Audit Financiar, XX, Nr. 2(166)/**2022**, *275-281*
ISSN: 1583-5812; ISSN on-line: 1844-8801

Reflections on the Concept of Authority: The Case of Accounting Standards and Standards Setting

Alain BURLAUD,
University Professor Emeritus, France
Maria NICULESCU,
University Professor, Romania

Abstract

The question of authority can take various forms and have different purposes. The exercise of authority influences behaviors, changes practices, transforms realities, and, by avoiding chaos, brings intellectual comfort to those who submit to it by leaving it to others, i.e., those who possess authority, the task of asking questions and sometimes finding satisfactory answers. The paper highlights the multiple perspectives of a definition of the concept of authority, to then reflect on the authority and legitimacy of accounting rules and regulations. This is because if confidence is essential in trade, it is just as essential in accounting matters. In this regard the authors consider that it would be more useful to deal with the substance of the problem and to address the underlying or implicit assumptions that made it possible to produce the accounting information. Thus, the accounting can be perceived as a legitimate and effective authority which contributes to a climate of trust.

Key words: *accounting; authority; legitimacy; accounting standards;*

JEL Classification: *M42*

To cite this article:
Burlaud, A., Niculescu, M. (2022), Reflections on the Concept of Authority: The Case of Accounting Standards and Standards Setting, Audit Financiar, vol. XX, no. 2(166)/2022, pp. 275-281, DOI: 10.20869/AUDITF/2022/166/007

To link this article:
http://dx.doi.org/10.20869/AUDITF/2022/166/007
Received: 2.08.2021
Revised: 12.12.2021
Accepted: 2.03.2022

Introduction

All societies, including in the animal kingdom, are faced with the question of authority. It can take various forms and have different purposes. The exercise of authority influences behaviors, changes practices, transforms realities, and, by avoiding chaos, brings intellectual comfort to those who submit to it by leaving it to others, i.e., those who possess authority, the task of asking questions and sometimes finding satisfactory answers. When we talk about authority, we immediately think of a person, let's call him Hero, capable of exerting authority, having the power to impose obedience. That power is therefore that of a natural person. Hence, we talk about a person who is an authority figure, or authorities to designate persons holding an official office.

Are our great organizations led by Heroes like Louis Renault, André Citroën, Marcel Boussac, Marcel Dassault and many others in the industry or by General de Gaulle, Winston Churchill, Helmut Kohl and many other statesmen, or do these organizations drift at the mercy of collective forces that surpass the Hero as Tolstoy already showed in 1869 in 'War and Peace'?

The first perspective, which personifies authority, is the most popular one as it is the most spectacular, and most prone to media exposure; the second, which makes authority the result of dark forces, is less often portrayed as it is more difficult to stage. The question is however essential, because, according to the nature of the 'real' power, the model of control and, of accounting and financial reporting in particular, will not be the same.

Tolstoy describes an authority, personified in the person of Bagration, lieutenant-general of the Imperial Russian Army, but immersed in an organizational reality. In other words, is authority the prerogative of one man or that of multiple and anonymous forces? Tolstoy has the intelligence not to answer this question in a simplistic and affirmative way. The reality is more subtle as illustrated in the following quote. *"Prince Andrei listened attentively to Prince Bagration's conversation with his subordinates, and to the orders that he issued, and to his amazement discovered that in reality he did not give any orders at all, but that the prince only tried to give the impression that all that was done by his various officers either through necessity, chance, or volition, was done if not exactly by his orders, at all events in accordance with his design. Prince Andrei noticed that owing to the tact displayed by Prince Bagration, in spite of the fortuitousness of events and their absolute independence of the general's will, his presence was of great importance. The subordinates, with distracted faces, who kept galloping up to the prince, instantly became calm; soldiers and officers received him with enthusiasm, and were animated by his presence and evidently took pride in displaying their courage."*[1]

The manifestation, the exercise of authority in this complex reality is done through interactions, which can be consensual or conflictual. Its expression in the latter can be considered from a particular angle: its ability to resolve conflicts. Accounting is also, among other things, a tool for conflict resolution, a peaceful as possible tool for government by numbers. This twofold observation raises the following question: what is the authority of accounting?

