# An Accounting Convergence Project as a Transnational Space-
# The Case of IFRS in India

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**Abstract**

This study focuses on examining the initiation and development of the IFRS convergence decision in India. It provides glimpses of the chaotic routes through which the idea of convergence traversed during the decision-making process. The study highlights three themes from the decision-making arena to demonstrate the variety of influences that shape convergence decision at multiple levels. It draws on the concept of transnational governance and recursivity to analyse the actors, their interests in the convergence decision and the means through which they exert influences. The study finds that while transnational actors are significant in their role as initiators/drivers of the convergence decision in countries moving towards IFRS convergence, their role is complemented or in some cases contradicted by national actors who play an equally important role in the determining the final terms of convergence. Negotiations between transnational actors and national forces of different countries moving towards convergence contribute to the kaleidoscope that constitutes the modern global governance and regulatory space[1].

## 1. Introduction

In common with several other countries India committed itself to achieving IFRS convergence in 2007. In India the convergence decision-making process has been marked by much public political debate with the consequence that the convergence process has suffered severe delay. The official stance of the state in favour of convergence with international accounting standards has been contradicted by repeated failures to actually translate this policy into action. While the subject of convergence with international accounting standards has been widely discussed and debated, the literature mainly focuses on the actual use of standards after a decision to implement has been made, assuming that the decision-making process is a one off event. By way of contrast this paper explores convergence with international accounting standards as a complex decision-making process that commences long before the final decision is made. The

[1] For quotation and reference please obtain written permission from the author.

aim of this paper is to investigate the proceedings *before* the actual convergence of international accounting standards in India i.e. the decision-making process as against the frequently followed trend of investigating the *after-effects* of convergence.

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

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 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 (Zheghal& Mhedhbi,2006; Shammari, Brown and Tarca, 2008; Peng &Bewley, 2010). In these studies, the decision to use IFRS is an assumed event that has taken place. Hence they dismiss the decision-making process as an event that is taken for granted.

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&Weetmar,2003; Prather&Kinsey,2006) while cultural, social, political and economic factors have been found to affect the implementation process (Parker and Morris ,2001; HassabElnaby et al.2003; Hope ,2003; Evans ,2004; Meek and Thomas,2004). On the other hand, studies focussing on outcomes, specifically examine the after-effects of the implementation and identify positive economic impacts or negative impacts such as non-compliance and additional costs (Zheghal& Mhedhbi,2006; Shammari, Brown and Tarca, 2008; Peng &Bewley, 2010). The few studies that focus on convergence as a process, *inter alia*, trace 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 key-hole. 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 literature, it was observed that there are several questions left unanswered which could significantly help in understanding the reasons for what happens during and after convergence. For instance, although the literature on reasons driving convergence brings out some features such as the influence of transnational forces that is IFIs and Multi-National Companies (MNCs), it often overlooks the manner in which such influence was received in the host country or how this influence was exerted. These studies do not delve deeper into 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, 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 1 presents a generic time-line for the convergence process as viewed in this study. The time-line 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

