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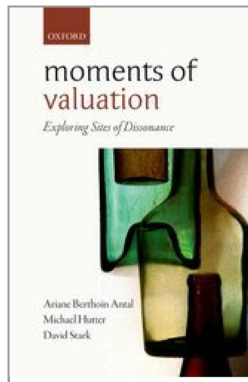

Moments of Valuation: Exploring Sites of Dissonance
Ariane Berthoin Antal, Michael Hutter, and David Stark

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Accounting and the Plasticity of Valuation

Andrea Mennicken Michael Power

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[–] Abstract and Keywords

This chapter explores exemplary moments of dissonance and innovation in accounting valuation. Examining the cases of value-added accounting, brand accounting, fair value accounting and impairment testing, this chapter traces debates and show that accounting valuation is 'plastic' due to both methodological variability and the different domains of worth that get registered within accounting concepts and techniques. Accounting is both a powerful vehicle of economization, valorising economic constructions of actors and things, and a practice which has been significantly destabilized by processes of financialization, namely ideas and practices of financial economics. The plasticity of accounting should not be read as weakness. This chapter confronts the apparent paradox that the power and reach of accounting as a practice of ordering and valorising has never been greater than at the time of crisis when its core practices of measurement and valuation are most contested and plural.

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Keywords: valuation, accounting, financialization, economization, fair value, plasticity

Introduction

In the mid 1970s a new kind of accounting statement appeared—value added accounting. Promoted by an accounting professional body in 1975 which sought to reengineer the corporate report (Accounting Standards Steering Committee [ASSC] 1975), a number of companies engaged experimentally in producing value added accounts (Burchell et al. 1985). Conventional financial statements were rearranged so that "'value added' appeared as an indicator of the value created by the activities of an enterprise in a number of different sites (private companies, newspapers, government bodies, trade unions, employer associations, professional accountancy bodies, etc.)" (Burchell et al. 1985: 385). Statements of value added were created which were aimed at "showing how the benefits of the efforts of an enterprise are shared between employees, providers of capital, the state and reinvestment" (1985: 386). As Burchell et al. (1985: 387) highlight, the accounting category of value added was not only promoted as a vehicle for information disclosure. It was also put forward as a basis for determining rewards at the level of the enterprise, and it appeared on several occasions in the context of policy discussions concerned with the performance of British industry.

This accounting innovation had its conditions of possibility in a distinctive alignment of three key arenas: professional concerns with the nature of accounting; macro-economic concerns aimed at making productivity issues more visible; and the political concerns of a leftist government and the trade unions with "industrial democracy" (Müller-Jentsch 2008). Despite the great variability in value-added accounts, and their technical ambiguity, they could appeal simultaneously to a number of different actors with different agendas. In so doing, value added accounting functioned as a **(p.209)** kind of "boundary object" (Star and Griesemer 1989). As Star and Griesemer (1989: 393) would put it, value added accounts were plastic enough to adapt to the different local needs and constraints of the parties employing them. Yet, at the same time, they were robust enough to maintain a common identity across sites (1989). However, the value added accounting experiment was short lived, and the alignment of the different arenas began to break up—a process completed with the election of Margaret Thatcher in 1979.[1]

The value added accounting case perfectly illustrates the theme of this volume and is an exemplification of both newness and dissonance. The temporary stability of value added accounting was itself conditioned by a fragile alignment of interests, which hung together for a while without any explicit agreement or consensus. In this case one might say that mutual misunderstanding created coordination benefits (Stark 2009)—at least for a while. Value added accounting statements eventually disappeared and their rise and fall can be regarded as a *valuation event* in a specific time and place. The event reveals both the temporal nature of valuation, its dynamics and contingent path over time, and also its spatial localization. The value added accounting event took place at a specific site, in a particular social space marking out a distinctive field of operations. In Burchell et al.'s (1985: 400) words, "the necessity of talking about value added in a particular way arose as a result of the conditions that made the value added event possible"—conditions which Burchell et al. seek to encapsulate within the notion of an "accounting constellation"

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comprising a network of intersecting valuation practices, processes and institutions (1985). The constellation concept resembles that of *assemblage* (see the introductory chapter by Hutter and Stark in this volume),[2] which also refers to a temporarily stabilized set of linkages and practices formed between diverse actors, agencies, activities, technologies and ideas.

