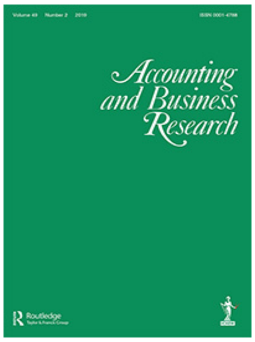

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Users' legitimacy perceptions about standard-setting processes

SYLVAIN DUROCHER[a*], ANNE FORTIN[b], ALESSANDRA ALLINI[c] AND CLAUDIA ZAGARIA[d]

[a]*Telfer School of Management, University of Ottawa, Ottawa, Canada;* [b]*Department of Accounting, Université du Québec à Montréal, Montréal, Canada;* [c]*Department of Economics, Management, Institutions - University of Naples Federico II, Naples, Italy;* [d]*Department of Economics, Università degli Studi della Campania 'Luigi Vanvitelli', Capua, Italy*

Standard-setting institutions require legitimacy to survive. Prior research infers their legitimacy mainly from the characteristics of standard-setting processes rather than from the legitimacy judgments of important constituencies. Using a survey of financial analysts, we quantitatively assess users' perceptions about the characteristics of standard-setting processes, the relationships between these characteristics and legitimacy perceptions, and users' legitimacy perceptions. Our first contribution is to use a sample of sophisticated financial statement users to empirically examine the theoretical proposition that users' legitimacy perceptions could be a function of the perceived characteristics of standard-setting processes. We find that users' perceptions about the characteristics of standard-setting processes affect the legitimacy they attribute to these processes. A combination of pragmatic, moral and cognitive legitimacies are at play in such legitimacy assessments. Our second contribution is to point out the importance of separately investigating various types of legitimacy, as users' perceptions about them vary. Lastly, our third contribution is to highlight that the distinction between users' perceptions of the characteristics of standard-setting processes and their legitimacy perceptions is not always clear-cut and that there are multiple interrelations among these concepts.

Keywords: Financial statement users; legitimacy; standard-setting processes

1. Introduction

Standard-setting institutions, like other organisations, must enjoy legitimacy in the eyes of their constituents and society if they wish to survive (Deephouse and Suchman 2008, Fogarty 1992). They must demonstrate that they are fulfilling their 'social contract' by delivering socially desirable ends to society and benefits to groups from which they derive their power (Shoker and Sethi 1974). Legitimacy crises have led to the dismantling of standard-setting organisations such as the

*Corresponding author. Email: durocher@telfer.uOttawa.ca
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International Accounting Standards Committee (IASC) (Street 2006), the Committee on Accounting Procedure (CAP) (Previts 1984, Zeff 1984) and the Accounting Principles Board (APB) (Hussein and Ketz 1991). Although legitimacy is a perception (Suchman 1995), previous research on the legitimacy of standard-setting institutions generally made legitimacy inferences about their subjects not by looking at those who actually hold legitimacy perceptions, but by analyzing the characteristics of standard-setting processes. Only very few authors (i.e. Durocher et al. 2007, Durocher and Fortin 2010) examined standard setters' legitimacy from the perspective of the specific constituents who make such legitimacy judgments. We address this gap in the literature by investigating financial statement users and their views on the legitimacy of standard-setting processes.

Financial statement users are arguably an important audience for standard-setting organisations as accounting conceptual frameworks explicitly prioritise investors in the development of financial accounting standards (IASB 2018, IFRS Foundation 2016, FASB 2010, 2016). Yet users' views of the standard-setting process remain underexplored (Durocher 2009). Standard setters claim to proactively seek user input (IFRS Foundation and IASB 2016), but research has demonstrated that they know little about users' needs and preferences (Durocher and Fortin 2010). In fact, standard setters tend to view users as a rhetorical category rather than as flesh-and-blood participants in standard-setting processes (Young 2006). The current study has given financial statement users the opportunity to say what they think about these processes, a topic of great importance, especially in view of the criticisms levelled at standard setters in the wake of the 2008 financial crisis (Burlaud and Colasse 2011, Le Manh 2012).

We focus on financial analysts, for two main reasons. First, they are the primary users of accounting information, and by virtue of their expertise, they have the necessary knowledge to participate in the standard-setting process (Larson 2007). Second, they are the group that most logically benefits from the output of the process, i.e. useful and relevant information (Schipper 1991, Epstein and Palepu 1999, Orens and Lybaert 2010). Choosing the FASB and the IASB as our target standard setters, we survey a sample of analysts to obtain their views about the legitimacy of these institutions.

We found that a combination of pragmatic, moral and cognitive legitimacies are at play in users' assessment of the legitimacy of accounting standard-setting processes. Pragmatic legitimacy, which refers to a discursive utilitarian assessment of an organisation's activities (Suchman 1995), includes exchange and influence legitimacy. Exchange legitimacy perceptions, i.e. perceptions of the support granted by financial analysts – in our case, to an organisation that adopts policies beneficial to its members (Suchman 1995) – were positively affected by their perceptions of the usefulness of the financial statement information. Influence legitimacy perceptions, or the perceptions that an organisation has appropriately incorporated some of the group's representatives in its structures and processes (Suchman 1995), were positively affected by analysts' perceptions of their comparative sources of power.

Moral legitimacy, which is based on positive, discursive and normative evaluations of organisational activities from the standpoint of stakeholders' socially constructed value system (Suchman 1995), includes consequential, procedural, structural and personal legitimacy. Consequential legitimacy perceptions refer to perceptions of the organisation's accomplishments and the general properties of its outputs (Suchman 1995). We find that standard setters' pursuit of the public interest significantly affects these types of perceptions held by financial analysts. However, as they did not see government and regulatory agency support as a core issue for standard setters, their perceptions of this facet of standard-setting processes did not affect consequential legitimacy perceptions. Financial analysts' procedural legitimacy perceptions, which relate to the assessment of an organisation's procedures (Suchman 1995), are affected by due process features that allow for consideration of views. Their structural legitimacy perceptions, or the moral evaluation of an organisation based on its structural characteristics (Suchman 1995), are not affected by the presence of consultative committees. We also find that personal legitimacy perceptions, i.e. views about whether the members of an organisation's standard-setting committees have desirable personal characteristics (Durocher et al. 2007), are significantly affected by the competence, independence and lack of bias of standard-setting committee members.

Financial analysts' cognitive legitimacy perceptions, or acceptance of an organisation based on taken-for-granted cultural accounts (Suchman 1995), are affected by users' view that accounting experts play an important but not exclusive role in the establishment of accounting standards.

Further analyses also show that there are multiple interrelations among the characteristics of standard-setting processes as well as among the various types of legitimacy. Also, given that some categories of legitimacy were not singled out in prior research, we highlight the importance of separately investigating various types of legitimacy, as users' perceptions about them vary. Finally, we also highlight some unexpected interrelations between users' perceptions of the characteristics of standard-setting processes and their legitimacy perceptions. Overall, our study is the first to quantitatively document users' perceptions about the legitimacy of standard-setting processes.

The rest of the paper is structured as follows. The following section reviews the relevant literature and develops our hypotheses. Then, the methodology is detailed, after which the next section discusses and presents our results. The last section presents the conclusions and implications of the study.

2. Previous research and hypotheses development

2.1. *Legitimacy of standard-setting organisations*

Organisational legitimacy has been studied from different perspectives (Suchman 1995). The strategic tradition (Dowling and Pfeffer 1975, Pfeffer and Salancick 1978) considers legitimacy to be a strategic resource that organisations need to extract from their environment to ensure their continued existence. From this perspective, managers 'look out' for societal support. The institutional tradition (Ashford and Gibbs 1990, Meyer and Rowan 1977) examines how environmental dynamics come to permeate organisational life and structures. Isomorphic processes influence organisations to adapt their structures and procedures to recognised institutional patterns (DiMaggio and Powell 1983). From this perspective, society 'looks in', and external institutions infuse organisations (Suchman, 1995). Suchman (1995, 574) adopts a broad definition of legitimacy that includes both the strategic and institutional views of this concept: 'Legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.'

Legitimacy is important to any type of organisation (Suchman 1995), and standard-setting institutions are no exception (Fogarty 1992). For Johnson and Solomons (1984), the need to assess a standard setter's legitimacy relates to the fact that accounting standards carry economic consequences for many constituencies that may hold differing views about these standards (Zeff 1978). Hence, the diversity of standard setters' constituents challenges the public's confidence in the standard setters' work (Baylin et al. 1996). In order to survive, a standard setter must maintain its acceptability in the eyes of its constituencies (Wallace 1990). However, constituencies may base their acceptance or non-acceptance on diverging legitimacy criteria (Richardson and Eberlein 2011). A standard setter must demonstrate it is fulfilling its 'social contract' under which its survival is based on the delivery of socially desirable ends to society in general and the provision of benefits to groups from which the entity derives its power (Shoker and Sethi 1974). In sum, given the political nature of standard-setting processes (Botzem and Quack 2009, Burlaud and Colasse 2011, Hussein and Ketz 1991, Kwok and Sharp 2005), standard-setting bodies need to be considered legitimate in the eyes of their salient stakeholders to ensure their continued existence (Durocher and Fortin 2010, Wallace 1990).

Given that we are investigating financial statement users' views on the legitimacy of standard-setting processes, the following three sub-sections will review the literature on standard setter legitimacy. We then identify relevant legitimacy categories that are likely to resonate with users. Table 1 summarises previous research, showing not only the types of legitimacy assessed, but also the sources of empirical evidence gathered to make this assessment, the perspective adopted by researchers and the characteristics of standard-setting processes discussed.

2.1.1. *Institutional, procedural, and structural legitimacy*

Johnson and Solomons (1984) were the first to develop a framework to assess the legitimacy of a standard setter. In their view, a standard setter's institutional legitimacy rests on sufficient authority, substantive due process and procedural due process. Sufficient authority stems from a clear mandate from government and the competence (expertise and independence) to carry out the standard-setting function. Substantive due process involves adequate justification for each exercise of the standard setter's authority and an adequate rationale for each ruling. Procedural due process permits all interested parties a reasonable and timely opportunity to be heard and a reasonable opportunity to influence the rule-making process. Based on a conceptual analysis of the FASB's standard-setting process, the authors find support for the assertion that the FASB possessed institutional legitimacy. Wallace (1990) used the foregoing criteria to assess the International Accounting Standards Committee's (IASC) standard-setting process and concluded that although the IASC had institutional competence, it lacked sufficient authority as it had no clear mandate from any government agency. The author also found that the IASC used a substantive due process in which it provided adequate rationale for its standards and followed a procedural due process that gave interested parties the opportunity to be heard.

Fogarty (1992) drew on institutional theory to assess whether the FASB's structures displayed conformity to environmental expectations. Viewing legitimacy as a general concept, he argued that the FASB was responsive to coercive and normative isomorphic pressures and adopted structures that provided due process for its constituents. In the author's view, the FASB thus far had been successful in maintaining the level of legitimacy necessary for its survival, given the minimal disruptions effected by its standard setting on the varying expectations of constituencies. Gorelik (1994) conducted a conceptual analysis of the standard-setting processes historically adopted by the Canadian, UK and US standard setters, seeking to determine how standard setters were able to produce standards that were acceptable to their environment given the conflicting preferences of stakeholders. Although the study was not situated within a legitimacy framework, it implicitly addressed issues of procedural and structural legitimacy. The author highlights how standard setters have adapted their procedures and structures to build external support following major financial and auditing crises. Similarly, Baylin et al. (1996) assessed the procedural legitimacy of Canadian standard setters from 1864 through 1991 by performing a conceptual analysis of standard-setting processes. Broadly defining procedural legitimacy as the structure or process by which standards are created, they argued that the structural changes that the various standard-setting organisations had made over the previous century had enabled the production of standards that had pragmatic utility and enjoyed community acceptance.