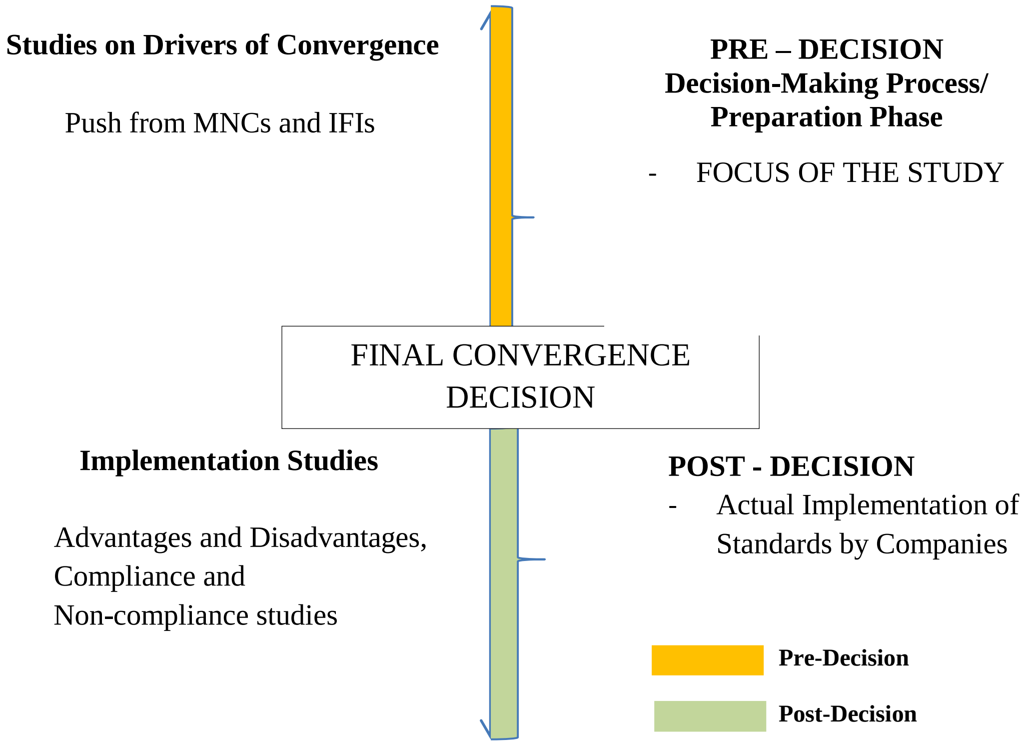


**Figure 1 Generic Time-Line for Convergence**

Most studies do not investigate 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. The aim of this paper is to present and analyse evidence on three examples of networks that shaped the convergence decision in India.

## 2. Accounting Standardisation in India – Development of the Accounting Profession and Launch of the Idea of IFRS Convergence

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. 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.

### 2.1 Development of Accounting Profession

The Chartered Accountants Act was passed by the Government of India (GOI) in 1949 and the Institute of Chartered Accountants of India (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 and Pramanik,2009).

In order to analyse the development of accounting profession in India, Verma & Gray (2006) examine 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 in to 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 study, 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 individual members constituting ICAI do have formal and informal links with the industry as individual professionals.

### 2.2 Launch of the Idea of IFRS Convergence in India

India is one of the fastest growing economies of Asia and is the tenth largest economy of the world. 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 FDIs (Foreign Direct Investments) and significant reduction in state control of the economy. The steady growth in FDIs due to the onset of economic liberalisation in India subsequently led to demands for IFRS 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 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.

India's move towards IFRS seems to have stayed focussed 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 in to consideration various legal, economic and conceptual factors.

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 study will draw 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 sections.

## 3. Global Governance and Regulation- transformation of national decision-making arenas into transnational spaces

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-Anderrson, 2006; Samsonova, 2009). 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 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, those can be representatives of the national governments as well as 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 organizations with global policy remit.

Djelic & Quack (2010) further explain that the above actors do not operate in an isolated manner. They establish relations (Risse-Kappen, 1995) and form groups based on shared interests or policy ideas, known in transnational governance literature as 'transnational policy networks' (Nolke, 2003).

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) examines the development of competition regulations in Africa and describes 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) refer 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 categorization, 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).

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 them.

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 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 paper 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.

The next section briefly presents the research methods used in this study.

## 4. Research Methods

Interviews and archival data were the two main sources used to collect empirical evidence for this study during the time-period of 2012-2014. A total of 28 semi-structured interviews were conducted. 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.

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. 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.

The interviews were conducted face-to–face, over telephone and Skype, the internet-based communication service. 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. 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. A few interviews were carried out in January 2013. 2 members of the India-Japan IFRS team and an ICAI representative at AOSSG were interviewed via phone and skype respectively. In April 2013, the second round of interviews was completed during which a total of 10 interviews were conducted. The member of AOSSG earlier contacted on skype, 5 members of the Ministry of Finance (MoF), 4 members of the Ministry of Corporate Affairs (MCA) were interviewed during this phase. 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 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.