Value added accounting was above all an attempt to represent a new kind of object in accounting terms, namely the firm as a cooperative endeavor. This effort to re-value the nature of the firm involved the use of value-added statements not simply as a mirror of activity, but as a mechanism for the production of an alternative reality, albeit within the existing frame of **(p.210)** standardized corporate financial reporting. That reality failed to materialize, but the case shows how accounts can be regarded as constrained ways of producing fictions. Value added accounts needed to be grounded in a transactional reality—they were not "made up" and needed to pay attention to a certain institutional obligation. But they were also fictional in the sense of projecting a new model of economic cooperation in the production of surplus. In this sense we can think of accounting valuation as having a quality of *plasticity*, namely being both simultaneously stable and unstable. It is the nature of this *plasticity* and its dual properties which is the subject of this chapter.

Carruthers and Kim (2011: 253) argue that "the plasticity of valuation is […] apparent with every accounting restatement, but such episodes do not simply reflect valuation-gone-wrong. Rather, they reveal how much value is a contested and provisional judgment whose complexity lies buried beneath a surface of numbers and quantification." In this chapter, we seek to track specific conflicts and tensions within accounting valuation as they bear on wider questions of value. Indeed, we suggest that while valuation practices may eventuate in single figures for further consumption and processing (Miller 1992; Vollmer 2007), they are sustained by an apparatus which becomes visible in times of crisis and whose components are inherently malleable and contestable.[3] In short, "economic valuation processes are eminently contingent" (Fourcade 2011).

The chapter is structured as follows. In the next section we discuss the role of accounting in terms of its *economizing* (Çalışkan and Callon 2009, 2010) effects on entities and actors. We distinguish between *economizing* as a general mode of valuing in economic terms and *financialization* as a distinctive mode of economizing, drawing on the ideas and practices of financial economics. This distinction enables us to say that accounting is plastic in the sense that it is both a powerful and stable vehicle of economization, valorizing economic constructions of actors and things, and yet is also itself a practice which has been significantly destabilized by processes of financialization.

Building on our discussion of the economizing role of accounting, we explore three historical moments of dissonance and innovation in accounting valuation. First, we examine the event of brand accounting in the 1980s and early 1990s in the United Kingdom and investigate the struggles involved in the creation of a new object of accounting valuation. Brand accounting was an attempt to transpose values from the marketing world into the pre-existing frame of corporate financial statements, making

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brands, as **(p.211)** "intangible" sources of value, financially re-cognizable in accounts. Second, we discuss the more recent case of fair value accounting and, third, related efforts to standardize and stabilize the practice of asset impairment testing. The case of fair value accounting gives insight into the dynamics of an aspiration to move from a (historical) cost-based valuation system to an accounting system based on (current) market price. While fair value accounting aims at the systemic financialization of financial accounting, we analyze how this process runs up against limits at the level of impairment testing of asset values, where new frictions are created which reveal unstable accounts of worth.

Taking these three cases with the opening discussion of value added provides four historical moments which demonstrate the plasticity of accounting, both as a powerful force for economizing but also as a vehicle for different and often frictional conceptions of value. This chapter shows that accounting research can add to the sociology of finance and valuation studies more broadly by jointly navigating both the general role of accounting as a source of economization and also delineating the complex and contested nature of specific accounting valuation practices as sub-frictions within these general economization processes. In what follows, we seek to reveal the productive frictions involved in accounting valuation as different calculative frames are used, compared, put in relation to each other (Stark 2009, 2011), and how this uncertainty is only ever temporarily effaced.

Accounting and Economization

The opening example of value added accounting demonstrates that accounting statements are less stable and durable than may be commonly imagined. There is no institutional logic of accounting as such. Accounting has no essence, which would tempt us to seek such a logic. As Hopwood puts it, "accounting is not imbued with purpose, but it can be made purposeful" (Hopwood 1992). Yet accounting provides often powerful narratives of economic life (Hines 1988)—perhaps the most powerful—which expand and spill into many other domains and organizations, changing them in the process and challenging existing configurations of value. In this respect accounting is both a valorizing practice (Vatin 2013) which promotes and reproduces a conception of worth, as much as one which contains valuations. Regarding the former, it is a force for the *economization* (see also Çalışkan and Callon 2009, 2010) of entities and activities. Accounting makes it possible to render the representation of entities and activities in economic terms, even though it does this in many different ways (Miller and Power 2013). It is a mechanism by which the economization of organizational life becomes elaborated and institutionalized, and which increasingly provides the dominant **(p.212)** narrative of market rationality at an organizational and at a societal level (Carruthers and Espeland 1991; Weber 1978), particularly since the collapse of the Soviet Union.[4] Accounting practices operationalize and materialize *fictions* of efficiency, economy, "value for money" and "value-added" (Hines 1988; Miller 2001).