Larson (2002) examined the procedural and structural legitimacy of the IASB's Standard Interpretations Committee (SIC). Similarly to previous authors, he conducted a conceptual analysis of the process followed by the SIC while also examining constituents' participation in the process for the committee's first 23 draft interpretations. Larson (2002) concluded that the

Table 1. Standard-setting research drawing on legitimacy theory.

Authors	Standard setter(s)	Type(s) of legitimacy assessed	Evidence gathered to support findings	Perspective adopted	Characteristics of standard-setting processes discussed
Section 2.1.1. Institutional, procedural and structural legitimacy					
Johnson and Solomons (1984)	FASB	Institutional legitimacy (sufficient authority, substantive due process and procedural due process)	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Institutional competence Due process Support by government and regulatory agencies
Wallace (1990)	IASC	Institutional legitimacy (sufficient authority, substantive due process and procedural due process)	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Institutional competence Comparative sources of power Due process Structures Member personal characteristics Support by government and regulatory agencies
Fogarty (1992)	FASB	Institutional legitimacy (implicitly structural legitimacy)	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Conceptual framework Due process Structures Support by government and regulatory agencies
Gorelik (1994)	Canadian, UK and US standard setters	Implicitly procedural and structural legitimacy	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Conceptual framework Due process Structures Support by government and regulatory agencies
Baylin et al. (1996)	Canadian standard setters	Procedural legitimacy	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Due process Structures Support by government and regulatory agencies

Larson (2002)	IASC's SIC	Procedural legitimacy Structural legitimacy	Conceptual analysis of the standard-setting process Constituents' participation in the SIC's first 23 draft interpretations	Legitimacy inferred from the characteristics of the process and from constituents' participation in the process	Due process Structures
Burlaud and Colasse (2011)	IASC/IASB	Procedural legitimacy Substantial legitimacy	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Conceptual framework Due process Technical competence Support by government and regulatory agencies
Le Manh (2012)	IASB	Procedural legitimacy	IASB's consideration of stakeholder preferences expressed in comment letters – IAS 1 Comprehensive income	Legitimacy inferred from the standard setter's responsiveness to constituents' expressed preferences	Due process
Bamber and McMeeking (2016)	IASB	Procedural legitimacy	Comment letters, minutes of IASB board meetings and notes from technical working group meetings in relation to the financial instruments disclosure standard	Legitimacy inferred from the standard setter's responsiveness to constituents' expressed preferences	Due process
Wingard et al. (2016)	IASC/IASB	Procedural legitimacy Structural legitimacy	Conceptual analysis of the standard-setting process Constituents' participation in two standard-setting projects (IFRS 9 and IFRS 13)	Legitimacy inferred from the characteristics of the process and from constituents' participation in the process	Due process Structures Staffing Funding
Section 2.1.2. Input, through-put and output legitimacy					
Richardson and Eberlein (2011)	IASB	Input legitimacy Through-put legitimacy (procedural) Output legitimacy	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Due process Technical competence and results of the process Participation of affected parties

(*Continued*)

Table 1. Continued.

Authors	Standard setter(s)	Type(s) of legitimacy assessed	Evidence gathered to support findings	Perspective adopted	Characteristics of standard-setting processes discussed
Botzem and Dobusch (2012)	IASB	Input legitimacy Output legitimacy	Conceptual analysis of the standard-setting process	Legitimacy inferred from the characteristics of the process	Participation of various actors in standard formation Standard diffusion Support by government and regulatory agencies
Jorrissen et al. (2013)	IASB	Input legitimacy	Comment letters for various projects from 1995 through 2007	Legitimacy inferred from constituents' participation in the process	Due process Support by government and regulatory agencies Participation of various actors in standard formation
Pelger and Spieß (2017)	IASB	Input legitimacy Through-put legitimacy	Comment letters, materials for board meetings and public roundtables, interviews with board members in relation to the agenda consultation project	Legitimacy inferred from the characteristics of the process	Due process Structures Participation of various actors in standard formation
Section 2.1.3. Pragmatic, moral, and cognitive legitimacy					
Larson and Kenny (2011)	IASC/IASB	Pragmatic legitimacy (exchange, influence and dispositional)	Donor data from 1990 through 2008	Legitimacy inferred from constituents' financial support	Funding

Durocher et al. (2007)	AcSB (Canada)	Pragmatic legitimacy (exchange, influence) Moral legitimacy (consequential, procedural, structural, personal) Cognitive legitimacy	Interviews with financial statement users	Financial statement users' views of the characteristics of the process conferring legitimacy	Usefulness of information Comparative sources of power Pursuit of the public interest Support by government and regulatory agencies Due process Structures Member personal characteristics Accountants' standard-setting role
Durocher and Fortin (2010)	AcSB (Canada)	Pragmatic legitimacy (exchange, influence) Moral legitimacy (consequential, procedural, structural) Cognitive legitimacy	Documentary public information available for the overall Canadian standard-setting process and for a sample of standard-setting projects	Legitimacy inferred from the characteristics of the process by researchers adopting users' views	Users' input and responsiveness to users' expressed preferences Comparative sources of power Pursuit of the public interest Support by government and regulatory agencies Due process Structures Accountants' standard-setting role

SIC's structure and due process appeared sound overall, but that its low level of constituent participation raised questions regarding the SIC's progress toward legitimacy. For their part, Burlaud and Colasse (2011) performed a conceptual analysis of the IASB/IASC standard-setting process to assess procedural and substantial legitimacy, defined respectively as standard setters' use of procedures intended to guarantee their independence and impartiality and the possession of recognised knowledge or technical or scientific expertise. They concluded that the international standard setter lacked procedural legitimacy because power was concentrated in the hands of private technical experts who shared the same cognitive space. The IASB/IASC was also judged to lack substantial legitimacy due to the weaknesses of the theories underlying the conceptual framework.

Le Manh (2012) assessed the IASB's procedural legitimacy in connection with its introduction of comprehensive income in the revision of IAS1. The author defined procedural legitimacy as the functioning of the due process and found that the IASB lacked legitimacy by apparently being unresponsive to stakeholders' preferences as expressed in comment letters during the due process. Bamber and McMeeking (2016) assessed the IASB's procedural legitimacy in the context of a specific standard-setting project. Defining procedural legitimacy as constituents' ability to have their views considered in an open public debate, the authors examined comment letters, minutes of IASB board meetings and notes from technical working group meetings on the financial instruments disclosure standard. As they assessed whether the IASB discussed the changes proposed by constituencies in the comment letters and whether these changes were accepted or rejected, they found that accounting firms had significantly less influence than other stakeholders and that the IASB reacted less favourably to UK vs. US proposals. Accounting firms and UK participants might thus attribute less procedural legitimacy to the IASB if they believe that their views were not adequately considered. Wingard et al. (2016) conducted a conceptual analysis of the IASB's standard-setting process and examined constituents' participation during the development of IFRS 9 and IFRS 13. They observed that G-20 countries dominated the standard setting and that powerful stakeholders such as the European Commission and IOSCO had also been co-opted into decision-making structures. Although standard-setting procedures allowed all affected parties the opportunity to participate in standard setting, they also gave an even wider berth to stakeholders represented on governance structures and national standard setters with formal liaison status. In their view, these findings demonstrate serious legitimacy issues.

Altogether, the foregoing studies point out that legitimacy assessments of standard-setting organisations may involve consideration of sufficient authority, procedures, and structures. The above studies inferred legitimacy from their analysis of the characteristics of due processes, constituents' participation in that process, and standard setters' responsiveness to constituents' expressed preferences. It is plausible that financial statement users also reflect on these three issues in their assessment of standard setters' legitimacy.

2.1.2. *Input, through-put and output legitimacy*

Also in a conceptual analysis of the IASB's standard-setting process, Richardson and Eberlein (2011) developed a processual view of legitimacy, which they broke down into input, through-put and output legitimacies. Input legitimacy refers to affected parties' opportunity to participate in standard setting so as to establish congruence between affectedness and voice in decision-making. Through-put legitimacy refers to the fairness of the process by which inputs are transformed into outputs or results of political decision making, while output legitimacy refers to the quality of accounting standards based on their ability to resolve technical problems or to facilitate future developments in the field. The study concluded that through-put legitimacy plays an important role in the legitimation of the IASB and that procedural norms and practices have risen to prominence in the standard setter's strategies to maintain its legitimacy as a global standard setter.

Botzem and Dobusch (2012) also assessed the IASB's input and output legitimacy from a conceptual analysis of the standard-setting process. They defined input legitimacy as the inclusive formation of standards in a relatively open and collaborative procedure, usually characterised by negotiations among a number of interested parties, while output legitimacy is the diffusion of IAS and IFRS. They found that IFRS formation and diffusion are reciprocally linked, drawing on both input and output legitimacy.

Jorrissen et al. (2013) examined the comment letters received by the IASB for various projects from 1995 through 2007 to assess the standard setter's input legitimacy, defined as the extent to which comments received reflect the opinions of all stakeholders. They concluded that the IASB lacks input legitimacy given the distortions in the geographic representation of constituents due to differences in the institutional regimes of countries and in participation costs. Pelger and Spieß (2017) focused on the IASB's agenda consultation project to analyze the characteristics of the process through which the IASB constructed its legitimacy in interactions with its constituents. They showed that the IASB is clearly aware of the need to construct input and through-put legitimacy. In particular, the IASB built input legitimacy by actively soliciting views from financial statement users. Although this might have been a way for the IASB to proclaim its user orientation, the authors suggest this action might have been more formal than substantial.

These authors' processual view of legitimacy could provide a relevant perspective for the study of financial statement users' legitimacy assessment of standard setters. The foregoing studies inferred legitimacy by analyzing the characteristics of due processes and constituents' participation in these processes. It should be noted, however, that financial statement users, when making legitimacy assessments, might consider their ability to participate in the process, the fairness of the process, and the quality of its resulting standards.

2.1.3. *Pragmatic, moral, and cognitive legitimacy*

Larson and Kenny (2011) examined the IASC/IASB's donor data from 1990 through 2008 to assess the standard setter's pragmatic legitimacy along with its three sub-types, exchange, influence and dispositional legitimacy. They expected that stakeholders would contribute to the funding of the IASB under the following circumstances: when the standard setter is seen as acting in the stakeholder's interests (exchange legitimacy); the stakeholder considers that it is possible to influence the content of standards (influence legitimacy); or the standard setter is perceived to consider the constituent's needs in standard-setting decisions (dispositional legitimacy). The authors concluded that the IASB's legitimacy had improved since IASC days because the number of donors and the amounts contributed had increased significantly; more specifically, the donor base had broadened both geographically and in terms of stakeholder group diversity. Further, no single entity or group appeared to contribute the magnitude of funding that would suggest undue influence on the standard setter.

Whereas Larson and Kenny (2011) inferred legitimacy from constituents' financial support, financial statement users may consider, in their legitimacy assessment, whether the standard setter is acting in stakeholders' interests, and whether stakeholders have influence on the standard-setting process.

In fact, most of the studies listed in Table 1 mentioned above show a common perspective in which legitimacy is inferred from the characteristics of standard-setting processes. In several cases, the analysis included comment letters from users, preparers, auditors, regulators and other state authorities, standard setters, not-for-profit entities, individuals and academics (e.g.