A wide variety of archival data such as reports, commentary letters, exposure drafts, books, professional journals and newspaper articles were used to collect information as also to substantiate data gathered from interviews.

In the next three sections of this paper, three examples of key events/ networks are presented to highlight the significant presence of different types of transnational influences and local responses to these influences. The three cases portray the manner in which the decision-making process for convergence is constituted through cyclic two-way interactions between transnational and local actors.

## 5. Theme 1 – Transnational Undercurrents of the Convergence Decision

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".*

Indian companies[2] 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. 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 (European Securities and Market Authority) had communicated with the Ministry of Corporate Affairs (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…".*

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 for IFRS

[2] During the period of 2003-2012, Indian companies have 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).

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

From the analysis of events and interactions between the transnational and local actors in this case, it is inferred that the ESMA has had a direct influence 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 2011 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.

The 12th annual India-EU summit was held in New Delhi in the month of February 2012 during which it was announced that European Commission (EC) has 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.

## 6. Theme 2: Recursivity-A Channel of Local Resistance

Local resistance to transnational pressures to speed up convergence was often expressed through regional platforms. An example of such a case is the issue of IAS 41. A major point of difference between developed and emerging economies is the significance of agriculture in the economy. Since agriculture is a significant contributor to the economy, accounting for biological assets and agricultural activity forms an important part of discussions on IFRS convergence in countries such as Indonesia, Brazil, China, India and Malaysia. These and other emerging countries had major issues with the valuation of agricultural assets stipulated in IAS 41. To address this issue and approach the IASB with a proposal of amendment to IAS 41, the ICAI collaborated with other agricultural economies through the Asian-Oceanian Standard Setters Group (AOSSG) which had been formed to discuss issues and share experiences on the convergence of IFRS among members (AOSSG, 2011).

From April 2009 till September 2010, the AOSSG deliberated on issues regarding IAS 41 at different conferences. It is at the 3rd meeting of AOSSG in 2010 at Tokyo that the group agreed to set up an AOSSG Working Group (WG) on agriculture with China, Hong Kong, India, Indonesia, Korea and Malaysia. This WG was to be led by India and Malaysia. The WG was set up under the chairmanship of India with co-chair as Malaysia to suggest amendments in IAS-41 to address the concern about determining the fair values of various agricultural assets for consideration of IASB (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.

At the meeting in Tokyo in 2010, the ICAI recommended that BBA be scoped out from IAS 41 and that these assets be measured under IAS 16. In addition, it was recommended that immature BBA should be allowed either at fair value under IAS 41 up to maturity of BBA or at cost under IAS 16. The ICAI then went on issue an Exposure Draft on this. The same year, Malaysian Accounting Standards Board (MASB) had also submitted a letter through the AOSSG to the IASB highlighting the implementation issues surrounding the valuation of plantations with regards to the inconsistent application of some of IAS 41 requirements, particularly regarding price assumptions used by entities in their valuations.

In 2011, 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 can 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.

The AOSSG proposal was accepted by the IASB in June 2013 which presents an example of local responses succeeding in altering the strategies of a transnational organisation. 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.

The AOSSG network could be interpreted as cooperation among countries in similar stages of convergence decision-making process. In the case of the IFRS convergence decision this network constituted an important part of the decision-making process. The point to be noted here is that the WG formed to engage with the IASB on the issue of IAS 41 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 this network while transcending national boundaries were acting and participating in this network to defend and negotiate local interests.

Hence, 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-making process in India, the AOSSG WG is viewed as a national response to transnational pressures to go ahead with IFRS convergence. Hence it can be interpreted that such cooperation 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 the inference that recursivity of the decision-making process can induce transnational actors to alter their strategies while promoting convergence.