Specific accounting valuations of assets and liabilities are intertwined with this more general constitutive role for accounting. The roles that accounting plays within

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organizations and society co-emerge with the economized social relations that in turn provide its rationales and that shape the organization as an accounting entity (Hopwood 1986; Miller and Power 2013). While “new modes of financing and their representations have brought attention to accounting’s dependency on legal presumptions of the boundary of the enterprise” (Hopwood 1992: 127), accounting practices also enable an entity to be observed and constituted in economic terms, particularly in the public sector (Kurunmäki 1999; Mennicken 2013).

That accounting entities are fictional and network-effacing superimpositions on complex organizations is suggested by competing conceptualizations of heritage assets in museums (Barton 2000; Carnegie and Wolnizer 1996). If museums are regarded as separate accounting and therefore economic entities, heritage artefacts are “assets” on the entity’s balance sheet, which can be valued in terms of their economic performance (e.g., paying visitors). But if museums are regarded as holding such heritage assets in trust for society and future generations, then they are also something that the organization owes, in other words a liability. In short, on which side of the balance sheet something appears is not a natural or obvious fact—it must be constructed as an organizational fact of a specific kind (Hines 1988) which in turn depends on the entity construct. In the case of heritage assets there is a persistent tension about what kind of accounting object they are, and this tension can be traced to fundamental differences in orders of worth (Boltanski and Thévenot 2006) implicit in entities.

Accounting bestows apparent precision and operational reality on economic categories of value and thereby constitutes a practical realm of the economic. As Hopwood (1992: 142) puts it, “a practical economy needs to be positively forged rather than merely revealed.” Through this process organizational agents even acquire new preferences as they attend to accounting **(p.213)** constructs of economic value. Fourcade (2011: 1766) makes a similar point about the context of economic valuation practice: “Through this institutionalization process, it is not impossible that a new set of ‘individual preferences’ were actually made endogenous to the techniques supposed to reveal them.”

This power of accounting to constitute and realize economic conceptions of entities and the performance of organizational agents, thereby shaping rather than reflecting preferences, does not imply in any way that accounting is a simple transmission mechanism for economic ideas. Indeed, this power paradoxically reveals the autonomy of accounting and its unstable relationship with economics: “The present practice of the accounting craft cannot be deduced from economic conceptions of it and economic ideas for its change and reform, although often articulated, find it difficult to become entangled with a craft that seems to have independence from what are seen as its essential roles” (Hopwood 1992: 130). As we show below, the financialization of accounting—the introduction of financial economics into accounting and the increasing intertwining of accounting with the governing of capital markets—involves a program of stabilizing this relationship and making accounting practice much less independent of economic ideas. And yet, despite this program, there has always been something permanently problematic and dissonant about the economizing role of accounting. Accounting gives life

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to economics but is not a part of economics, despite many efforts within the academy to position it as such.

Nowhere is this dissonant relationship more apparent than in asset accounting, which we discuss further in the cases presented below. Balance sheets are highly stable and institutionalized accounting forms. Yet they are also imperfect representations of value and have been a battleground for the representation of novel forms of asset, such as brands, and liabilities, such as future decommissioning costs for nuclear facilities. To pass the test of accounting recognition and make it into the balance sheet "valuable assets" like brands must be capable of being credibly measured. But even if something does make it onto the balance sheet at an entry cost to the entity, history shows that this may be a poor on-going reflection of economic value. Balance sheet values have periodically been challenged by alternative market-based values (which we discuss further below), thereby undermining the economizing role of financial accounting. Within these periodic crises of value representation and measurement, the apparent objectivity of accounting—its auditability (Power 1996, 1997)—has played a constraining role in the valuation deliberations of analytical communities, ensuring that not "anything goes." And yet, auditability is itself plastic and adaptable and networks of reliability can shift, and have shifted, over time.

All this makes the relationship between accounting and presumed communities of users a very complex one since accounting constitutes both objects **(p.214)** and subjects of value, the latter being "accounting users" as they are commonly called (Young 2006). The power of accounting resides in the demarcation of "calculating selves and calculable spaces" (Miller 1992). Presuming, and bringing into existence, users who value accounting is one of the most powerful accomplishments of accounting infrastructure. Yet, exactly how accounting values enter the valuation processes of market actors is poorly understood even though some effects can be observed (Power 2012; Vollmer et al. 2009). There can be little doubt that accounting plays an important systemic role for capital markets; it is a force for the economization of organizations and societies even if the valuation of assets remains a battleground for its practitioners. For example, the experience of transition in Russia and Eastern Europe demonstrated the centrality of accounting to the creation of new capital markets and economies, even as Western accounting was known to be riddled with difficulties (Mennicken 2008, 2010). This also suggests that imperfect accounts of worth may be highly functional for the constitution of markets and certainly preferable to nothing (Dambrin and Robson 2011).