1. Definition of authority. The authority of rules and standards

These reflections raise the question of the definition of authority. Etymologically, the word 'authority' comes from the Latin *auctoritas,* derived itself from the verb *augere,* which means to give birth, to augment. According to Benveniste, *augere* consists above all in performing a creative, founding, even mythical act, which makes something appear for the first time. He describes the primitive meaning of the word as: "Every word spoken with authority determines a change in the world, creates something; this mysterious quality is what *augeo* expresses, the power that make the plants spring up, that gives existence to a law.[2]"

From this original meaning, the possibilities for a definition of the concept of authority are multiple. Thus, authority can be seen as a particular form of exercising power: "authority is the power to obtain, without recourse to physical coercion, a certain behavior on the part of those who are subject to it. (...) Where authority is not exercised by a natural person, society substitutes for it an anonymous collective pressure, well known to sociologists as social control, which forces the members of the group to certain attitudes imposed by the widespread conformism. (...) Authority is so indispensable to the accomplishment of every collective work, in any enterprise involving convergence of the efforts of a plurality of individuals, that the relations of command and obedience are (...) artificially created through an organic hierarchy

[1] Tolstoy, p. 216.
[2] Benveniste, volume II, pp. 148- 151.

through which the cohesion of the whole is ensured[1]". Authority can also be defined as the expression of trust that one has in someone, whether in a hierarchical position or not, and whose order or advice one follows. 'Someone has authority or is an authority figure' means that their qualities or competence generate an action in accordance with their design without constraint and with confidence.

In everyday language, we speak of the authority of a person, an institution, or a message to signify that they are trusted, that their advice, suggestion or injunction is received with confidence or at least without hostility or resistance.

According to these definitions, 'authority holders' and, respectively, those who exercise it, are natural or legal persons. An 'invisible technology', to use the expression of Michel Berry (1983), such as the different forms of accounting, is not envisioned within the definitions of authority that we have just discussed. In this particular case, we are supposed to ask ourselves whether a tool, that can be physical or immaterial, like the accounting standards, can have, or be an, authority when, in appearance, such a tool is devoid of intention?

The words *regulation/rule*[2] come from the Latin *regula,* which designates, in its primary sense, the instrument that serves to guide the hand when drawing a line. Figuratively speaking, it sends to the principles, the norms of behavior in a group or in society, in a given context. Rules and regulations, including accounting regulations/standards, are social constructs that gain authority through a complex process of interaction and negotiation between the 'makers' of the rules or standards, those who ensure their application, and the final recipients. The authority of accounting standards is conferred both by those that make them (the standard setters) and by those who apply them.

This means that even if 'invisible technologies' are not mentioned as such in the definitions of authority, they meet the criteria that these definitions subsume: absence of physical constraint, control of behavior, submission of those whose action or consequences of action are made visible by accounting. It is therefore an invisible or anonymous authority that induces behaviors internalized by natural persons whose action in its essentially financial dimensions is revealed, put in the spotlight. It is the performativity[3] of accounting that drives actors into action (*mise sous tension*[4], Fr.). For this coupling between knowledge and action to work in the absence of physical constraint, this invisible authority must be perceived as legitimate by those who are subjected to it and who must have confidence in the veracity of the numbers produced. This voluntary, or at least consented, submission to an artifact derives from the recognition of the quality of accounting standards, the competence of the regulator or standard setter, the neutrality of the producer of the information and the independence of the auditor.

2. Authority and legitimacy of accounting rules and regulations

These reflections show how strong the link between power, authority and legitimacy is. The performative power of accounting lies in its legitimate authority. "It is legitimate, in general, that which conforms, not only to the laws, but also to morality, to reason." (Auroux, p. 1459) "Etymologically, legitimacy is the character of what is founded in law and/or justice. It therefore concerns only those things that can be debated from the point of view of law or justice, that is, essentially, human actions, as they take place in a social context that defines the norms of the acceptable and the unacceptable, the conforming and the non-conforming, the convenient and the inconvenient." (Laufer & Burlaud, 1997, p. 1754).