Pelger and Spieß 2017). Some of these studies focused on more specific issues such as standard-setter responsiveness to stakeholders' expressed preferences, stakeholders' participation in the process and stakeholders' funding. Although relevant insights are provided into the legitimacy of standard-setting organisations, none of the studies adopted a specific stakeholder group's perspective. Yet legitimacy ultimately exists in the eye of the beholder (Zimmerman and Zeitz 2002). Just like different constituencies can have various preferences regarding accounting standards, they can also entertain different views about the legitimacy of a standard-setting organisation (Ruef and Scott 1998, Richardson and Eberlein 2011). Despite the fact that financial statement users, preparers and public accountants are the three major groups economically affected by the activities of standard-setting bodies (Kwok and Sharp 2005), prior research by and large does not focus on any of these or other stakeholder groups.

Durocher et al. (2007) and Durocher and Fortin (2010) departed from that trend by adopting the perspective of a relevant constituency, financial statement users. Both studies drew on Suchman's (1995) all-encompassing legitimacy typology to categorise users' legitimacy perceptions. This typology includes various types of pragmatic, moral and cognitive legitimacy that we describe in the hypotheses development section. This section also explains that Suchman's typology adequately captures the various notions of legitimacy adopted in previous research (Table 1). For instance, Richardson and Eberlein's (2011) input and through-put legitimacies are captured by Suchman's (1995) procedural legitimacy, and their notion of output legitimacy is captured by Suchman's (1995) notion of pragmatic (exchange) legitimacy. Also, Johnson and Solomons' (1984) institutional legitimacy is captured by Suchman's (1995) personal legitimacy (competence of standard setters), consequential legitimacy (clear mandate from government), and procedural legitimacy (substantive and procedural due process).

Durocher et al. (2007), examined pragmatic, moral, and cognitive legitimacy perceptions as a component of their theory about users' participation in the standard-setting process. Based on evidence generated through interviews with financial statement users, the theory suggests that the characteristics of standard-setting processes affect users' legitimacy perceptions about the process, and that these perceptions in turn affect users' participation in the process. Although the aim of Durocher et al.'s (2007) paper was to study participation, part of their theory is relevant to interpret users' legitimacy perceptions about standard-setting processes. In the second paper, Durocher and Fortin (2010) used the same legitimacy typology to assess legitimacy management strategies directed at financial statement users by the Canadian standard setter, the AcSB. They concluded that the AcSB managed its legitimacy in the eyes of financial statement users by emphasising symbolism and cultural accounts more than pragmatic concerns.

Although studies have made a few attempts to adopt the stakeholder perspective (financial statement users) to assess the legitimacy of standard setters and standard-setting processes, research has yet to provide quantitative empirical evidence of users' perceptions. Durocher et al. (2007) are the only authors who interviewed flesh-and-blood users (including sell-side and buy-side analysts), subsequently developing a theory suggesting that users' legitimacy perceptions are a function of the perceived characteristics of the standard-setting process. However, they urged testing with a sample of financial statement users since they did not quantitatively assess this group's perceptions of the characteristics of the process, the relationship between these characteristics and users' legitimacy perceptions, or even the substance of such perceptions. The current study helps fill this gap in the literature by being the first quantitative empirical investigation (to our knowledge) of financial statement users' legitimacy perceptions about accounting standard-setting processes. Our specific research question is the following:

> Do the characteristics of standard-setting processes affect financial statement users' legitimacy perceptions about this process?

2.2. *Financial analyst focus*

This study focuses on financial analysts as a stakeholder group for a variety of reasons. Due to their education and the nature of their daily work, financial analysts are expected to have more financial expertise on average than most individual investors. Financial analysts are sophisticated users of accounting information (Larson 2007) and the most relevant group benefitting from the output of the process, i.e. useful and relevant information (Epstein and Palepu 1999, O'Brien 2009, Orens and Lybaert 2010, Schipper 1991). We make this choice despite a few observations that some analysts do not rely heavily on accounting data (e.g. Brown et al. 2015). Accounting conceptual frameworks sustain the notion that accounting standards should assist financial statement users in their decision-making processes (FASB 2010, Georgiou 2010, IASB 2018, Young 2006). Since a user focus should prevail in business reporting (Jonas and Young 1998), it is of utmost importance to assess whether standard setters, the developers of accounting standards, enjoy legitimacy in the eyes of users. As Pelger and and Spieß (2017, 75) indicate, 'consideration of users is important for the IASB's input legitimacy because this is the main target group of all the IASB's endeavours.' Second, many studies have shown that financial statement users are not as involved in standard-setting processes as preparers and public accountants are (e.g. Durocher et al. 2007, Jorrisen et al. 2013, Kenny and Larson 1995, Larson 2007, Tandy and Wilburn 1992). Given that such involvement is an indication of a standard setter's legitimacy (Jorrisen et al. 2013, Larson 2002, Wingard et al. 2016), this raises questions about users' perceptions of the legitimacy of standard-setting bodies, which can only be answered through more research. Finally, as Durocher (2009) and Georgiou (2010) point out, accounting research has largely neglected individual financial statement users. More work is thus needed to investigate their perceptions about standard-setting processes, and particularly their legitimacy perceptions, given that standard setters themselves guess at the needs of users rather than genuinely consider their preferences (Young 2003, 2006). Further, knowledge of users' legitimacy perceptions may enable standard setters to be proactive in managing their legitimacy from the perspective of this audience.

2.3. *Suchman's (1995) legitimacy typology*

Suchman's (1995) typology consists of three types of legitimacy: pragmatic, moral and cognitive. Pragmatic legitimacy refers to a discursive utilitarian assessment of an organisation's activities (Suchman 1995). Legitimacy is attributed by a particular stakeholder group when the activities and outputs of an organisation are beneficial to members of this group. For its part, moral legitimacy is not necessarily based on utilitarian assessments but on positive, discursive and normative evaluations of organisational activities from the standpoint of stakeholders' socially constructed value system (Suchman 1995). Simply put, stakeholders assess whether the organisation is doing the right thing. To gain legitimacy, organisations ceremonially and symbolically incorporate these institutional expectations or rules as myths (Meyer and Rowan 1977). Contrary to the preceding types of legitimacy, cognitive legitimacy is not based on discursive evaluations but on taken-for-grantedness. For instance, typifications are built up under which typical actors are expected to perform typical actions (Berger and Luckmann 1967). These reciprocal typifications become institutionalised and taken for granted. More specifically, specialists are expected to perform typical actions in contemporary society (Berger and Luckmann 1967, Giddens 1991).

2.4. *Hypotheses development*

Each type of legitimacy in Suchman's (1995) typology has various sub-forms described as follows as we develop our hypotheses. Figure 1 presents Suchman's (1995) three types of

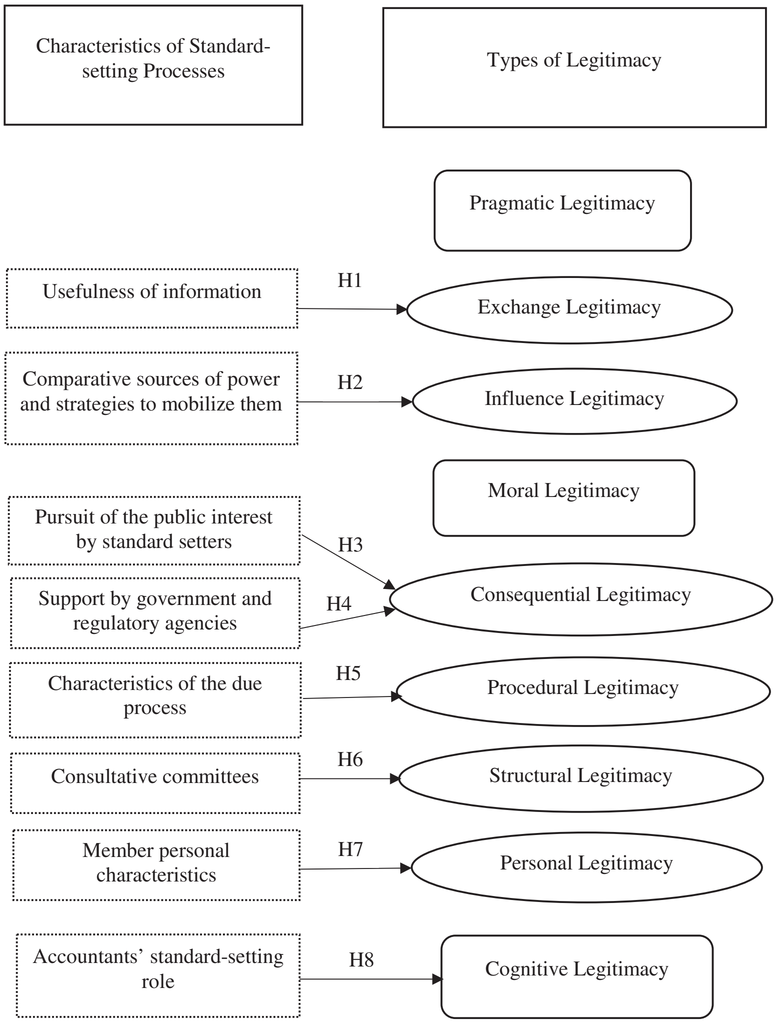

Figure 1. Hypothesised relationships between the perceptions of the characteristics of standard-setting processes and legitimacy perceptions.

legitimacy, their sub-forms, and the hypothesised relationships between perceptions of the characteristics of standard-setting processes and legitimacy perceptions.

2.4.1. *Exchange legitimacy*

Exchange legitimacy is a form of pragmatic legitimacy that refers to the support granted by a stakeholder group to an organisation that adopts policies that are beneficial to its members (Suchman 1995). In the context of standard setting, accounting standards can be viewed as policies emerging from the standard-setting process (Durocher et al. 2007). Baylin et al. (1996) posit that the legitimacy of the content of accounting standards – what they call substantive legitimacy – is a necessary condition for the legitimacy of a standard-setting body. According to Richardson and Eberlein (2011), one important aspect of a standard setter's legitimacy relates to the output of decision-making, or the quality of the standards that are developed and how these standards contribute to the common good. Their notion of output legitimacy is thus similar to the concept of exchange legitimacy. Botzem and Dobusch (2012) view output or exchange legitimacy as the diffusion of accounting standards per se. One can argue that the diffusion of standards may well stem from their perceived usefulness and quality. The usefulness or quality of accounting standards is an indication of exchange legitimacy (Durocher et al. 2007, Larson 2002, Larson and Kenny 2011). As Durocher et al. (2007) surmise, if financial statement users consider accounting standards useful to their own decision-making process, they might attribute exchange legitimacy to the standard-setting process. Of course, users may share similar (Raar 2008) or diverging (Demski 1973) views in regard to the usefulness of specific accounting standards. This leads to our first hypothesis:

> **H1**: Users' perceptions of the usefulness of information in financial statements affect their exchange legitimacy perceptions.

2.4.2. *Influence legitimacy*

Influence legitimacy is another form of pragmatic legitimacy in Suchman's (1995) typology. When a stakeholder group believes an organisation has appropriately incorporated some of the group's representatives in its structures and processes, thereby contributing to the satisfaction of the group's self-interests (Suchman 1995), the organisation is considered to have influence legitimacy. If the standard-setting process is perceived to involve relevant comparative sources of power and the strategies to mobilise them, influence legitimacy perceptions may be affected (Durocher et al. 2007). Comparative sources of power include structural position, relative authority, comparative critical resources and group characteristics (Durocher et al. 2007).