Finally, accounting involves the specialist co-optation and economization of ordinary language notions of "appreciation," "depreciation," "recognition," "realization" and "goodwill" to name a few key concepts. Accounting is a continuous project of trying to fix a closed technical meaning for these terms, which always have the potential to overflow and create connections to many other ways of accounting and to other accounts. Accounting has enormous power; indeed the power of the balance sheet is tantamount to an *aestheticization* of economic value, namely a way of providing a persuasive "spectacle of value" which, in the case of financial institutions, as the financial crisis has shown,

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became also a spectacle of value destruction.[5] Through balance sheet focused accounting, organizations which may be ordinarily valued as non-economic in nature, such as prisons and hospitals, can be made into economic entities whose “asset-performance” can be tested, compared and ranked (Espeland and Sauder 2007; Kurunmäki 1999; Mennicken 2013). Private sector-oriented accounting instruments, tools of financial reporting, performance and cost management, have been introduced from the private sector to the public sector to define and operationalize “value for money,” to better understand the link between resources and outputs, and to redefine public sector entities as competitive units responsible for their own performance management. Ironically, the balance sheet can make such newly economized public entities visible as failing and up for closure, while the failure of private entities, such as banks, and their interconnected vulnerabilities, is **(p.215)** not made visible (Miller 2008). This means that the aesthetics of the balance sheet, its source of power, and its projection of the autonomously performing entity, is also highly selective, particularly in terms of the network properties which it systematically leaves out of account. This is shown by the case of brand accounting, to which we now turn.

New Accounting Objects: Brands in the Late 1980s

> A simple mind could hardly entertain the notion of intangible assets. In a child’s tale, wealth is castles, land, flocks, gold—i.e. physical things. It is a long step forward to realise that the essence of wealth is the prospect of benefits, not their physical source. The accountant is thus showing his maturity if he ceases to use the physical test for deciding whether outlays fall under the heading of “asset” or “expense.” The correct test, he then argues, is whether or not the outlay improves the firm’s prospects (when the outlook at the year’s end is compared with that at its start). Tangibility has nothing to do with this test; he applies it alike to the cost of a lathe and an advertising campaign.
>
> (Baxter 1984: 218; quoted in Napier and Power 1992: 85)

Brand accounting in the UK in the late 1980s and early 1990s is an illustrative case of accounting instability caused by new objects and a collision between two managerial “orders of worth” (Boltanski and Thévenot 2006)—marketing and accounting (Napier and Power 1992; Power 1992). At the time the accounting authorities sought to prohibit the recognition and valuation of brands as assets in accounting statements. Their general argument was that the valuation method was “unreliable” and too subjective. Furthermore, brand values were not observable in liquid markets; brands could not be sold as separate items distinct from the products to which they were attached. For regulators, accounting assets needed to be *separable* in order to be represented on a balance sheet. There also needed to be a clearly measurable entry cost. Brands did not seem to pass either of these accounting tests.

Many UK companies with economically valuable brands were opposed to this view. How could prominent brands with considerable economic value for companies simply be left out of account? What is the role and value of a balance sheet when it omits such significant

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assets? A few companies decided to oppose the accounting regulator and, using valuation consultants, they proceeded to value both their acquired and self-developed brands as separable assets on the balance sheet. The external auditors of these companies supported this strategy, and regulators—in particular the British Accounting **(p.216)** Standards Committee (which later became the Accounting Standards Board)—found themselves increasingly isolated.

The brand valuation methods themselves were varied and contested. Some involved the development of analogies with more liquid assets, such as patents. Others involved efforts to capitalize a stream of hypothesized premium profits attached to the brand. Yet below the surface of most of these methods there was usually some kind of implicit discounted cash flow model and a technical challenge to identify the separable cash flows in “joint assets” (Napier and Power 1992). In many ways, the methods were unsurprising, yet two different groups—accounting preparers and regulators—could come to opposed views about their reliability. The temporary alliance between marketing-based knowledge and the pro-brand capitalizers won the day and the effect was to reinforce the solidity and reliability of brand values. In some sense brands existed as objects before they were accounted for. Yet they came to have increased institutional credibility *because* they were used for balance sheet purposes. By being part of accounting statements, brands became part of a new and powerful “order of worth” (Boltanski and Thévenot 2006).[6] This in turn supported the idea of a “market” for brands although they were rarely traded separately from the underlying assets.

