the other people/ representatives present on these occasions?

d) What are your views on the ongoing drive for convergence with international accounting standards?

e) Have you presented these views to others involved in the process? If yes, when and where did this take place?

f) What are the views of the other people/representatives involved in the decision-making process?

g) Are there any differences of opinions between these people/organisations that you mention? Or are there any differences in the official views and actual/informal views of these people?

h) How often do you meet the (other) core committee members?

International Actors

a) Has the IASB contacted the ICAI or vice-versa, on IFRS implementation? (for government representatives and ICAI members)

b) What is the stance taken by the ICAI on this issue? Are you for the implementation of IFRS or against?

c) Have the members of the CII or the FICCI made representations about this issue to the ICAI? What are their views on the subject?

d) Have you attended any conference /meeting/ informal discussions on IFRS implementation where representatives of international bodies such as the World Bank, IMF, etc are present? What are their views on IFRS implementation in India?

e) What would you single out the most significant achievement/milestone of such an interaction?

Delays in implementation

a) Initially it was decided that IFRS should be implemented in 2011, then this was deferred...other than some speculations, no specific dates have been announced till date….why have there been so many delays in IFRS implementation?

b) Which of the reasons are the most important?

c) Whose point of view was being taken into consideration to delay the implementation?

d) Which other people or organisations were consulted before arriving at this decision?

Tax

a) Increased tax burden has been cited as a factor hindering IFRS implementation by some members of the corporate world…Are you aware of any initiatives by MoF to amend the tax laws?

b) What would be the consequences of amending the tax laws? How such amendments are normally made? What is the procedure and who are the parties involved?

c) Will amendment of tax laws have additional effects as well as immediate influence on IFRS?

d) Have you or other members discussed this issue with them MoF, MoCA ,NACAS,CII or FICCI?

e) What are their views on this issue? Do they have different opinions or do they all agree on the same view?

General

a) Do you think IFRS implementation is beneficial to India? Or are we doing fine with Indian Accounting Standards? What is your opinion as an official of the ICAI?

b) Did ICAI participate in making the decision to implement IFRS in India?

c) Who were the other people participating in taking this decision and which other parties were consulted?

d) How are such decisions made? Is there any specific official procedure or are they based on informal interactions between the ICAI and any other people who are consulted?

e) Is there any political view?

f) In the emerging scenario of more Indian companies going global and Foreign Direct Investment being approved, what are your views?