According to Jorrissen et al. (2013), standard setters may acquire legitimacy by seeking and receiving inputs reflecting the opinions of all stakeholders involved. In other words, a specific group must feel its input has been sought and considered. Input legitimacy as defined by Jorrissen et al. (2013) is thus captured by influence legitimacy as defined here. Moreover, influence legitimacy achieved with a given audience could be affected by the perception that other stakeholder groups are mobilising their comparative sources of power to influence standard setters' decisions (Bamber and McMeeking 2016). Although Bamber and McMeeking (2016) classified this issue under procedural legitimacy, we adopt a more fine-grained categorisation and classify it under influence legitimacy as found in Suchman's (1995) typology. Some powerful groups of constituents with larger lobbying resources could be considered to be exerting undue influence on standard setters, hence negatively affecting perceptions of their legitimacy (Richardson and Eberlein 2011). For instance, Georgiou (2010) documented that users consider that accounting firms strongly influence regulatory processes. They have more resources to participate adequately (Sutton 1984) compared to users who find such involvement costly (Georgiou 2010). Influence legitimacy can also be negatively affected by the perception that constituencies that fund the standard setter could exert undue influence in standard-setting processes (Larson and Kenny 2011). A body of literature has examined whether standard setters are more responsive to specific constituencies, with mixed results as to whether accounting firms (e.g. Bamber and McMeeking 2016, Puro 1985), preparers (e.g. Kwok and Sharp 2005, Saemann 1995) or users (e.g. Saemann 1999, Le Manh 2012) influence standard setters' decisions. More importantly, some users believe that other groups dominate the standard-setting process (Georgiou 2010), a perspective that affects their perception of influence legitimacy.

In sum, users' perceptions of comparative sources of power could affect their perceptions of standard setters' influence legitimacy, for instance in terms of being well represented in the standard-setting process and particularly on the Board (Durocher et al. 2007). This leads to our second hypothesis:

H2: Users' perceptions of their comparative sources of power and the strategies available to mobilize them affect their influence legitimacy perceptions.

2.4.3. *Consequential legitimacy*

Consequential legitimacy is a form of moral legitimacy in Suchman's (1995) typology. It denotes a moral evaluation of a given organisation based on its accomplishments and the general properties of its outputs, provided that these properties are socially constructed and do not exist in a concrete sense (Suchman 1995). One example of such a moral assessment relates to the public interest ideology in accounting standard setting. Although the notion of public interest is blurred (Baker 2005, Botzem and Quack 2009, Canning and O'Dwyer 2001, Loft et al. 2006), standard setters frequently refer to it in their mission statements and other communications (FASB 2016, IFRS Foundation 2016, Young and Williams 2010). Carter and Warren (2018) demonstrated how the IASB and the IFRS Foundation rhetorically used the notion of public interest to restore their legitimacy following the global financial crisis. This might comfort users (Durocher et al. 2007) who might think that the pursuit of the public interest corresponds to the fulfilment of their own needs under the user primacy principle (Gaa 1986). Indeed, in their tentative definition of the public interest, the IFAC (2012) considers investors to be members of the public and decision-useful financial reporting to be one of the public's interests. This leads to our third hypothesis:

H3: Users' perceptions of the standard setter pursuing the public interest affect their consequential legitimacy perceptions.

Consequential legitimacy also relates to regulatory audiences applying consequential measures of organisational effectiveness (Suchman 1995). According to Meyer and Rowan (1977), a legal mandate provides official legitimacy. Johnson and Solomons (1984) point out that having a clear mandate from government and government agencies is crucial for a standard setter's institutional legitimacy. If financial statement users believe the government and its agencies have a genuine commitment to support the public interest, and therefore, the public's needs, they could see standard setters that benefit from the support of government and its agencies as having consequential legitimacy (Durocher et al. 2007). For instance, according to Burlaud and Colasse (2011), the IASC (the body that preceded the IASB) lacked legitimacy because it was created without the intervention of governments and inter-state organisations. Conversely, Danjou and Walton (2012) posit that the close links between IOSCO and the IASC contributed to this standard-setting body's legitimacy. This leads to our fourth hypothesis:

H4: Users' perceptions of government and regulatory agencies being supportive of the standard setter affect their consequential legitimacy perceptions.

2.4.4. *Procedural legitimacy*

Procedural legitimacy is another form of moral legitimacy. When the quality of an organisation's outputs is difficult to assess – which is the case in standard setting – audiences assess the organisation's legitimacy based on the procedures it follows to conduct its activities (Suchman 1995). In the context of standard setting, procedural legitimacy refers to the possibility, within due process, of submitting one's opinion to public debate and obtaining adequate justification for final decisions (Johnson and Solomons 1984). This type of legitimacy captures Richardson and Eberlein's (2011) notions of input and through-put legitimacy that focus on the opportunity to participate in the due process and the fairness of this process. Fogarty (1994) considers the so-called due process instituted by standard-setting bodies as rituals aimed at persuading constituents that they can influence final decisions about the content of standards, which is obviously not necessarily the case. For instance, in her investigation of the IASB's comprehensive income process, Le Manh (2012) found that the standard setter was not responsive to the views expressed by constituents during that process, which could negatively impact the IASB's legitimacy. Also, in relation to the revision of the conceptual framework project, Pelger (2016) demonstrated how board and staff members in favour of the decision usefulness approach shaped the debate during the project, contributing to the abandonment of stewardship as a separate objective in standard setting. Furthermore, Erb and Pelger (2015) highlighted how IASB and FASB board members imposed their views about the replacement of reliability for representational faithfulness despite constituents' concerns about it. In sum, users' perceptions about the characteristics of the due process allowing their views to be considered could affect their legitimacy perceptions (Durocher et al. 2007) if they feel they have the opportunity to submit their position to public debate and receive adequate justification for the final decisions. This leads to our fifth hypothesis:

> **H5:** Users' perceptions of the characteristics of due process allowing their views to be considered affect their procedural legitimacy perceptions

2.4.5. *Structural legitimacy*

Structural legitimacy is a form of moral legitimacy closely linked to procedural legitimacy. Indeed, several researchers have considered both the procedures and structures characterising the due process as affecting the same type of legitimacy (Baylin et al. 1996, Gorelik 1994, Richardson and Eberlein 2011). However, structural legitimacy specifically refers to a moral evaluation of an organisation based on its structural characteristics (Suchman 1995). When the quality of organisational outputs is difficult to assess, organisations may not only ritualistically adopt procedures, but also structures that are socially accepted (Meyer and Rowan 1977). In the standard-setting context, Baylin et al. (1996) and Gorelik (1994) demonstrated that standard setters have historically adapted their structures to gain social acceptance. Structural legitimacy refers to the existence of various non-decisional committees to ensure, at the least, a semblance of representativeness of various audiences (Fogarty 1994) in the standard-setting process.

As Durocher et al. (2007) explain, structural legitimacy refers to representation on consultative committees, as opposed to influence legitimacy, which denotes representation on the Board, the decisional body (i.e. IASB and FASB). The first type of representation may be more symbolic than the latter because it does not give constituencies a genuine influence on final decisions. The IFRS Advisory Council, the Accounting Standards Advisory Forum, the IFRS Interpretations Committee, the Financial Accounting Standards Advisory Council (FASAC), the IASB's Capital Markets Advisory Committee and the various working groups created in relation to various standard-setting projects are all examples of non-decisional committees on which audiences might be represented. The existence of consultative committees that include users is expected to affect their legitimacy perceptions about the standard-setting process (Durocher et al. 2007), which leads to our sixth hypothesis:

> **H6:** Consultative standard-setting committees affect users' structural legitimacy perceptions.

2.4.6. *Personal legitimacy*

Personal legitimacy, another form of moral legitimacy, relates to the charisma of organisational leaders (Suchman 1995). Managers' confidence and good faith legitimate institutionalised organisations because they allow them to appear acceptable without technical validation (Meyer and Rowan 1977). As Meyer and Rowan (1977, 358) point out, 'assuring that individual participants maintain face sustains confidence in the organisation, and ultimately reinforces confidence in the myths that rationalise the organisation's existence.'

In the standard-setting context, personal legitimacy relates to the expertise and independence of members of standard-setting committees (Durocher et al. 2007). This captures what Johnson and Solomons (1984) called sufficient authority. According to Richardson and Eberlein (2011), the demonstration of technical competence is a necessary condition for standard setters to establish legitimacy with constituencies; this is part of what these authors call output legitimacy. Independence is also an important characteristic of the members of the standard-setting body (Johnson and Solomons 1984), but constituencies could also emphasise the importance of committee members' overall background. As Burlaud and Colasse (2011) point out, most members of the IASB share similar professional experience in leading practices and have an Anglo-Saxon accounting culture and a neo-classical economic education. They thus may share the view that financial accounting is intended to produce an unbiased representation of the company with investors. Although this composition could be detrimental to other groups, financial statements users would arguably welcome a standard-setting membership that emphasises investors to such an extent. And while Burlaud and Colasse (2011) include this issue under substantial legitimacy, it can be separately assessed through personal legitimacy. Allen and Ramanna (2013) found that FASB members with backgrounds in financial services emphasise relevance more than reliability. Jiang et al. (2015) suggest that bank investors prioritise the decisions of some board members. In sum, perceptions of the characteristics of members of standard-setting committees could influence users' opinions in terms of standard setters' legitimacy (Durocher et al. 2007). This leads to our seventh hypothesis:

> **H7:** The personal characteristics of members of standard-setting committees affect users' personal legitimacy perceptions.

2.4.7. *Cognitive legitimacy*

Cognitive legitimacy is the last type of legitimacy in Suchman's (1995) typology. It indicates acceptance of an organisation based on taken-for-granted cultural accounts, and is closely linked to institutionalised reciprocal typifications under which specialists play unquestioned roles in modern society. In the context of standard setting, cognitive legitimacy refers to the perception that it is the natural role of accounting experts to set accounting standards (Durocher et al. 2007). Their expertise gives them the ability to determine what counts as valid knowledge in their field (Hines 1989).

Botzem and Quack (2009) contend that standard setting is expert driven. In their view, the heavy involvement of experts in standard setting is closely related to accountants' willingness to maintain their professional jurisdictional claim (Abbott 1988). Professional experts dominate standard-setting processes, and when lay experts get involved, they tend to mimic their expert counterparts (Himick et al. 2016). The financial statement users surveyed by Georgiou (2010) consider they often lack the expertise to participate adequately in standard-setting processes, which might suggest they prefer to let accounting experts determine the content of standards (Durocher et al. 2007). This leads to our last hypothesis:

> **H8:** Users' perceptions that it is the natural role of accounting experts to set accounting standards affect their cognitive legitimacy perceptions.

3. Method

3.1. *Sample*

Survey design was an appropriate research method to use (Judd et al. 1991) in view of our goal of obtaining perceptions from a representative sample of financial statement users, using standardised measurements that would enable us to test our hypotheses about the relationship between the characteristics of standard-setting processes and types of legitimacies. Since our aim was to discover how financial statement users perceive standard-setting processes, we surveyed those who were somewhat familiar with these processes. Interviews, as those held by Durocher et al. (2007), and survey questionnaire items, as those used in our study, are all means by which users' perceptions about these processes can be gathered. We approached the CFA Institute, a distinguished global association of investment professionals representing investor interests in financial reporting proposals put forward by the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB). They provided us with a list of 380 members who had previously participated in standard-setting processes as members of standard-setting committees, participants in work groups on standard-setting projects, or in another capacity.

We administered an on-line survey between February and September 2015. To improve the response rate, we sent two reminder e-mails during that period. In total, 55 CFA financial analysts completed the survey, for a response rate of 14.5%. This rate and number of responses is reasonable when compared to the 22% ($n = 69$ responses) and 9% ($n = 41$ responses) respectively obtained by Georgiou (2010) and Beattie et al. (2006), some of the very few scholars who have surveyed financial analysts. It also compares favourably with the rate obtained in large surveys of CFOs–9% in Graham and Harvey (2001) and 12% in Trahan and Gitman (1995). Just like CFOs, financial analysts are very busy people, and gathering input from a group of 55 is a contribution per se. Further, this number of responses supports meaningful statistical analysis (Hair et al. 1998).

