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**Accounting normalization in France since the First World War and in Great-Britain
during the 1970-1980s, a first step to a comparative analysis**

Actors and limits of the institutionalization of the accounting normalization in France and in
Great Britain, crossed approach

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The actors, the modalities and the stages of the accountings normalization in France and in Great Britain are different. Even the meaning of normalization is different.

In France the first step to normalization is the definition of a general Chart of accounts (PCG), and then the second step is the broadcasting of that PCG. That broadcasting is spontaneous. It becomes compulsory after a long process setting different actors: companies, profession of the accountants, representatives of the fiscal administration, those of the banking circles, etc.

The definition of a PCG is strongly impulse by the State and it is imperative after the defeat, under Vichy during the Occupation between 1940 and 1944. That PCG is not compulsory before 1959, except for some enterprises and societies which benefit from fiscal advantages either which use the public savings. Its generalization to all the companies does not succeed before 1970s.

Can we think that in England the strength of the profession of the accountants, envied in France, is enough to guarantee the harmonization of the private accounting and so allows the central State to limits its interventions? The purpose of our research project financed by the

Agence des normes comptables (ANC) and the aim of that communication are to try to begin to answer to that question.

We want to precise characteristics of those two models, the English and the French, and to analyze their functioning and their effect, as long about the organization of the economy or the company, that on the respective performances of these two countries in term of economic growth and political and social dialogue. The question arises with all the more acuteness as this originality dissolves in the IASB today, the French model doubtless more has to loose in this standardization because it distinguishes itself more from the international frame. But how to explain that it does not find best defenses to press on the decisions which condemn it widely? To what extent their histories, the diversity of its stakeholders contribute them to its fragility? We have to try to answer to that question by a comparison between French and English models.

The role of the profession of the accountants, that of the representatives of the employers, that of the businessmen and also that of the opinion in general, which shows itself through the press in front of the will of the State to harmonize the private accountings are going to be questioned in two different national configurations, in France and in Great Britain. Indeed, if the State impulse which shows itself through institutions to define the PCG, then to adapt it to the needs for companies and for the State adorned dominant in France its methods remain to specify. The set of the French actors is to be compared with those of the normalization in Great Britain.

What are the components of this impulse? Is the respective role of taxes, of different ministries? How do the institutions of accounting regulation get organized and to what extent they let express themselves differences? Can we say that the PCG and its adaptations result from a consensus? What are the arguments of the different protagonists?

So many questions in which we thus try to answer by going back to the origins of the normalization in France and by beginning more late, in the 1970s for Great Britain, moment when the process is at the same stage in both nations. To know to what extent the English and French accounting normalization was able to play a driving role in the *Trente Glorieuse* and to wonder about its possible contribution to the slowing down of growth, the in the crises of the end of the XXth century and finally on its relations with the liberal bend of the last thirty years in another objective of our subject.

It is a question of knowing in which title (experts, representatives, consultants) the actors intervene and there to reconstitute a sequence of formation of the expertise of the accountants. State regulation or self regulation, two models?

The French case: the central role of the State

Before 1940:

The definition of the accounting profession is very slow in France. Political, economic and social elites are not interested by accountancy. Most of them are indifferent, even hostile to the development of the private accounting. The place of formation of these elite (faculties of Law and *Ecole libre de sciences politiques* for exemple) are not opened to the accounting teaching. The will to defend the secret of business is very strong.

Chartered accountant's certificate introduced in 1927 gets ready for the National Conservatory of Arts and Crafts (CNAM in Paris), which is an institution dedicated to the continuing education and rather directed to the technical education. In France during the interwar period the expertise is not always pressed on the rational calculation but frequently based on the intuition.

The financial scandals, the needs for accounting information of banks then for taxes favor the propaganda of the accountants who wish to organize their profession but the legislation does not support this movement. The late regulations of the *commissaires aux comptes* in 1935 testify of this lack of support: no chartered accountant's diploma is required to become statutory auditor.

The break of the Occupation and the birth of a chartered accountancy

The accounting profession and the PCG are imperative at the same moment, thanks to an exceptional situation. Indeed, the defeat, the armistice and the putting places of a new political organization in Vichy bring to the foreground new expertise. It is then a question of meeting the needs of information on the activity of companies to react to the shortage, organize the distribution and make a commitment in the economic collaboration with the Reich. The needs for the treasury are secondary here; built the initial impulse of the administrative Committee of the Chart of accounts which defines the French accounting foreground comes from the State control over offices of Direct Taxes. The origin is thus good the will of control of the activities of companies. The definition of the order of the chartered accountants and the PCG are introduced at the same time. It establishes a complement essential to the broadcasting of the Chart of accounts even if it is left optional.