## 7. Theme 3: India-Japan IFRS dialogue

The year 2010 also saw the arrival of regional players such as Japan in to 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 in to 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. 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 Ministry of Finance (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[3]. Also India is the largest recipient of ODA[4] (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 late…. they were not in favour of immediate convergence, although none of this was officially declared".*

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.

### 7.1 Significance of US Delays on Decision-making Process in India

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

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

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

*"...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"*.

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…*"

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…"*.

Hence, although the India-Japan IFRS dialogue officially supports the IFRS convergence process with the officially declared purpose of discussing and finding solutions to convergence issues, 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.

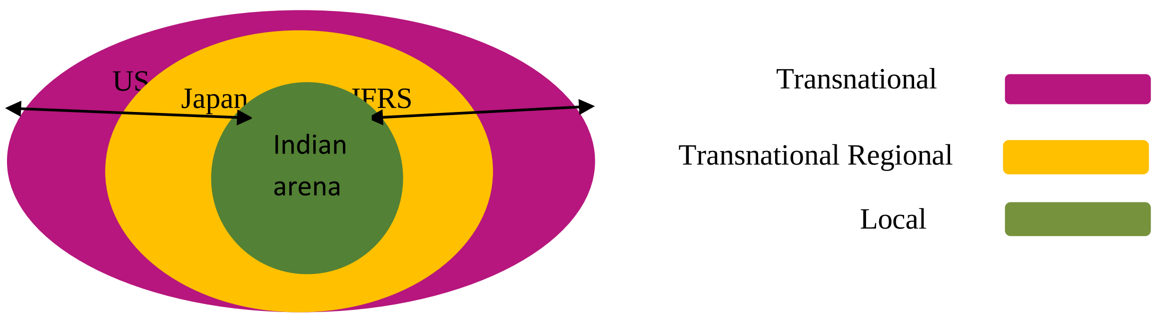


**Figure 2 Flow of Influences from US and Japan**

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.

The evidences from 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. Hence these were some influences from the transnational sphere that indirectly provided support to the rising local resistance to the convergence process in India.

## 8. Discussion and Conclusion

Analysis of the nature of the relationships between the actors in all three examples indicates that exchange of resources is an important aspect defining the relationship and thus acting as the cause of flow of influence Hence one of the significant sources of influence shaping the convergence decision is resource dependencies or exchange of resources such as knowledge, information, finances, and technical support. While resource dependencies as a source of influence are 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.

Another interesting aspect that the analysis presents is the dual role played by the ICAI as a decision-maker 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 controversial nature of the convergence process in the private sector represents the increasingly complex nature of the process of deciding on whether or not and how to achieve convergence. 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 a 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.

Hence this study 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-making process in this study depicts a more complex picture. It finds that the influence of transnational actors on the convergence process are overstated. It demonstrates that national actors 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 paper 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, 1997). It explores and elucidates the means through which nation states fight back to sustain their role in the convergence decision-making process. 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 paper 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 uses the concept of recursivity to theorise such resistance. 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 constitute significant aspects of the convergence decision-making process 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. Hence this study would benefit global accounting standard setters and other countries going through the process of deciding how to converge with international accounting standards. In case of the former this study provides a deeper insight into the pre-implementation issues faced by countries in the local context which suggests the need for increased engagement of the IASB with developing countries not just for the purpose of exporting standards but actually include the concerns of these countries while framing the standards as well.

For other countries in similar phases of the convergence decision, this study provides a variety of examples showing the means through which national actors could engage with global actors for negotiation of terms of convergence. Also the local issues faced such as the taxation and legislative issues and the steps taken to resolve these issues could prepare other nation states to pre-empt delays and set reasonable timeframes to achieve convergence.

This paper argues that the decision-making phase of convergence constitutes an important part of the study on convergence with international accounting standards. Post-implementation studies on convergence provide only a partial picture of the convergence process. The transformation of transnational and local influences through the recursive process of decision-making reflects the complex negotiations that precede the convergence decision. Since the people involved in the pre-implementation phase of decision-making are also those involved in actual implementation, it is highly probable that there is some continuity and carry over 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.

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