Table 2 reports that 60% of the respondents were previously involved in the IASB's standard-setting process, 16% in the FASB's process and 24% in both processes. More than 90% of the respondents had more than ten years of professional experience. Twenty-nine percent worked as credit analysts and 71% as equity analysts (buy side: 51%; sell side: 20%). Thus, the great majority of our respondents are directly involved in investment analysis and equity/bond valuation. About half participated frequently or very frequently in standard-setting processes while the other half participated rarely or occasionally. They were involved in various ways, such as co-authoring discussion papers or participating in consultative groups, field work, round-table meetings and discussion forums.

3.2. *Survey instrument and data analysis*

We developed questionnaire items to test each of our hypotheses. All questionnaire items were then included in a survey instrument that was pretested with six financial analysts. Their comments were instrumental in improving the questions' wording and clarity. For instance, they suggested we add a reference to IFAC (2012) to ensure that all respondents would interpret the notion of public interest in the same way. The Appendix presents the questionnaire items. Each of these items was accompanied by a likert-type anchored scale ranging from 1 (Totally disagree) to 6 (Totally agree). We sought clear opinions from respondents. Thus, by eliminating the neutral option, participants were forced to position themselves on one side of the scale (Allen and Seaman 2007).

Questions 1 to 8 (Appendix) are related to the perceived characteristics of the standard-setting process. These items were designed to assess whether users considered these characteristics

Table 2. Respondent characteristics ($n = 55$).

Variables	Responses	Frequency	%
Standard setting process	IASB	33	60.0
	FASB	9	16.4
	Both	13	23.6
Professional experience	Less than 5 years	2	3.6
	5 to 10 years	3	5.5
	More than 10 years	50	90.9
Gender	Female	9	16.4
	Male	46	83.6
Discipline of study	Accounting and finance	42	76.4
	Other	13	23.6
Nature of work	Credit analyst	16	29.1
	Equity sell side	11	20.0
	Equity buy side	28	50.9
Frequency of participation in the standard-setting process	Never	0	0.0
	Rarely	13	23.6
	Occasionally	15	27.3
	Frequently	15	27.3
	Very frequently	12	21.8
Form of participation (multiple responses)	Discussion papers	17	30.9
	Consultative groups	40	72.7
	Field work	4	7.3
	Round-table meetings	36	65.5
	Discussion forums	27	49.1
	Other	11	20.0

relevant in the first place. Questions 9 to 17 (Appendix) relate to the various types of legitimacy. For instance, regarding H1, respondents were asked whether they consider financial information usefulness (a characteristic of the standard-setting process) relevant in the first place (Question 1). They were then asked whether the process actually produces information useful for their needs (exchange legitimacy) (Question 9). This approach was necessary because although previous research suggests various characteristics of the process that can affect legitimacy perceptions, there is no quantitative empirical evidence about users' perceptions of the relevance of these characteristics.

The hypotheses development section outlines the concepts included in the characteristics of standard-setting processes and legitimacy perceptions and points to the number of dimensions that need to be included in the questionnaire. Variables were measured by one questionnaire item unless the concepts included more than one dimension. Five items were used to measure comparative sources of power and the strategies to mobilise them (characteristics of the process related to H2). They were demonstrated to have good reliability by a Cronbach's Alpha of 0.87. Influence and personal legitimacy were measured by two items each, for which Cronbach's Alphas of 0.70 and 0.75 respectively show good reliability.

To test our hypotheses, we used regressions between perceptions of the characteristics of the standard-setting process (Characteristic) and legitimacy (Legtype) perceptions. To investigate the potential influence of analyst characteristics on these relationships, we included dummy variables for education, nature of work, frequency of participation in standard-setting processes and type of process participated in. Educational background in accounting and finance (Educaccfin) was coded 1, 0 otherwise. The nature of work was represented by two variables, one for equity sell-side analysts (Sell-side) and one for equity buy-side analysts (Buy-side). These variables were coded 1 when the nature of the work performed by the participant corresponded to the variable, 0 otherwise. Work as a credit analyst was the omitted category. Frequency of participation (Freqpart) was coded 1 for respondents who participated frequently or very frequently, 0 otherwise. Two variables took into consideration the type of process participated in: participation in IASB (Part-IASB) and participation in IASB and FASB (Part-IASB-FASB). These variables were coded 1 if the respondent participated in one type of process, 0 otherwise. Participation in FASB was the omitted category. The regression model for each legitimacy type takes the following form:

$$\begin{aligned}\text{Legtype}_i = &\beta_0 + \beta_1\text{Characteristic}_\text{i} + \beta_2\text{Educaccfin}_\text{i} + \beta_3\text{Sell-side}_\text{i} \\ &+ \beta_4\text{Buy} - \ side_i + \beta_5\text{Freqpart}_\text{i} + \beta_6\text{Part-IASB}_\text{i} + \beta_7\text{Part-IASB-FASB}_\text{i} + \varepsilon_\text{i}\end{aligned}$$

4. Presentation and discussion of results

4.1. *Descriptive statistics*

Table 3 presents the means and standard deviations for perceptions about the characteristics of the standard-setting process (left) and types of legitimacy (right) in relation to the corresponding characteristics as per the hypotheses. Pearson correlations between the corresponding variables as per the hypotheses are also provided. Regarding the characteristics of the standard-setting process, respondents feel that usefulness of financial statement information is highly relevant (mean of 5.09). They also view the personal characteristics of standard-setting committee

Table 3. Descriptive statistics and pearson correlations.

Hypotheses	Characteristics of standard-setting processes[a]	Mean (SD)	Type of legitimacy[a]	Mean (SD)	Pearson correlations[b]
H1	Usefulness of information (Q1)	5.09 (1.06)	Exchange (Q9)	4.26 (1.11)	0.50
H2	Comparative sources of power and strategies to mobilise them (Q2a to Q2e)	3.93 (1.13)	Influence (Q10–11)	3.21 (1.20)	0.47
H3	Pursuit of the public interest by standard setters (Q3)	4.40 (1.37)	Consequential (Q12)	3.84 (1.27)	0.49
H4	Support by government and regulatory agencies (Q4)	4.27 (1.18)	Consequential (Q12)		0.24*
H5	Characteristics of the due process (Q5)	3.87 (1.23)	Procedural (Q13)	4.00 (1.09)	0.62
H6	Consultative committees (Q6)	4.42 (1.23)	Structural (Q14)	3.20 (1.19)	0.26*
H7	Member personal characteristics (Q7)	4.87 (1.14)	Personal (Q15–16)	4.21 (1.11)	0.58
H8	Accountants' standard-setting role (Q8)	3.31 (1.53)	Cognitive (Q17)	4.46 (1.12)	

[a]The question number (Q) refers to the questionnaire item presented in the Appendix.
[b]* Correlations significant at $p \le 0.10$; all other correlations significant at $p \le 0.0001$.

members as highly relevant (4.87), followed by the presence of consultative committees (4.42) and standard setters' pursuit of the public interest (4.40). Government and regulatory agency support of the standard setter is also viewed as desirable (4.27). Characteristics of a due process that is likely to take users' views into account (3.87), along with comparative sources of power and the strategies to mobilise them (3.93), are also viewed as relevant characteristics. Finally, the statement that accountants are experts who should have the responsibility of developing accounting standards was considered much less relevant (3.31).

In terms of legitimacy perceptions, the highest mean belongs to cognitive legitimacy (4.46). Respondents see accounting experts as playing a key role in establishing accounting standards. And since the means for exchange (4.26) and personal (4.21) legitimacy are also quite high, financial analysts believe that standard-setting institutions develop accounting standards that produce financial statements useful to users, and that they do so with the help of competent and independent experts. The pursuit of the public interest is considered to be a genuine concern in the standard-setting process (consequential legitimacy, mean of 3.84), and this process invites public debate and adequate justifications for final decisions (procedural legitimacy, mean of 4.00). Financial analysts consider themselves only somewhat well represented in the standard-setting process or on the board (influence legitimacy, mean of 3.21), or even on other standard-setting committees (structural legitimacy, mean of 3.20).

4.2. *Impact of the characteristics of standard-setting processes on legitimacy perceptions*

Table 4 presents the regressions of legitimacy perceptions on characteristics of standard-setting processes and respondent characteristics that are discussed in the following sections on hypotheses testing. A hypothesis is accepted when the coefficient for the characteristic of standard-setting processes is significant and the regression is also significant. Note that all regressions are significant at least at $p \leq 0.10$, except for structural legitimacy.

4.2.1. *Exchange legitimacy (H1)*

Financial information usefulness is considered relevant to financial statement users. This feature of the standard-setting process significantly affects their assessment of exchange legitimacy, i.e. their view that standard-setting institutions develop accounting standards that produce decision-useful financial statements (standardised coefficient [SC] = 0.505, $p \leq 0.01$). This finding supports previous research suggesting that the quality or usefulness of accounting standards is important for the legitimacy of standard-setting institutions (e.g. Baylin et al. 1996, Larson and Kenny 2011, Richardson and Eberlein 2011). Durocher et al. (2007) suggested this feature might also be relevant to financial statement users, a theoretical proposition confirmed by our findings. We observe that users view standard setters as having a relatively high degree of exchange legitimacy, a result in line with previous research that found that financial statements are among the most important information sources for financial statement users (e.g. Cascino et al. 2016, Epstein and Palepu 1999, Gassen and Schwedler 2010, O'Brien, 2009).

This result must however be interpreted with caution, as the usefulness of various information items provided in financial statements may vary. For instance, Gassen and Schwedler (2010) documented that users' perceptions about the decision usefulness of different measurement concepts used to prepare financial statements can vary significantly. O'Brien (2009) also highlighted the greater relevance of income statement information in comparison to balance sheet information in her review of previous research on financial analysts' use of accounting information. Further, Cascino et al. (2016) documented that analysts consider financial accounting information more relevant when the objective is to value a firm rather than to assess management's performance.

Table 4. Regressions of legitimacy perceptions on characteristics of standard-setting processes and respondent characteristics.

H	Type of legitimacy (Legtype)	Characteristics of standard-setting processes	Characteristic[a]	Respondent characteristics[b]						Adj. R^{2b}
				Educaccfin	Sell-side	Buy-side	Freqpart	Part-IASB	Part-IASB-FASB	
H1	Exchange	Usefulness of information	0.505***	−0.005	0.069	0.070	−0.031	0.101	0.319*	0.22***
			(3.927)	(−0.040)	(0.453)	(0.474)	(−0.237)	(0.535)	(1.854)	
H2	Influence	Comparative sources of power and strategies to mobilise them	0.425***	−0.101	−0.045	−0.105	0.096	0.093	0.213	0.17**
			(3.137)	(−0.738)	(−0.294)	(−0.692)	(0.692)	(0.477)	(1.194)	
H3-H4	Consequential	- Pursuit of the public interest	0.402***	−0.141	−0.128	−0.187	−0.005	−0.213	0.066	0.24***
			(3.094)	(−1.087)	(−0.868)	(−1.281)	(−0.039)	(−1.137)	(0.382)	
		- Support by government and regulatory agencies	0.124							
			(0.981)							
H5	Procedural	Characteristics of the due process	0.574***	0.091	0.187	−0.080	0.064	0.085	0.183	0.39***
			(5.115)	(0.815)	(1.418)	(−0.615)	(0.540)	(0.509)	(1.189)	
H6	Structural	Consultative committees	0.260*	−0.034	−0.079	0.129	0.066	0.072	0.104	−0.03
			(1.780)	(−0.234)	(−0.463)	(0.763)	(0.436)	(0.333)	(0.517)	
H7	Personal	Member personal characteristics	0.582***	0.021	0.228	−0.048	−0.119	0.021	0.106	0.31***
			(5.036)	(0.181)	(1.633)	(−0.347)	(−0.990)	(0.118)	(0.654)	
H8	Cognitive	Accountants' standard-setting role	0.252*	0.278**	0.196	0.139	−0.281*	0.128	0.034	0.10*
			(1.739)	(2.008)	(1.235)	(0.877)	(−1.964)	(0.622)	(0.183)	

[a]*** $p \leq 0.01$; ** $p \leq 0.05$; * $p \leq 0.10$ (one-tailed).
[b]*** $p \leq 0.01$; ** $p \leq 0.05$; * $p \leq 0.10$ (two-tailed).
The intercept is omitted for brevity. Standardised coefficients are provided with t statistics in parentheses.