Between the *Libération* and on 1970, hesitations of the State

Between the *Libération* and on 1959 the normalizing legacy of Vichy is adapted to the context become again democratic. The need for a strong symbolism to assert its legitimacy and lead to

forget its Vichystes origins appear in the choice of the symbol of the Order : the balance for the balance of the accounts and the equity and the sun which shines and guides the road, and a currency : « Science consciousness independence »



Figure 1. Source. Bulletin de l'ordre des experts comptables et des comptables agréés

The executive positions of the Order become elective and the weight of the State on the profession is reduced. Let us note however that the State protects a right to inspect the profession and the evolution of the Chart of accounts: government Commissioner endowed with powers not insignificant (fees or promotions for example) is attached to the Upper Council of the Order; the composition, of the National Council of the accounting asked to adapt the PCG to the economic needs, reserves a wide place to the representatives of the ministerial directions, finally the State maintains control over the training and the diplomas.

The accounting normalization under the control of the State in France

Paradoxally, while in France the Reconstruction comes along with large-scale structural reforms which mark the assertion of the State as economic and social actor and while the politics of frame of the economic activity confirms during the Fourth Republic (nationalizations, planning, National accounting, etc), it is necessary to wait for 1959 so that an article of the law of finance envisages the generalization of the Chart of account. How can we explain this contradiction ? A first factor holds the disappearance of the profession of the French chartered accountants which is obvious till the end of 1950s. It holds the small number of chartered accountants and the average level of qualification in accounting.



Figure 2. Source. Bulletin de l'ordre des experts comptables et des comptables agréés

The profession answers with difficulties the scale of the needs for companies confronted with the inflation and with complexity of taxes. 1950s are the period of the *Comptables ambulants* who cross the country and hold the accounting of craftsmen and storekeepers behind their small vans. They are also the one accountant's generations for which the accounting is a real factor of upward social mobility. Little sure of herself even, the profession plays only a role erased in the definition of the PCG and opposes even any shape of certification of balance sheets.

A second factor is « structural ». The Chart of accounts remains optional because companies, especially small sized and medium sized, would doubtless have a hard job if it was necessary to them to apply it. The weakness of the formation of the managers and the business executives, the crumbling of the activities and the insufficiency of the number of the accountants slow down the normalization.

The third factor is the one of the absence of sufficient political will to oppose the traditional positions of the employers which is little favorable to the normalization. Labor unions are not very interested in these debates. The leading players, the Stet, the employers and the accountants are inclined in favor of to let make till the end of 1950s.

Balance : a long process of normalization

The change of Republic is convenient to the obligation. The budgetary constraints and the strong growth of the economic activity as the labor-union calm explain the decision of 1959. This decision entrusts to the different employers' organizations of business sectors the care of adapting the last PCG (1957) to capacities and to needs of the profession. The small affairs and the storekeepers are very slow to adapt their practices; they take more than ten years. The employer represented by the CNPF (*Conseil National du Patronat Français*) is divided. A part signs its attachment in let make (the liberal charter of 1963) and another one accepts more the supervision of the State (industrial inventory of 1963 attempt of incomes policy). It does not rebel when the decree of 1965 obliges to follow the prescriptions of the PCG of 1957 to declare their profits. The accounting profession gets involved in the debates through the *Comité de Diligence Comptable* organized by Robert Mazars who testifies of a real change of generation. The profession tries to take its fate in hand and the tensions with government Commissioner are more and more lively.

At the end of 1960s, the normalization was imperative. A new period is opened which is the one of the cooperation of the employers, the accountants and of the State.

Years 1970-1980 open another period, are they announcing the end of the French model and the generalization of the Anglo-Saxon model?

The British case : self regulation by the accounting profession

It would seem that the history of accounting standard-setting in Great Britain begins only in 1970 with the creation by the institutes of chartered accountants of a committee in charge of developing accounting standards, the Accounting Standards Steering Committee (ASSC), renamed Accounting Standards Committee (ASC) in 1975. There was, strictly speaking, no accounting standard-setting organization before 1970.

Before 1970

Accounting regulations are included, since 1844, in the company law, the Companies Act. The Companies Act has been revised at several occasions since 1844. A notable revision occurred in 1947. The main new requirements are numerous additional information, the specification of the content of the audit report as well as the replacement of the notion of true and correct by that of true and fair view.