The brand accounting case shows how the credibility and reliability of an economic valuation methodology is not an inherent feature of that methodology but depends on networks of social support (Power 1992) and configurations of attachment (Hennion 2007). From this point of view, valuation practice is embedded in an apparatus which involves the constitution of the objects themselves. Seemingly very technical processes of valuation and evaluation (auditing and other tests) co-produce both the account of the object and the object itself. It follows that disputes about techniques are often also disputes about the object being valued. This was evident in the case of brands where the contestation was only partly about the reliability of a valuation technique but was also about the nature of brands themselves. For accounting standard setters at the time brands had a flimsy reality. Yet for marketing specialists and within capital markets more generally they were far from flimsy—indeed they were a source of comparative advantage for the firms which owned them. It was argued that failing to reflect brands as assets on the balance sheet could lead to firms being undervalued and vulnerable to takeover—and this belief motivated their valuation and capitalization. The brands case shows how the plasticity of accounting—its contingent **(p.217)** combination of stability and instability emerges from both the variable and contested nature of valuation technologies and also the different, and often conflictual, orders of worth and their respective objects of attachment that get registered (and de-registered) through these methodologies over time.[7] This plasticity is even more evident in the related cases of fair value accounting and impairment testing practice.

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“Fair” Value and the Financialization of Accounting

It is tempting to imagine that the essence of accounting is measurement. Yet the question of measurement is also a source of instability (Power 2012). Measurement conventions for financial accounting have changed over time (see the brand and value added accounting cases discussed above) and different measurement conventions coexist in the same financial statements. The earliest and simplest measurement method was that of an “entry”, or a historical, cost basis. This is not a valuation method as commonly understood but it is a basis for recording a value in the accounts based on the acquisition costs of an asset. In the case of assets other methods were also used, for example to reflect different possible managerial intentions (namely to replace, to use or to sell). History shows that a mixture of measurement methods has been tolerated for many years by accounting practitioners and regulators alike. Indeed, what needs to be highlighted is the eclectic nature of accounting measurement and valuations. Unpacking the eclectic nature of accounting concepts and methodologies contributes not only to a better understanding of how accounting works; “it also contributes more broadly to the sociology of economic valuation, by shedding light on the different forms of calculability engrained in the establishment of market-economic loss and value” (Mennicken and Millo 2013: 1).

“Fair” value measurement in accounting, at least on the surface, disturbed this pluralistic world (Laux and Leuz 2009). Having existed as a category for many years, over the first decade of the twenty-first century, there was an ambition to expand its scale and knowledge base. Defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (International **(p.218)** Accounting Standards Board [IASB] 2011: A491), fair value is based on an *exit* price concept. The notion of fair value moves attention away from an asset’s “value in use,” i.e., an asset’s contribution to the creation of value within the organization, established via managerial judgment, to its “exchange value,” i.e., its current market price, established via an actual or imagined market transaction.[8] In other words, the concept of fair value assumes an intention to sell, even where this is not the case empirically. Furthermore, the connotation of *fairness* implies freedom from bias and impartiality. In this respect, fair value is both a valuation method and also an *idea* about what asset prices *should* be. It is for this reason that critics (Bromwich 2007; Ronen 2008) suggest that fair values are often hypothetical and imaginative constructs of value rather than representations of actual market price. However, this fictionality is the very source of the power of fair value. Just as value added accounting in the 1970s was in essence a fiction intended to reconstitute the enterprise as a cooperative endeavor, so does fair value accounting seek to make firms more market-facing, regardless of whether the markets are real or imagined. For its advocates, fair value was an idea motivating the alignment of financial accounting with capital markets, and increasing its relevance for capital market investors (Badertscher et al. 2010; Barth et al. 2001). The advocates were powerful because financial assets, such as derivatives and other financial instruments, rather than traditional assets, such as machinery, increasingly comprised a larger proportion of many balance sheets. In other words, changes and tensions in the accounting model of value—from historical cost to fair

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value, from organizationally focused use value to market-based exchange value—were implicated in changes in the wider economy (Espeland and Hirsch 1990; Perry and Nölke 2006) and in economic discourse (Burchell et al. 1985; Hopwood 1992; Miller 1991).

The rise of fair value accounting was enabled by an increase in the cultural authority of financial economics (Whitley 1986) and by the problem of accounting for, and representing the risks of *derivatives* (e.g., options, swaps, convertible bonds) (Morley 2011; Power 2010; Young 1996). These new derivative financial instruments were a challenge to existing plural measurement conventions in accounting and were an obvious application for fair value methods. The successful application of fair values in this context gave a small group of standard setters confidence to expand their usage in other areas. From this point of view, fair value accounting was more than a method but also a stake for the professional identity of accounting standard setters and **(p.219)** a challenge to existing forms of accounting knowledge because of the need for more engagement with corporate finance and financial economics (Power 2010; Young 1996). Today, the "fair" valuation of assets has become a specialized activity, and accountants have no necessary monopoly. New centers of valuation have been invented, such as the International Valuations Standards Committee (IVSC). Valuation has not become more scientific or less judgment laden as a result—rather accountants are no longer necessarily in control of value.[9]