Bean and Irvine (2015) also highlighted how the usefulness of financial information can be affected by the understandability of accompanying footnote disclosure. Finally, Georgiou (2017) showed that users favour accounting numbers that are relevant to assess business performance much more than those that provide valuations of individual assets and liabilities. Our questionnaire items were of a very general nature and could not capture these nuances. Our findings might also be explained by financial statement users' tendency to docilely and unquestioningly accept accounting standards, as suggested by Durocher and Gendron (2011). These authors found that users were keen to believe in the ideal of comparability offered by IFRS, even when faced with evidence of lack of comparability. This might explain why our user sample gave standard setters marks for exchange legitimacy.

Our sample is composed of financial statement users who had participated in either or both of the IASB and FASB standard-setting processes (SC = 0.319, $p \leq 0.10$). Participation in both processes significantly enhances perceptions of exchange legitimacy, i.e. the view that standard-setting institutions develop accounting standards that produce financial statements that are useful for users.

4.2.2. *Influence legitimacy (H2)*

Respondents' comparative sources of power, which enable them to participate adequately in the standard-setting process, significantly influence their assessment of influence legitimacy, i.e. their perception of being well represented in the process (SC = 0.425, $p \leq 0.01$). Most previous research did not consider this type of legitimacy separately, including it within procedural and/or structural legitimacy instead. One exception is Durocher et al. (2007), who made the theoretical proposition that comparative sources of power (and the strategies available to mobilise them) affect users' influence legitimacy. Our quantitative analysis empirically confirms their theoretical proposition. We find users' assessment of influence legitimacy is moderate, in line with previous research that documented the underrepresentation of financial statement users on boards such as the IASC/IASB (Baudot 2018, Botzem and Quack 2009), the FASB (Baudot 2018) and the Canadian Accounting Standards Board (Durocher and Fortin 2010). Being underrepresented on standard-setting decisional committees obviously has a negative effect on influence legitimacy perceptions. Our study is the first to document users' legitimacy perceptions in this regard.

4.2.3. *Consequential legitimacy (H3 and H4)*

The respondents felt that standard setters' pursuit of the public interest is relevant in standard-setting processes and that standard setters should benefit from government support. However, their views of consequential legitimacy, i.e. that the public interest is indeed a genuine concern in standard setting, tend to be based on the former rather than the latter concept (respectively SC = 0.402, $p \leq 0.01$, and SC = 0.124, $p > 0.10$). This finding provides empirical evidence for Durocher et al.'s (2007) theoretical proposition that standard setters' pursuit of the public interest affects the legitimacy that financial statement users attribute to them. The current study is thus the first to quantitatively document this relationship.

Our findings however do not support Durocher et al.'s (2007) suggestion that government support of the standard setter affects users' legitimacy perceptions. It thus seems that users believe that government and regulatory agencies are not in a better position than standard setters to work in the public interest. Further, this finding challenges Johnson and Solomons' (1984) and Wallace's (1990) views that having a clear mandate from government is a key facet of standard-setting institutions' legitimacy. However, these authors did not make this proposition from the perspective of a specific stakeholders' group. Lastly, this result is in line with Baudot et al.'s (2017) finding that standard setters are somewhat concerned with the public interest. These authors analyzed 36 AICPA legislative advocacy letters provided to federal policy makers and found that the AICPA's discourse reflected both public and private interest motivations and that public interest arguments vary depending on the specific legislative issue being addressed.

4.2.4. *Procedural legitimacy (H5)*

Our sampled financial statement users said it was important that the characteristics of the due process increase the likelihood that their views would be considered if they participate in this process. This view significantly influenced their assessment of procedural legitimacy, i.e. their perceptions that the process is actually characterised by an open public debate and adequate justification for final decisions (SC = 0.574, $p \leq 0.01$). Previous researchers (Table 1) almost unanimously suggested that standard setters enjoy legitimacy when the characteristics of the due process allow constituents to submit their preferences to a standard setter and when final decisions are adequately justified. However, most of this research was not conducted from the perspective of a specific stakeholders' group. Durocher et al. (2007) made the theoretical proposition that the characteristics of the procedures followed in the due process might affect users' procedural legitimacy perceptions. Our quantitative analysis empirically confirms this theoretical proposition, as we observe that users' assessment of procedural legitimacy is relatively favourable. Our study thus provides additional empirical support in regard to financial statement users' view of the relevance of due process in standard setting.

4.2.5. *Structural legitimacy (H6)*

Although users find consultative committees to be an important feature of standard-setting processes, this view does not significantly affect their characterisation of structural legitimacy as the perception that they are well represented on these committees (SC = 0.260, $p \leq 0.10$, but the regression is not significant with Adj, $R^2 = -.03$, $p > 0.10$). Indeed, they confer only a moderate level of structural legitimacy on the standard-setting process. This has many implications in relation to previous research. First, many authors assessed procedural and structural legitimacy together or included the definition we use of structural legitimacy in the concept of procedural legitimacy (e.g. Baylin et al. 1996, Burlaud and Colasse 2011, Fogarty 1992, Gorelik 1994, Johnson and Solomons 1984, Larson 2002, Le Manh 2012, Richardson and Eberlein 2011, Wallace 1990). Our findings show that users' procedural legitimacy perceptions are stronger than their perceptions of structural legitimacy, which confirms the need to distinguish between these two concepts. Second, as mentioned above, most authors do not distinguish between influence and structural legitimacy. Our findings highlight that the characteristics of the process significantly affect influence legitimacy, but not structural legitimacy, which once again confirms the importance of investigating these concepts separately.

4.2.6. *Personal legitimacy (H7)*

Financial statement users view the personal characteristics of standard-setting committee members (perceived expertise, independence and lack of bias) as a relevant feature of standard-setting processes. This feature significantly affects their assessment of personal legitimacy, i.e. their view that IASB/FASB members are competent and independent (SC = 0.582, $p \leq 0.01$). Very few authors have separately considered this characteristic of standard-setting processes. Johnson and Solomons (1984) included this feature in the notion of sufficient authority stemming from both a clear mandate from government and the standard setter's competence to carry out the standard-setting function. Another example is Burlaud and Colasse (2011), who considered independence under procedural legitimacy and technical competence under substantial legitimacy. As these matters relate to personal characteristics, we argue that they should be considered separately. We find that users' assessment of personal legitimacy is relatively favourable. In fact, in the eyes of financial statement users, it is the third most important aspect of their legitimacy assessment, justifying its separate consideration. Only Durocher et al. (2007) proposed that the personal characteristics of committee members affect users' personal legitimacy perceptions. Our quantitative analysis provides empirical support for their theoretical proposition.

4.2.7. *Cognitive legitimacy (H8)*

Other than Durocher et al. (2007), previous research did not address the issue of standard setters' cognitive legitimacy. From the perspective of financial statement users, Durocher et al. (2007) defined cognitive legitimacy as the perception that accounting experts play a key role in establishing accounting standards. However, we find that users agree only moderately that accountants are experts who should have the responsibility for developing accounting standards. Their view in this regard affects their cognitive legitimacy perceptions, but only marginally significantly (SC $= 0.252$, $p \leq 0.10$). Our sample thus seems to consider that accounting experts actually play a key role in standard setting, but should not have sole responsibility for developing accounting standards.

Accounting experts can occupy various positions in the standard-setting arena. The auditor group is composed mainly of accounting experts who also are represented in varying degrees in the preparer and user groups. Accounting experts sit on standard-setting committees and participate in working groups. It seems that our sample of users considers that individuals other than accounting experts can also play a key role in standard setting, which suggests that they recognise their agency in the process. Recall that the sample is composed of individuals who had participated in the process, and that regression results indicate that those who participated the most had more negative cognitive legitimacy perceptions. Arguably, the more individuals participate, the more they would logically believe in their own agency within the standard-setting arena (SC $= -0.281$, $p \leq 0.10$). Further, respondents with an accounting background have significantly stronger cognitive legitimacy perceptions (SC $= 0.278$, $p \leq 0.05$). Unsurprisingly, they attribute an important role to accounting experts in standard-setting processes, but as part of the user group, they may believe that the user group in general can also play a role in establishing standards.

4.3. ***Comparison of perceptions according to analyst type***

Table 5 presents the descriptive statistics for perceptions of the characteristics of standard-setting processes and legitimacy types according to analyst type. Very few perceptions are statistically different among analyst types.

Credit ($m = 4.81$) and equity buy-side ($m = 5.00$) analysts perceive financial statement information to be less useful than equity sell-side analysts ($m = 5.73$) do. However, all analyst types perceive information as useful since all means are significantly above the mid-point of the scale, i.e. 3.50 ($p \leq 0.001$, not tabulated). This finding provides nuances to Cascino et al.'s (2016, 14) argument that 'financial statements have consistently been found to be very useful to professional investors when valuing a firm and its securities […] regardless of investor type.'

Perceptions of procedural legitimacy are significantly stronger for equity sell-side ($m = 4.64$) vs. buy-side analysts ($m = 3.79$). This result could be explained by the greater participation of sell-side analysts as compared to buy-side analysts in our sample. About 73% of sell-side analysts participated frequently or very frequently in standard-setting processes vs. 43% of buy-side analysts ($p = 0.093$, two-tailed Chi-squared, untabulated). Greater participation can lead to a perception that the process is characterised by an open public debate and adequate justification for final decisions.

4.4. *Analysis of significant correlations between study variables*

Although several studies reviewed in Section 2 inferred the legitimacy of standard-setting processes from the characteristics of these processes (see Table 1), none of them assessed how specific characteristics of the process relate to each other or how different types of legitimacy are linked with each other. In order to offer an additional contribution to knowledge, we

Table 5. Descriptive statistics according to analyst type.