Although the Companies Act has been revised since then, the main accounting requirements in force in 1970 were already included in the consolidated Companies Act of 1948, which replaced all existing acts.

The accounting requirements defined in the law remained however very general, as is traditionally the case in a country of common law. The law specifies the minimal information to be communicated and contains few rules regarding measurement and presentation. For instance, no precise formats for balance sheet and profit and loss accounts were defined nor detailed measurement rules were specified. The law expressed a general obligation, that the annual accounts give a true and fair view of reality. This true and fair view was then considered as an overriding principle in case of contradiction with other legal requirements. It has been presented as a meta-principle, orienting the establishment of accounting information. In this context, the professional judgment was considered as a fundamental feature of the process. The accountant and, more specifically the auditor, have to exercise their judgment and appreciate, according to the circumstances, if the accounts reflect faithfully reality.

The system thus rested on very general rules contained in the law and on the professional judgment of the accountant. There were no so to speak accounting standards within a body appointed for that purpose.

The Institute of Chartered Accountants in England and Wales (ICAEW) issued since the 1940s recommendations, as good accounting practice, on certain litigious issues. These recommendations, intended at the institute's members, were not compulsory. Other institutes, like the Institute of Chartered Accountants of Scotland (ICAS) did not consider necessary to develop guidelines, leaning on a tradition that gives primacy to the professional judgment of the auditor.

This situation was going to be questioned, at the end of 1960s. Indeed, the development of mergers and acquisitions gave rise to several scandals (AEI-GEC, Pergamon-Leasco) bringing to light the effects of flexible regulations : numerous options, a level of income that varies according to the principles applied and accounts that mislead the user of accounts instead of depicting fairly reality.

Considerable criticism developed towards accounting practices, towards the current regulatory system and towards the accounting profession. The press echoed these criticisms. The climax was reached when Professor Edward Stamp asked, in the columns of *The Times*, for change and reform and was answered by the president of the ICAEW at that time, Sir Ronald Leach, defending the status quo.

The growing criticism and calling into question within the profession led the ICAEW to react by publishing in 1969 a statement of intention, followed by the creation in 1970 of the Accounting Standards Steering Committee (ASSC) in charge of developing accounting standards.

The Scottish and Irish Institutes (*Institute of Chartered Accountants of Scotland* (ICAS) and *Institute of Chartered Accountants of Ireland* (ICAI)), joined the ICAEW to this initiative, followed by the *Chartered Association of Certified Accountants* (CACA) and the *Chartered Institute of Management Accountants* (CIMA) in 1971 and by the *Chartered Institute of Public Finance and Accountancy* (CIPFA) in 1976.

Therefore, the ASC was "sponsored" by six professional institutes that formed the *Consultative Committee of Accounting Bodies* (C.C.A.B.).

Accounting standard-setting under the aegis of the ASC (1970-1990)

The ASC was set up with a mission to develop accounting standards to be submitted to the professional institutes that form the Consultative Committee of Accounting Bodies (CCAB). The responsibility for publishing the standards rested on the CCAB. The standards were called Standard Statement of Accounting Practice (SSAP). 25 SSAP were adopted between 1970 and 1990.

The standards adopted were compulsory only for the members of the institutes but the action of these members allowed to ensure a wide application.

The ASC was a committee formed by about twenty part-time, voluntary members, coming, at the beginning from the professional institutes. With the passing of time and following recommendations formulated by working groups established to suggest improvement of the system, the membership was widened to include a few non accountant members. Besides, observers representing public authorities attended the meetings of the ASC.

Following are some features of the process of setting standards within the ASC. Projects were prepared within working groups, associating members of the ASC, members of accounting institutes as well as people, not belonging to the accounting profession but skilled on the considered problem. The working group delivered its conclusions to the ASC. The ASC sometimes asked for additional work. After an iterative process, the ASC adopted a standard. The standard was then submitted to the CCAB for approval. In fact, a standard was to be approved by each of the six institutes forming the CCAB. Numerous deadlocks resulted from what could be considered as a right of veto, one of the organizations refusing to accept a draft endorsed by the others.

The ASC had few resources available, either financial or human. In particular, the secretariat and the technical team included only a small number of people, partly on a part-time basis. The offices of the ASC were hosted in the premises of the ICAEW.