The battleground for the fair value debate was, and remains, the balance sheet, itself a deeply institutionalized and compressed representation of an organization as noted above. The promotion of fair value measurement of assets and liabilities was in effect a challenge to the legal logic of the balance sheet and its grounding in specific jurisdictions. The fair value program represented a de-localization of the balance sheet and greater alignment with global capital markets. It promoted the financialization of accounting practices—the integration of valuation techniques derived from financial economics into accounting measurements and the rise of definitions of value derived from capital markets and capital market-based exchange (Dore 2008; Froud and Williams 2001; Krippner 2005; Perry and Nölke 2006).

Yet, the financialization of accounting through fair value did not take the form of a sweeping colonizing process resulting in a new measurement stability. Indeed it was a source of considerable dissonance within the accounting profession, and beyond.[10] The pressure to expand the application of fair values within accounting was more the vision of a small sub-set of accounting policy makers and academics rather than any failure of the market for accounting information (Bignon et al. 2009; Botzem 2012; Power 2010). Indeed, it can be read as contest *within* the accounting policy world between measurement *idealists* and *pragmatists* (Power 2010; Walton 2004; Whittington 2008). The early success by the idealists involved a new conception of accounting *reliability.* In place of transactional pragmatism grounded in the cash *realizability* of recorded profits, fair value enthusiasts appealed to the reliability of valuation models derived and adapted from financial economics. Yet this assemblage of actors and ideas which gave fair value accounting its original boost **(p.220)** has changed significantly since the financial crisis

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(Laux and Leuz 2009). Not only have key figures who promoted fair value in accounting standard setting, like Sir David Tweedie, former Chairman of the IASB, moved on, but the authority of financial markets was temporarily damaged. In 2014, fair value remains strong but less imperialistic than hitherto, and we have seen a return to more valuation pluralism. This is particularly evident in the testing of asset valuations for impairment which we consider next.

Testing Valuations: Asset Impairment[11]

Combining managerial and market-based valuation approaches, impairment tests position accounting, and economic valuation more broadly, at the interface between markets and organizations (Mennicken and Millo 2013; but see also Huikku et al. 2012). Impairment tests are accounting valuations that seek to establish whether or not an asset's recoverable amount has fallen below its carrying amount (i.e. book value) due to obsolescence, damage, or a fall in market value. Impairment tests involve both the application of market-based valuation approaches based on a concept of "value in exchange" (fair value) and also "value in use" calculations based on managerial estimates of the discounted future cash flows that an asset is expected to generate for its owner.

Impairment tests are contrived and structured de-stabilizations of value. Impairment calculations require managers (and accountants) to put previous valuations into question. In so doing, the plasticity of accounting valuations becomes apparent. Paraphrasing Carruthers and Kim (2011: 253), we can say that impairment losses do not simply reflect accounting valuations gone wrong. Rather, impairment tests "reveal how much value is a contested and provisional judgement whose complexity lies buried beneath a surface of numbers and quantification" (2011). Impairment of assets, in the form of the requirement to write down assets when their value to the business is lower than their book value, has been in existence for more than 100 years. Write-down requirements are engrained in the long-standing accounting principles of conservatism and prudence (Dicksee 1892). Yet, it was only in the late 1980s that such write-down requirements started to be redefined and regulated in terms of standardized impairment tests (Mennicken and Millo 2013). In short, an apparatus for impairment testing involving standards and regulation was constructed, but that very construction is founded on, and reveals, the latent dissonance contained in any accounting valuation. **(p.221)** Like the rise of fair value accounting, the newness of impairment testing did not involve the construction of new accounting objects, as in the case of value added or brands. Rather it involved the expansion in scale and scope of practices to assure valuations. One might put it like this in the context of this volume: the growth and elaboration of *tests* of accounting values simultaneously reveals that these values are a matter of contested collective taste or judgment. Following Hennion (2007 and in this volume), who draws our attention to the importance of a continuous elaboration of procedures that put taste to the test, we argue that accounting valuations, like wine tasting and artistic evaluation, are also complex, distributed collective endeavors, shaped not so much by the mechanical following of some algorithm, but by emotion, ritual and the reliance on others—their judgment, experience and preferences (see also Boedker and Chua 2013; Pentland 1993).