	Credit analysts Mean (SD) $N = 16$	Equity sell-side Mean (SD) $N = 11$	Equity buy-side Mean (SD) $N = 28$	p^{a}
Usefulness of information	4.81 (1.33)	5.73 (0.65)	5.00 (0.94)	0.075 – credit vs. equity sell-side; 0.031 – equity sell-side vs. buy-side
Comparative sources of power and strategies to mobilise them	3.84 (1.38)	4.00 (0.97)	3.96 (1.07)	
Pursuit of the public interest	4.25 (1.44)	4.00 (1.41)	4.64 (1.31)	
Support by government and regulatory agencies	4.13 (1.41)	4.36 (0.81)	4.32 (1.19)	
Characteristics of the due process	3.69 (1.45)	4.18 (0.98)	3.86 (1.21)	
Consultative committees	4.25 (1.29)	4.82 (0.87)	4.35 (1.31)	
Member personal characteristics	4.56 (1.41)	5.00 (0.89)	5.00 (1.05)	
Accountants' standard-setting role	3.19 (1.72)	2.73 (1.42)	3.61 (1.42)	
Exchange legitimacy	4.06 (1.12)	4.55 (1.04)	4.25 (1.14)	
Influence legitimacy	3.34 (1.31)	3.27 (0.79)	3.11 (1.29)	
Consequential legitimacy	4.06 (0.85)	3.36 (1.36)	3.89 (1.42)	
Procedural legitimacy	3.94 (1.12)	4.64 (1.03)	3.79 (1.03)	0.071 – equity sell-side vs. buy-side
Structural legitimacy	3.06 (1.29)	3.00 (0.77)	3.36 (1.28)	
Personal legitimacy	4.00 (0.93)	4.73 (1.31)	4.13 (1.10)	
Cognitive legitimacy	4.25 (1.34)	4.55 (0.82)	4.54 (1.10)	

[a]Tukey test or Dunnett T3 test depending on the homogeneity of variance test results. Post-tests between two types were performed for significant ($p \leq 0.10$) ANOVAs comparing the three analyst types.

performed additional analyses to explore the significant ($p \leq 0.10$) links between the characteristics of standard-setting processes themselves, the links between the types of legitimacy and characteristics of standard-setting processes other than those hypothesised, and the links between different types of legitimacy (see Table 6).[1]

In terms of the links between the characteristics of standard-setting processes, we find that usefulness of information correlates with pursuit of the public interest ($r = 0.24$), existence of consultative committees ($r = 0.46$) and member personal characteristics ($r = 0.55$). Analysts thus perceive that standard setters' claim of acting in the public interest as mentioned in their mission statements and other communications (FASB 2016, IFRS Foundation 2016, Young and Williams 2010) is indeed reflected in their provision of useful information to their constituents. Further, member personal characteristics such as the demonstration of technical competence (Richardson and Eberlein 2011) and independence (Durocher et al. 2007) contribute to accounting norms that translate into useful information for users. The existence of many consultative committees on which different views may be expressed also seemingly supports the production of useful information.

Comparative sources of power correlate with characteristics of due process ($r = 0.39$) and existence of consultative committees ($r = 0.37$). These significant correlations can be explained by the fact that representatives of the analyst community exercise their power alongside representatives of other organisations on consultative committees and through the various steps of due process. Indeed, analysts view the characteristics of due process that make it probable that their views will be considered if they participate as highly related to the existence of consultative committees ($r = 0.56$) on which members with desirable personal characteristics provide their expertise ($r = 0.52$). Finally, analysts also view standard setters' support by government and regulatory agencies as somewhat related to the fact that accounting experts play a key role in the establishment of accounting standards ($r = 0.38$). They also view this role played by accountants as related to the pursuit of the public interest in standard setting ($r = 0.27$). Analysts thus seem to praise the role of accounting experts in the development of accounting standards.

Although Durocher et al. (2007) and other studies listed in Table 2 did not examine the possible links between the various types of legitimacy, Suchman (1995) mentions they can reinforce each other, which means they could be interrelated. Our additional analyses reveal that attribution of exchange legitimacy is strongly linked to procedural ($r = 0.46$) and personal ($r = 0.55$) legitimacy. Personal legitimacy is also related to consequential ($r = 0.27$) and procedural ($r = 0.67$) legitimacy, whereas influence legitimacy is linked to procedural ($r = 0.30$) and particularly to structural ($r = 0.78$) legitimacy. Hence, pragmatic forms of legitimacy are linked to moral forms of legitimacy. Finally, cognitive legitimacy seems to be enhanced when other types of legitimacy are present, and correlates with exchange ($r = 0.32$), consequential ($r = 0.30$), procedural ($r = 0.30$) and personal ($r = 0.56$) legitimacy. These results provide empirical evidence for Suchman's (1995) theoretical argument that different types of legitimacy might reinforce one another.

The correlations between the types of legitimacy and characteristics of standard-setting processes reveal that some types of legitimacy are linked with characteristics other than those expected on the basis of the findings of Durocher et al. (2007).

Exchange legitimacy perceptions are mainly influenced by usefulness of information ($r = 0.50$) as hypothesised in H1. However, they are also affected by the characteristics of the due process ($r = 0.23$), the existence of consultative committees ($r = 0.32$) and member personal characteristics ($r = 0.47$). Hence, the organisation of standard setting as a whole contributes to analysts' support of standard setters that adopt policies that are beneficial for their constituency.

Influence legitimacy perceptions are mainly influenced by comparative sources of power ($r = 0.47$) as expected in H2. However, the existence of consultative committees ($r = 0.34$) as well as

Table 6. Significant correlations between variables.

Variables	Characteristics of standard-setting processes[a]	Types of legitimacy[a,b]
Characteristics of standard-setting processes		
Usefulness of information	Pursuit of the public interest 0.24* Existence of consultative committees 0.46*** Member personal characteristics 0.55***	
Comparative sources of power	Characteristics of due process 0.39*** Existence of consultative committees 0.37***	
Pursuit of the public interest by standard setter	Accountants' standard-setting role 0.27**	
Support by government and regulatory agencies	Accountants' standard-setting role 0.38***	
Characteristics of due process	Existence of consultative committees 0.56***	
Existence of consultative committees	Member personal characteristics 0.52***	
Types of legitimacy		
Exchange legitimacy	Usefulness of information **0.50***** Characteristics of due process 0.23* Existence of consultative committees 0.32** Member personal characteristics 0.47***	Consequential 0.29** Procedural 0.46*** Personal 0.55*** Cognitive 0.32**
Influence legitimacy	Comparative sources of power **0.47***** Support by government and regulatory agencies 0.23* Existence of consultative committees 0.34***	Procedural 0.30** Structural 0.78***
Consequential legitimacy	Pursuit of the public interest by standard setter **0.49***** Support by government and regulatory agencies 0.24* Existence of consultative committees 0.27** Member personal characteristics 0.32** Accountants' standard-setting role 0.39***	Personal 0.27** Cognitive 0.30**
Procedural legitimacy	Characteristics of due process **0.62***** Usefulness of information 0.26* Comparative sources of power 0.26* Existence of consultative committees 0.64*** Member personal characteristics 0.46***	Personal 0.67*** Cognitive 0.30**
Structural legitimacy	Existence of consultative committees **0.26*** Comparative sources of power 0.35*** Characteristics of due process 0.33** Accountants' standard-setting role 0.23*	—
Personal legitimacy	Member personal characteristics **0.58***** Usefulness of information 0.38*** Characteristics of due process 0.38*** Existence of consultative committees 0.57***	Cognitive 0.56***

(*Continued*)

Table 6. Continued.

Variables	Characteristics of standard-setting processes[a]	Types of legitimacy[a,b]
Cognitive legitimacy	Accountants' standard-setting role **0.26*** Usefulness of information 0.25* Existence of consultative committees 0.39*** Member personal characteristics 0.34**	

[a]*** $p \leq 0.01$; ** $p \leq 0.05$; * $p \leq 0.10$ (two-tailed).
[b]Correlations between legitimacy types and characteristics of standard-setting processes according to hypothesised relationships are in bold.

support by government and regulatory agencies ($r = 0.23$) also affect analysts' perceptions of being well represented in standard-setting processes. This suggests that the difference Durocher et al. (2007) make between influence legitimacy (related to comparative sources of power, including representation on the Board) and structural legitimacy (related to consultative committees) might not be well specified.

Indeed, the existence of consultative committees is related to all types of legitimacy and particularly to procedural ($r = 0.64$) and personal ($r = 0.57$) legitimacy, and, to a lesser extent, structural legitimacy ($r = 0.26$), which was posited in H6. Consultative committees are thus viewed as an opportunity to showcase important personal characteristics of committee members (personal legitimacy), contributing to a belief that users' views can be considered in the process (procedural legitimacy).

Procedural legitimacy is affected by characteristics of due process ($r = 0.62$) as posited by H5, but also by the existence of consultative committees ($r = 0.64$). These results show the intimate link analysts perceive between procedures and structures in ensuring the consideration of their views in the process. These results are also in line with Baylin et al.'s (1996) definition of procedural legitimacy that referred to the structure and processes by which standards are created. Procedural legitimacy is also affected to a lesser extent by member personal characteristics ($r = 0.46$). Perceived expertise, independence, and lack of bias of standard-setting committee members are thus considered as important in ensuring the consideration of users' views in the process.

Consequential legitimacy is mainly influenced by users' perceptions of the standard setter pursuing the public interest, as expected in H3 ($r = 0.49$). It is also influenced to a lesser extent by four other characteristics, including support by government and regulatory agencies. It correlates the least with the latter ($r = 0.24$), explaining the non-significant result for the coefficient in the regression testing H4 (SC = 0.124, $t = 0.981$, Table 4). Consequential legitimacy is especially related to the perception that accountants are experts that should have the responsibility to develop accounting standards ($r = 0.39$). Again, this highlights the importance analysts attribute to accounting experts in the development of accounting standards.

We also note that cognitive legitimacy correlates more with the existence of consultative committees ($r = 0.39$) and member personal characteristics ($r = 0.34$) than with accountants' standard-setting role ($r = 0.26$), which was the relationship posited in H8. The test of H8 was marginally significant (SC = 0.252, $t = 1.739$, Adj. $R^2 = 0.10$, $p \leq 0.10$, Table 4). As we highlighted previously, analysts attribute an important role to accounting experts in standard-setting processes, but as part of the user group, they may believe that the user group in general can also play a role in establishing standards. Indeed, user representatives are found on consultative committees, and members of these committees have valued personal characteristics.

Overall, although the variables composing the predictions of H1 to H8 are usually those that are the most highly correlated (in five out of eight cases), the above analyses show that the distinction between users' perceptions of the characteristics of standard-setting processes and their legitimacy perceptions is not always clear-cut and that there are numerous interrelations among these concepts. All types of legitimacy are linked to a number of characteristics of standard-setting processes, and the various types of legitimacy correlate among themselves. Users seem to perceive standard-setting processes as a whole and any change in these processes might affect each of the various legitimacy perceptions to a certain extent. Hence, the theory proposed by Durocher et al. (2007) that seemingly suggests straightforward relationships between each characteristic of standard-setting processes and specific legitimacy perceptions needs to be refined to acknowledge the many interrelationships uncovered in this study.

5. Conclusion, implications and areas for future research

Most prior research inferred standard-setting institutions' legitimacy from examinations of the characteristics of standard-setting processes. Some studies were more focused and inferred legitimacy from standard setters' responsiveness to stakeholders' expressed preferences, stakeholders' participation in the process, or stakeholders' funding. Despite the fact that financial statement users, preparers and public accountants are three important constituencies in the standard-setting process, by and large previous research did not examine legitimacy from the perspective of a specific stakeholder group. Only Durocher et al. (2007) contacted users and made the theoretical proposition that users' legitimacy perceptions are a function of the perceived characteristics of the standard-setting process. Their theory remained to be empirically tested with a sample of financial statement users, as they did not quantitatively assess users' perceptions about the characteristics of standard-setting processes, the relationships between these characteristics and legitimacy perceptions, or users' legitimacy perceptions. The current study contributes to the literature by quantitatively investigating these assessments and investigating some categories of legitimacy separately, which had not been singled out in prior research. An additional contribution is the performance of additional analyses to explore the links between the characteristics of standard-setting processes themselves, the links between the types of legitimacy and characteristics of standard-setting processes other than those hypothesised from previous literature, and the links between different types of legitimacy.