What are the foundations of the authority of numbers when it comes to accounting?

According to Hans Kelsen, the authority of norms, rules or standards can be 'intrinsic', given by the message they carry, which corresponds to universally recognized and accepted principles of life in society (for example: prohibition of killing) or an authority rooted in 'legality', based on the enunciation of the norm by a recognized institution and respecting a social contract[5].

Since few regulations have intrinsic authority, the search for authority often lies in external elements, and first of all in the circumstances of their making and their guarantee.

[1] *Encyclopaedia Universalis*, volume 2, p. 901.
[2] The accountancy profession uses only the word "standard" as a synonym for "rule".

[3] On the concept of performativity see Burlaud & Niculescu (2015).
[4] On the concept of 'mise sous tension' see Burlaud & Simon (2003), pp. 7 & following, as well as Burlaud *et al.* (2004), pp. 57 & following.
[5] Kelsen, quoted by Bur C. (2012), *Normes et autorité, une introduction.* Paris, Editions de la Sorbonne, p. 169.

In accounting, there is talk of a substantive legitimacy of certain standards (for example, in the case of IFRS or IPSAS) because they are based on globally recognized principles and algorithms. Similarly, the U.S. accounting system, called *Generally accepted accounting principles* (US-GAAP), is based, as its name suggests, on 'generally accepted' principles. We therefore refer to the *majority rule* to establish their legitimacy.

The legitimacy of the standards also rests on that of the standards setter. For example, the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) proclaim their attachment to the *public interest,* which is introduced into their governance in order to materialize the concept as they cannot define it, the *Public interest oversight boards* guaranteeing the reality of their attachment. Of course, such organizations can be challenged to the extent that not all stakeholders are represented. Political legitimacy is therefore lacking (Burlaud & Colasse, 2010, p. 155). Beyond standards and standards setters, there is the legitimacy of those who produce the accounts. It results from their technical competence, attested by professional diplomas in accordance with international standards, the *International Accounting Education Standards of IFAC,* or intergovernmental standards such as the European Directive 2014/56 on statutory audit. Their professionalism allows accountants to hide behind standards to preserve the reality or the appearance of their neutrality. Finally, there is the legitimacy of the statutory auditors, which is also based on their competence but also on their independence, guaranteed by a code of ethics, in France, the code of the *National Institute of Auditors (Compagnie des Commissaires aux Comptes)*, which is in compliance with the *International Code of Ethics* of IFAC and the Directive 2014/56 in Europe. In addition, auditors must comply with professional rules, i.e., the *International Standards on Auditing* issued by IFAC and transposed in France in the Standards of Professional Practice (Normes d'exercice professionnel: NEP). In Romania, the standards issued by IFAC were adopted in 2013 by the *Romanian National Institute of Auditors (Camera Auditorilor Financiari din România)*, in the *Code of ethics of financial auditors (Codul etic al auditorilor financiari).* This relatively complex set of institutions stems from the rational-legal legitimacy (i.e., rationality of the rule of law) as described by the German sociologist Max Weber (p. 223 & following). In accounting, we can also speak of a tradition-based legitimacy of the standards, in the sense put forward by Weber. These are rules based on ancestral principles and guaranteed by trust in an institution whose legitimacy is obvious because it has long been undisputed.

However, the rational-legal legitimacy or procedural legitimacy of accounting and, more specifically, of financial accounting and auditing, is the main form of authority, indisputable and extremely robust. It has withstood many scandals over the past centuries, from Panama to Wirecard via Enron, Parmalat, Crédit Lyonnais and many others. In Romania, the series of financial scandals of recent decades (Bancorex, FNI, Loteria, etc.) shows, however, the limits of such rationality in a context disrupted by the pace and complexity of changes, and in the presence of insufficient administrative capacity. Each time, a few heads fall, symbolically, and the regulations are adapted, ensuring the continuity of the accounting function and a particular form of government by numbers until the next scandal occurs.