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The conceptual underpinnings and valuation methodologies underlying standardized impairment tests are not singular and stable. Impairment testing rules embrace different calculative components and valuation methodologies, partly drawing on concepts and techniques derived from financial economics (e.g., the concept of market relevance, fair value and discounted cash flow analyses), partly drawing on concepts and techniques derived from more traditional accounting practice (e.g., the principle of cost-or-less, the notion of cash-generating unit, and firm-based, rather than market-oriented, notions of deprival value).[12] Impairment tests require managers (and accountants) to compare and contrast different valuation methodologies: the market-based fair value of an asset or a group of assets (i.e. the amount at which an asset could be disposed of, less any direct selling costs) and the "value in use" of an asset (i.e. its value—defined in terms of usefulness—for the owning organization, e.g., in terms of future cash flows that can be generated by the asset in question).[13]

Through impairment tests, managers are being made aware of the importance of markets and of the implication of market-based information in organizational impairment valuations. But at the same time, market-based information becomes more managerialized (Mennicken and Millo 2013). Although impairment tests, like fair value accounting, shift attention from a notion of reliability rooted in the objectivity of historical cost to a **(p.222)** notion of reliability rooted in future-oriented managerial estimations and market-based valuation expertise (Power 2010), it would be wrong to view this process of financialization as a one-way street, in which finance and financial markets capture and colonize accounting valuations and organizations. Both managerial and market-based orders of worth are co-transformed in a process of disciplined dissonance between them.[14]

Furthermore, it is important to note that impairment tests are not easily put into practice (Huikku et al. 2012). Rather than contributing to the "doing of accounting," impairment tests ask managers, accountants and auditors to "undo accounting" and to get *uncomfortable* with the numbers they produce. As Mennicken and Millo (2013: 8) highlight, although presented in the form of a standardized algorithm, impairment tests are "anti-formulaic." The dissonant nature of impairment tests requires that valuation is multiplied and accounting representation destabilized (see also Huikku et al. 2012). In essence, impairment rules carry with them the potential for inducing more reflexivity and therefore novelty about the positioning of organizations vis-à-vis markets.

The Plasticity of Valuation

This chapter has progressed through four "moments" in the history of accounting and value which are clearly "sites of dissonance." We began in the late 1970s with the short-lived appearance of value added statements. Then we considered the brand accounting controversy in the late 1980s. Thirdly we discussed the controversial rise of fair value accounting and how this constituted the financialization of financial accounting. Fourthly, the case of impairment testing reveals the limits of this financialization process and the essentially pluralistic and plastic nature of accounting values. All four cases or accounting "moments" suggest that valuation practices within accounting are far from being the cool

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application of calculative technique. Such techniques have complex contingent histories of institutionalization, and they depend on a web of tacit non-opposition from a variety of actors whose orders of worth are far from being aligned. Even at the specific practice level we have shown how the production of particular valuations is the temporary outcome of a network of actors, and a form of distributed cognition with plural attachments, which is not necessarily fully coordinated. The limited stability of this network is quick to reveal itself at moments of innovation and related conflict and uncertainty.

(p.223) In addition we have suggested that valuation is also *work* involving the multiplication and transportation of inscriptions (Latour and Woolgar 1979; Robson 1992) as well as acts of judgment and interpretation at crucial junctures. This work more or less hangs together, and more or less produces stability. In times of great instability, such as we saw in the financial crisis of 2008 onwards, the work of accounting valuation intensifies. For example, the valuation of financial assets with questionable liquidity during the height of the financial crisis shows how the extended elaboration of inscriptions is necessary to anchor judgments about value, essential fictions, in a material substrate, not least for the purposes of making such valuations auditable, traceable and comfortable again (Power 2013). Indeed, as valuations come to be recognized as essentially plastic and contestable we observe an intensification of evidentiary processes. Actors involved in valuation work increasingly record and defend what they do. Key value judgments must be articulated and defended. Forums exist, such as risk and audit committees inside organizations, where such judgments are challenged and must be justified. In this respect judgment, calculation and auditability are necessarily intertwined in the production of accounting values.

This plasticity of accounting valuation has broader implications for valuation studies and social studies of finance. Our arguments cut across finance and accounting (Power 2012; Vollmer et al. 2009), and we suggest an underexplored dynamic within broad arguments about financialization. We have argued that the economizing role of accounting is not invariant. Financial accounting as a deeply institutionalized practice within capital markets has undergone profound changes and challenges to its internal logic or orientation, becoming progressively financialized by stages. By prioritizing balance sheet elements over income statements in the early 1970s, the US-American Financial Accounting Standards Board (FASB) created a gateway for measurement practices informed by financial economics. As the latter grew in legitimacy and was validated, financial accounting was effectively "financialized" (Morley 2011), but this is less a story of inevitable progress in valuation methods so much as the temporary triumph of one value center—the capital markets—over another—the judgments of management.