In that sense, accounting standard-setting was handled by the accounting profession. However, some studies have shown that contacts were established between the accounting profession and public authorities and that the latter followed indirectly the setting of accounting standards.

The debate over inflation accounting offered an opportunity for the State to play an explicit role. The ASC published an exposure-draft of the subject in 1973. Shortly after, the government decided to set up, independently from the ASC and by-passing the accounting profession, a committee in charge of making proposals on this issue (Inflation Accounting Committee, named Sandilands Committee after its chairman). The Sandilands Committee published a report in 1975 recommending the implementation of replacement cost accounting for all companies. The accounting profession reluctantly agreed the proposals and the ASC was in charge of translating replacement cost into a standard. The process was long and tortuous. The standard 'Current cost accounting' (SSAP 16) was published finally in 1980, not without some compromises. Widely applied at first, it was gradually abandoned without any sanction. In 1988, the CCAB removed this standard. For Robson (1994), this episode is an illustration of the State 'acting at a distance'.

The second decade of the ASC's life was progressively dominated by questions about its role and authority. The main criticisms were directed towards the length of the process, the poor resources of the ASC, the dependence upon the accounting profession, inconsistencies between standards, the authority and the implementation of standards.

Although some working groups were formed to make proposals for improving the system and its organization, the improvements introduced did not cut short the virulent criticisms.

To counter the increasing criticisms at the end of the 1980, a committee was formed with the mission of making proposals regarding the form and the authority of standards as well as the institutional structure, the role of public authorities and the role of law. The Dearing committee, as it was named after its chairman, drove many consultations with various interested parties before formulating proposals which led to a thorough reform of the system.

Although the reform is comes outside our period of study, it is worth describing its main features in that enables to illustrate a profound change in the role of the State.

Reforming the standard-setting institutions in 1990

Ronald Dearing, who became after Lord Dearing, was the chairman of the committee in charge of formulating proposals for the organization of standard-setting in Great Britain. It is worth detailing some features of Ronald Dearing's professional background.

Former senior civil servant of the Department of Trade and Industry, Ronald Dearing (1930-2009) is used to crisis situations. Before chairing the committee in charge of formulating recommendations regarding accounting standard-setting, he was chairman and chief executive of the British Post Office (1981-1987) while the company went through a difficult period. He also chaired, in the early 1990s, a committee in charge of formulating proposals regarding the higher education and advised the government in this field.

As far as accounting standard-setting is concerned, the proposals formulated by the Dearing committee were nearly all adopted. One of the main features was keeping accounting standard-setting in the realm of the private sector but supported not only by the accounting profession but by the whole accounting and financial community. The institutions that were set are very similar to the American standard-setting institutions in place since 1973.

Although in the private sector, some elements reinforce the role of the State and of the law. According to the Dearing Report, the role of government should be that of « facilitator ». A number of measures were introduced in the Companies Act in order to reinforce the authority of accounting standards; for instance, the recognition, in the law, of accounting standards provided, for the first time, a legal recognition to standards. Besides, the government provided a substantial financial contribution: the Department of Trade and Industry contributed to one third of the budget, equally to the participation of the accounting profession (through the CCAB) and to that of the financial and banking community (through mainly the Stock Exchange).

Conclusion

Three stages emerge from the previous analysis :

A stage of no institutional standard-setting (before 1970): accounting regulation is oriented by very few prescriptions in the law and the importance of professional judgment in relation with the true and fair view;

A stage of standard-setting organized by the accounting profession (1970-1990): standard-setting is in the hand of the accounting institutes (financing, membership).

The involvement of the State and the authority of law begin only to be formalized after 1990.

Therefore, for a long time, accounting regulation was in the hands of the profession, being considered as self-regulation. Accounting institutes and the accounting profession includes accountants in firms as well as accountants working for companies or in the public sector.

The British case is a typical example of the Anglo-Saxon tradition of accounting standard-setting where accounting matters are entrusted to the accounting profession. Because they deal, on a daily basis, with accounting issues, accountants, either in firms, in companies or in universities, are the best suited to the task of developing standards and of tackling the increasing complexity of the problems to be handled.

The role of the State in organizing the setting of accounting rules is therefore reduced in Great Britain. However, from the years 1980-1990, increasing awareness of the political dimension of accounting standards and their impact on the distribution of wealth forced mentalities to change and to consider accounting standards as a matter of public policy where the State has a role to play as a facilitator.

Comparison with France, and also with Germany, have to be developed to define the future of accounting.

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