Of course, any authority must face protest movements. They may consist of breaking the rules: which constitutes fraud. But one can also take advantage of the loopholes in the regulations, which lawyers call an 'abuse of rights': which is creative accounting[1]. In both cases, it is a question of governing by falsified or manipulated numbers in order to obtain the desired result by weighing on a decision.

The previous developments seem to apply mainly to financial accounting. In reality, the mechanisms are similar in respect to management accounting. The position of international and national regulations, less restrictive in this field, is taken by the doctrine which provides 'generally accepted' definitions of the different concepts used: costs, margins, variances, etc. The *reporting* and management accounting rules of the parent company have the force of 'law' within the group. The ties between financial and managerial accounting (calculation of transfer prices, valuation of inventories, etc.) do not allow the two systems to be completely independent and are both subject to the control of the auditors and the tax authorities or the Court of Accounts (*Cour des comptes* in France, *Curtea de Conturi* in Romania), depending on the legal status of the entity.

We have seen that authority, whether that of a person or that of language, more generally of an artifact, can only deploy its power if it has legitimacy, that is to say, it is recognized, accepted by those who are subject to such authority which

[1] According to Stolowy H. in Colasse (2009), pp. 187-196.

excludes the use of physical coercion. In reality, things are more complex. Power is not entirely vertical; it is shared. To a certain extent, we, individually or collectively, are 'free to obey' (*libres d'obéir,* Fr.), to use the oxymoron that Johann Chapoutot gave as the title to his book published in 2020[1]. In some situations, it is difficult to say who commands whom. Whoever is supposed to be the subject of authority can develop strategies of passive resistance, zeal to paralyze, simulate or conceal, etc. The flow of information, necessary for the exercise of power, is never complete and can be taken advantage of, transparency is necessarily limited even if it constitutes a proclaimed objective. It is limited, if only because of the volume of information provided. Thus, the financial reports of large groups often comprise several hundred pages. According to the expression that 'too much information kills information' (complexity of abundance), the goal of transparency cannot be achieved. Full control is impossible, so a minimum of trust is required.

3. Authority and trust in the accounting ecosystem

"Trust is a certain level of subjective probability by which no agent believes that another agent or group of agents will perform a particular action before they can control that action (or without ever being able to control it) and in a context where it affects their own action." (Canto-Sperber, p. 287) In addition, trust reduces complexity by freeing the person who exercises trust from certain particular and practical decisions. Those who place their trust, however, have a duty of vigilance and the depositary of the trust must be worthy of the trust that has been placed in them. It is therefore a reciprocal commitment that reduces the cost of control or, in the words of Ronald Coase, the 'transaction costs' for the benefit of all.

The trust that a natural or legal person inspires, or more precisely that they gain little by little, is an important component of their relational capital from which they can derive benefits. Within an organization, it can replace, at least in part, hierarchical control to leave discretionary space to the subordinate in exchange for a commitment of loyalty. In relations between organizations, it can replace, at least in part, contractual formalism with implicit agreements to manage unforeseen situations in a spirit of fairness and lasting relationship. "The hope of good prevails over the fear of possible evil." (Canto-Sperber, p. 284)