We found that the perceptions of users (in this case, financial analysts) regarding the characteristics of standard-setting processes affect their legitimacy perceptions about these processes. All our hypotheses are supported except H4 and H6. Users' perceptions of the usefulness of financial statement information positively affect their exchange legitimacy perceptions, while financial analysts' comparative sources of power positively affect their influence legitimacy perceptions. In addition, standard setters' pursuit of the public interest affects users' consequential legitimacy perceptions, and due process features that allow for the consideration of different views affect procedural legitimacy perceptions. Competence, independence and lack of bias are personal characteristics of standard-setting committee members that significantly affect users' personal legitimacy perceptions. Accounting experts are viewed as playing an important but not exclusive role in the establishment of accounting standards, affecting users' cognitive legitimacy perceptions.

Conversely, support by government and regulatory agencies has no significant impact on users' consequential legitimacy perceptions, and the presence of consultative committees does not significantly affect structural legitimacy perceptions. Other variables such as nature of the work (buy-side vs. sell-side vs. credit analysts), previous participation in the standard-setting process and an accounting background generally do not affect users' legitimacy assessments. Exceptions are the impact of previous participation and accounting background on users' cognitive legitimacy perceptions, and the impact of participation in both IASB and FASB standard-setting processes on their exchange legitimacy perceptions.

All in all, a combination of pragmatic, moral and cognitive legitimacies are at play in users' assessment of the legitimacy of accounting standard-setting processes. Cognitive, exchange, personal and procedural legitimacy are the most important types of legitimacy in the eyes of users, followed by consequential legitimacy. Structural and influence legitimacy are considered only moderately important.

Investigating the correlations between the study variables, we showed that there are multiple interrelations among the characteristics of standard-setting processes and types of legitimacy. All types of legitimacy were observed to be linked to a number of characteristics of standard-setting processes. Further, the various types of legitimacy are related to one another, and particularly to cognitive legitimacy, which is enhanced by forms of pragmatic and moral legitimacy.

In addition to the contributions of our study to the standard-setting literature identified above, our results also have some practical implications. Since we have demonstrated that some characteristics of standard-setting processes have an impact on users' legitimacy perceptions, standard setters who wish to be perceived as legitimate in the eyes of users can be proactive in managing their legitimacy from the perspective of this audience. Seeking users' input in the process could arguably improve exchange legitimacy by raising their perceptions about the usefulness of accounting information. Assigning users more seats on the Board could enhance influence legitimacy by increasing users' comparative sources of power. Users' consequential legitimacy perceptions could be enhanced by detailed explanations of how accounting standards take the public interest into account. Standard setters could also act on the characteristics of the due process that suggests users' views will be considered if they participate in the process. Although users might not expect their preferences to be reflected in published standards at all times, they might be expected to appreciate explanations on whether standard setters considered and addressed their views. Young (2006) suggested that standard setters tend to make up users' needs instead of relying on their views in the standard-setting process. Bases for conclusions could be used to provide these explanations. Finally, as members of standard-setting committees are replaced, the expertise and independence of new members should be underscored, as this emphasis will influence users' personal legitimacy perceptions.

Given that some characteristics of the process do not affect legitimacy perceptions, standard setters could act on these characteristics in an attempt to eventually enhance users' positive legitimacy perceptions. For instance, they could try to strengthen users' consequential legitimacy perceptions by bolstering users' belief that the government and its agencies have a genuine commitment to support the public interest, and therefore, the public's needs. Thus users could assign consequential legitimacy to standard setters who benefit from the support of government and its agencies. In addition, standard setters could improve structural legitimacy perceptions by carefully selecting user representatives for advisory committees.

These implications assume that the financial statement user group is an important or main legitimacy source for standard setters, given the latter's explicit affirmations that the standards they develop should provide useful information, thereby signalling the importance of users as an audience and as a legitimacy source. The latter concept refers to those stakeholders that have the capacity to mobilise and confront an organisation, not necessarily in terms of power but in authority over cultural theory (Deephouse and Suchman 2008). Some evidence suggests that users are indeed able to confront standard setters. For instance, Georgiou (2016) highlighted how a group of UK institutional investors successfully campaigned for the return of prudence in the international conceptual framework. This suggests that although users are not the most vocal group in standard-setting processes (Durocher et al. 2007, Larson 2002), they can nonetheless challenge standard setters, which can negatively impact standard setters' legitimacy.

As with any study, this paper has some limitations. Although the participation of 55 financial analysts lends external validity to our results, a larger sample would improve the generalizability of our findings. Furthermore, as all our respondents had already participated in standard-setting processes, subjects with a higher level of interest in these processes and in financial accounting matters could have been over-represented in the sample. Also, given that very few respondents participated only in the FASB process, our findings might be biased toward the views of respondents involved in the international process. Lastly, notwithstanding the fact that we carefully pretested our survey instrument, there is no guarantee that our respondents had similar interpretations of the questionnaire items.

The current study tests hypotheses about the impact of characteristics of standard-setting processes on legitimacy perceptions. We believe that at a particular point in time, legitimacy perceptions are affected by current characteristics of standard-setting processes. However, adopting a diachronic perspective, legitimacy perceptions could affect the emergence of perceptions concerning new or evolving standard-setting processes. Future research could examine this proposition in the context of changes in standard-setting processes. As Suchman (1995) suggests, dynamics that work on an episodic basis can be considered differently from those that are more long lasting. Also, the multiple interrelationships among the characteristics of standard-setting processes and types of legitimacy uncovered in our analyses could be explored in future studies.

This paper assumes that legitimacy is an important characteristic of standard-setting processes, as suggested by previous research. However, legitimacy can be only one characteristic among a broader set of features of standard-setting processes that are considered important by financial statement users. Future research could investigate the broader perceptions held by stakeholders toward standard-setting processes. It could involve conducting interviews with financial analysts to explore their opinions about further characteristics of standard-setting processes and the legitimacy perceptions they may establish on the basis of these characteristics. Users' views could be collected through multiple case studies of specific standard-setting projects.

Our study shows that increased frequency of participation in standard-setting processes negatively affects cognitive legitimacy perceptions. This suggests that when standard setters strive to increase users' involvement in the process, users may become more confident in their own ability to provide relevant input instead of relying on accounting experts to set standards.

Future research could further examine the relationship between participation and legitimacy. Durocher et al. (2007) suggest that participation is the result of legitimacy, while Larson (2002) and Jorrisen et al. (2013) argue that it is an indication of legitimacy. Given that our findings suggest that participation affects the relation between the characteristics of the process and legitimacy perceptions, further research may shed more light on this issue. It could also test whether the opinions of financial analysts vary across jurisdictions due to differences in accounting standards and institutional environments. For instance, Camfferman and Zeff (2018) highlighted that an international standard setter might face different issues than a national standard setter, not least in terms of having to reconcile the needs and values of jurisdictional constituents.

It is important to note that different groups of stakeholders may seek for and emphasise different types of legitimacy in standard-setting processes. Future research could investigate the legitimacy perceptions of governments, preparers and public accountants/auditors, and compare them to assess whether there are differences among stakeholder groups. Interviews with standard-setter representatives could be conducted to assess how they take into consideration users' perspectives and deal with any conflicting and inconsistent legitimacy perceptions held by different stakeholders. We must keep in mind that standard setters are theoretically supposed to act in the public interest.

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Note

1. We acknowledge that all correlations discussed in this section relate to perceptions. However, for brevity, we do not generally use the word perceptions.

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Appendix – Descriptive statistics on questionnaire items.

				Frequencies (percent)					
Question number (Q)	Question (Type of characteristic (Q1 to Q8)/ legitimacy (Q9 to Q17))	Mean	Std dev.	Totally disagree 1	2	3	4	5	Totally agree 6
1.	The usefulness of information included in financial statements under IFRS/SFAS is relevant (*Usefulness of information*)	5.09	1.06	0	5.5	1.8	12.7	38.2	41.8
2a.	In comparison with other groups involved in the standard-setting process: -your authority enabling you to participate in this process is adequate	4.26	1.42	5.5	7.3	14.5	21.8	30.9	20.0
2b.	- your critical resources enabling you to participate in this process are adequate	3.64	1.52	7.3	20.0	21.8	16.4	21.8	12.7
2c.	- your structural position enabling you to participate in this process is adequate	3.95	1.43	3.6	14.5	21.8	20.0	23.6	16.4
2d.	- your individual or group characteristics enabling you to participate in this process are adequate	4.18	1.29	1.8	10.9	16.4	23.6	32.7	14.5

(*Continued*)

Continued.

Question number (Q)	Question (Type of characteristic (Q1 to Q8)/ legitimacy (Q9 to Q17))	Mean	Std dev.	Frequencies (percent) Totally disagree 1	2	3	4	5	Totally agree 6
2e.	- you are able to form coalitions with other groups to influence the standard-setting process	3.66	1.31	7.3	9.1	29.1	27.3	20.0	7.3
2 all	(*Comparative sources of power and strategies to mobilise them*)	3.93	1.13						
3.	The pursuit of the public interest (as defined by IFAC 2012) in the standard-setting process is relevant (*Pursuit of the public interest*)	4.40	1.37	5.5	3.6	14.5	20.0	34.5	21.8
4.	The role of the government and regulatory agencies in supporting standard setters is relevant (*Support by government and regulatory agencies*)	4.27	1.18	1.8	7.3	14.5	25.5	40.0	10.9
5.	The characteristics of the due process make it probable that your views will be considered if you participate (*Characteristics of the due process*)	3.87	1.23	5.5	7.3	20.0	36.4	23.6	7.3
6.	The importance of consultative committees in the standard- setting process is relevant (*Consultative committees*)	4.42	1.23	0	10.9	10.9	21.8	38.2	18.2
7.	Personal characteristics of standard- setting committee members (perceived expertise, independence, lack of bias) in standard-setting process are relevant (*Member personal characteristics*)	4.87	1.14	1.8	3.6	3.6	20.0	38.2	32.7
8.	Accountants are experts who should have the responsibility to develop accounting standards (*Accountants' role of setting standards*)	3.31	1.53	10.9	25.5	20.0	20.0	12.7	10.9

(*Continued*)

Continued.

Question number (Q)	Question (Type of characteristic (Q1 to Q8)/ legitimacy (Q9 to Q17))	Mean	Std dev.	Frequencies (percent) Totally disagree 1	2	3	4	5	Totally agree 6
9.	Standard-setting institutions develop accounting standards that produce financial statements useful to users (*Exchange legitimacy*)	4.26	1.11	0	10.9	7.3	38.2	32.7	10.9
10.	My group is well represented in the standard-setting process	3.55	1.42	12.7	10.9	18.2	30.9	21.8	5.5
11.	My group is well represented on the Board (standard-setting committee)	2.87	1.31	18.2	23.6	23.6	21.8	12.7	0
10. & 11.	(*Influence legitimacy*)	3.21	1.20						
12.	The public interest (as defined by IFAC 2012) is a genuine concern of the standard-setting process (*Consequential legitimacy*)	3.84	1.27	5.5	9.1	21.8	30.9	25.5	7.3
13.	The IASB/FASB standard-setting process is characterised by an open public debate and adequate justification for final decisions (*Procedural legitimacy*)	4.00	1.09	1.8	5.5	21.8	41.8	20.0	9.1
14.	My group is well represented on the other standard-setting committees (*Structural legitimacy*)	3.20	1.19	9.1	20.0	25.5	34.5	9.1	1.8
15.	IASB/FASB members are experts	4.38	1.21	1.8	7.3	10.9	27.3	36.4	16.4
16.	IASB/FASB members are independent	4.04	1.28	1.8	12.7	18.2	25.5	30.9	10.9
15. & 16.	(*Personal legitimacy*)	4.21	1.11						
17.	Accounting experts play a key role in the establishment of accounting standards (*Cognitive legitimacy*)	4.46	1.12	1.8	3.6	10.9	30.9	36.4	16.4