If confidence is essential in trade, even if only confidence in money, it is just as essential in accounting matters. The fall of Arthur Andersen (AA) in 2002 is a great illustration in this respect. AA was the world's number one in auditing and was about to celebrate its centenary. But AA saw its trust capital collapse when involved in the bankruptcy of one of its customers, Enron, a multinational in the energy and telecommunications sectors rating sixth in terms of market capitalization in the United States, which was accused of having falsified its accounts with the complicity of its auditor. Very quickly, the firm lost many of its auditor mandates and was forced to give up its CPA[2] licence. This case shows the extent to which financial accounting, an instrument for holding executives accountable and for measuring financial performance, is dependent on the trust it inspires. In order to strengthen it, it is subjected to external control by an auditor, which is an independent professional who has taken an oath, and who is a member of a regulated liberal profession under the supervision of a public authority[3], and who has civil and criminal liability. For most public organizations, this role is played by the Court of Accounts or the Regional Courts of Accounts, whether in France or Romania. Within public or private organizations of a certain size, internal auditors have the possibility to rely on professional standards and to be a member of an association (although this is not a requirement): the Institute of Internal Auditors (IIA) at the global level and its French counterpart, the French Institute of Audit and Internal Control (*Institut Français de l'Audit et du Contrôle Interne*: IFACI) or in Romanian, the National Institute of Internal Control of Romania (*Institutul Național de Control Intern din România*: INCIR).

The existence of a whole normative system, the membership of a professional organization guaranteeing competence and ethics, the supervision of a governmental authority, the brand policy of large audit firms and professional organizations contribute to fueling public confidence in the truthfulness of financial statements.

This trust, essential to the functioning of the 'accounting ecosystem' and which is even one of its reasons for being, is at the heart of many cases of information asymmetry. Doctors, veterinarians, architects, lawyers, etc. have provided

[1] La Boétie spoke of 'voluntary servitude' in *Discours de la servitude volontaire*. Flammarion, 1983 (originally published in 1574).

[2] CPA: Certified Public Accountant

[3] In France, la Compagnie nationale des commissaires aux comptes and in Romania, Camera Auditorilor Financiari din România.

comparable responses for similar situations. This accounting ecosystem consists of standard setters, producers of financial statements, auditors and users of financial information that is not limited to financial accounting. To manage the relationships between these persons, none of whom can do without the others, requires an authority capable of coordinating activities and settling disputes. In the absence of a supreme leader, the authority is that of an invisible technology (*technologie invisible,* Fr.), a techno-science or a capitalization of practical knowledge (*savoir d'action,* Fr.) to use the terms found in the academic literature in management sciences[1]. Accounting techniques and practices, however, are not neutral; they introduce a cognitive bias. However, this is accepted, even if it is imperfectly known, thanks to the authority that actors recognize to these techniques and the confidence they inspire.

4. Authority and accounting evidence

The authority of accounts, the legitimacy of such authority, the confidence they inspire provide certain conformation/evidence to the conclusions they induce. They must lead to immediate agreement and to the feeling that no other solution is reasonably possible. *There is no alternative* (TINA). Let us consider several cases in which accounting data are used to make an important decision.

Whether it is necessary to develop, invest and finance or to start restructuring or insolvency procedures or to put a company into liquidation, it is the annual accounts, giving a true and fair view of the assets, performance and financial position, as well as projected figures, which will play a decisive role in the decision. They will show the possible and the impossible.

Whether to open or close a production site or a retail store, to launch or stop the production of a good or a service, to conquer or abandon a market, to accept or refuse an order, to relocate the business or an activity, to outsource or not, in all these cases, management accounting will inform debate revealing positive or negative performance and the financial viability and opportunity of the operation.

In all of these cases, the solution finally adopted, insofar as it creates victims, will never be unanimously accepted by the stakeholders. For example, the closure of a factory with the human tragedies that this entails will never be obvious to dismissed employees or subcontractors in difficulty, in the sense that it will not necessarily lead to their assent. But this decision is the result of an accounting evidence for the directors, the bankers, the employees of the other factories of the group if they benefit from a transfer of the activity or for the employees of the factory in question who will benefit from an advantageous redeployment.

Anyone who does not want to acknowledge the evidence will be considered to have a partisan point of view or to be in bad faith. Such a person has only one recourse available: rhetoric. The classic argument put forward in these cases is: "You have an accounting vision of things." Many politicians use it. It would be more skillful and useful to deal with the substance of the problem and to address the underlying or implicit assumptions that made it possible to produce the accounting information. But for that, one needs to know the mechanisms. Contrary to what many think, there can be several very different faithful representations of economic reality.

Conclusion

Accounting is, in conclusion, a legitimate and effective authority insofar as it contributes to a climate of trust. The numbers produced by different forms of accounting are accepted as ‘true’. The quantophrenia and the apparent scientificity of accounting productions contribute to this acceptance. Yet there is a cognitive bias, a blind spot. Accounting is essentially based on the observation and recording of transactions. The consumption of human and natural capital is invisible, prompting a movement for non-financial disclosure.[2] If some form of authority is needed, let us not forget to exercise our critical thinking. It is also a general rule of conduct in the face of different forms of authority, as Étienne Klein reminds us (p. 5): “The authority we grant to X or Y inclines us to accept all their propositions as true, relieving us from exercising our critical thinking. Dan Sperber describes this sensitivity to authoritative arguments as a guru effect[3]. In its degraded form, this fault leads us to believe that something is true for the sole reason that we have read or heard about it.”

[1] The term ‘technologie invisible’ was used by M. Berry (according to *Op. Cit.*) and that of ‘savoir d'action’ by B. Colasse (*In* J.-M. Barbier), p. 73 & following.

[2] See on this subject: Burlaud & Niculescu (2015)

[3] Sperber D. (2010), The Guru Effect, *Review of Philosophy and Psychology*, vol. 1, no. 4, p. 583-592.

BIBLIOGRAPHY

1. uAroux, S. [sous la direction de] (1998), *Les notions philosophiques*, Paris, PUF
2. Barbier, J.-M. [sous la direction de] (2004), *Savoirs théoriques et savoirs d'action.* Paris, PUF
3. Benveniste, É. (1969), *Le Vocabulaire des institutions indo-européennes*, Paris, Les éditions de Minuit
4. Berry, M. (1983), *Une technologie invisible – L'impact des instruments de gestion sur l'évolution des systèmes humains*, https://hal.archives-ouvertes.fr/hal-00263141/document
5. Bur, C. (2012), *Normes et autorité, une introduction.* Paris, Editions de la Sorbonne
6. Burlaud, A. & Simon, C. (2003), *Comptabilité de gestion. Coûts/contrôle.* Paris, Vuibert (https://halshs.archives-ouvertes.fr/halshs-00616600v2/document)
7. Burlaud, A., Teller, R., Chatelain-Ponroy, S., Mignon, S. & Walliser, E. (2004), *Contrôle de gestion.* Paris, Vuibert
8. Burlaud, A. & Colasse, B. (2010), Normalisation comptable internationale: le retour du politique?, *Comptabilité, contrôle, audit*, Paris, décembre, p. 153 à 175
9. Burlaud, A. & Niculescu, M. (2015), Informația non-financiară: o perspectivă europeană*. Audit Financiar*, Bucarest, juin, p. 102 à 112.
10. Canto-Sperber, M. [sous la direction de] (1997), *Dictionnaire d'éthique et de philosophie morale.* Paris, PUF
11. Chapoutot, J. (2020), *Libres d'obéir. Le management du nazisme à aujourd'hui*, Paris, Gallimard
12. Colasse, B. [sous la direction de] (2009), *Dictionnaire de comptabilité, contrôle de gestion et audit*, Paris, Economica
13. Kelsen, H. (1945), *General Theory of Law and State*, Harvard University Press, Cambridge Ma
14. Klein, E. (2020), *Le goût du vrai.* Paris, Gallimard
15. Laufer, R. & Burlaud, A. (1980), *Management public. Gestion et légitimité*, Paris, Dalloz
16. Tolstoy, L. (1989 – first edition: 1865-1869), *War and Peace.* New York, T.Y. Crowell & Co, translation: Nathan Haskell Dole
17. Weber, M. (1971), *Economie et société.* Paris, Plon
18. V. A. (1980), *Encyclopaedia Universalis*, Paris, Encyclopaedia Universalis France