It is in the playing out of value and valuation clashes *within* accounting that a moral economy of valuation in general becomes visible. Where is the ground of value? Whose value counts? Is it the work of multiple actors on the crowded virtual trading floor, whose screen-based technologies fascinate sociologists of finance? Or is it to the managers of firms with intimate knowledge of their products? This is a tension, which has

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been addressed by many scholars of economic life, but we have suggested that this is also a drama played out within the realm of market-oriented valuation practices themselves, and revealed by our four moments in accounting history.

(p.224) To conclude: We have argued that an investigation of the multiple forms of calculability engrained in economic valuation and measurement technologies, such as brand accounting and impairment tests, helps to get to grips with the “plasticity of valuation” (Carruthers and Kim 2011) and “the productive frictions” (Stark 2009, 2011) involved as different calculative frames are used, compared, and put in relation to each other. The plasticity of accounting valuation underwrites the power of accounting and should not be read as weakness. Indeed, as sociologists we need to work harder to understand how the systemic reach of accounting as a practice of ordering and valorizing has never been greater at a time when core practices of measurement and valuation are most contested and plural, and ever vulnerable to the dissonant force of innovation.

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Notes:

(1) To put it in Burchell et al.'s (1985: 405) terms, "with the election of a new Conservative Government in 1979 the three arenas of the value added constellation were suddenly ruptured and transformed." Value added accounting was no longer seen as a tool for the management of the national economy. "Market pressures in an increasingly high unemployment economy were seen to offer more effective means for income control" (ibid.).

(2) See also Miller (1991), Miller and O'Leary (1994), and Muniesa et al. (2007). In his study of the rise of discounted cash flow accounting, Miller (1991: 737), for example, uses the notion of assemblage to unravel how a complex interplay of new bodies of knowledge, novel regulatory attempts, changing theoretical conceptions of governance and a new accounting rhetoric contributed to the rise of discounted cash flow techniques.

(3) For example, the contingent nature of the discrete accounting entity assumption underlying corporate financial statements became visible and problematic in the financial crisis of 2008 as risk and value migrated from fragile corporate entities to states and to citizens.

(4) This is not to say that there were no attempts to "economize" organizations without appeal to the notion of markets—planned economies provide a good case in point here, and accounting played an important role in the organizing of state-led, planned economies. However, since the collapse of the Soviet Union, economization, predominantly, goes hand in hand with the marketization of much of social life.

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(5) We owe this point to Kimberly Chong.

(6) (Accounting) worth was no longer manifested in terms of (historical) cost. Attention was shifted from (historical) cost accounting and “tangibility” to the accounting for a firm’s prospects and the ways in which assets, tangible and intangible ones contribute to the generation of a firm’s future cash flows.

(7) Today, brand valuation still represents an important area of valuation. Yet, most accounting standards, including the international accounting standards, do not allow firms to account for brands separately in their balance sheets due to the stringency of their intangible asset recognition tests. Yet, indirectly, brands are often subsumed under the accounting for goodwill, which arises when one company acquires another company. Such externally acquired goodwill is measured in terms of the difference between the price paid for the acquired assets and their fair value at the purchase date.

(8) For the distinction between “value in use” and “value in exchange” see for example Adam Smith (1970), cited in Hutter (2010: 244). This distinction has been re-inscribed into accounting, and although fair value focuses on the “value in exchange” of an asset, “value in use” is still used as an important reference point in accounting valuations, as for instance in the case of impairment testing, which we discuss further below.

(9) Although the IVSC was originally established independently from the accounting profession, it is worth noting the increasing intertwinement between the IVSC and the accounting profession. In 2012, for example, Sir David Tweedie, former Chairman of the IASB was appointed as Chairman of the IVSC’s Board of Trustees.

(10) The uses, usefulness and measurement of fair value were, and still are, hotly debated amongst accounting academics, accounting standard setters and preparers (see e.g. Bromwich 2007; Macve 2010; Penman 2007; Walton 2004; Whittington 2008). Fair value is also not a new concept. As Walton (2007: 5) points out, variants of fair value defined in terms of market value can be found in much of the nineteenth-century company legislation in Europe (Georgiou and Jack 2011). However, the focusing of fair value on exit price is relatively recent.

(11) This section is largely based on Mennicken and Millo (2013).

(12) Deprival value is the lower of replacement cost and recoverable amount, where recoverable amount represents the higher of an asset’s net realizable value and its present value (value in use) (Macve 2010: 113). Macve argues that deprival value “copes much more adequately and simply than FV [fair value, added] does with typical real-world market imperfections” (2010: 114).

(13) See e.g., International Accounting Standard (IAS) 36 “Impairment of Assets,” which states that the impairment review should comprise a comparison of the carrying amount (book value) of the fixed asset or goodwill with its recoverable amount, where recoverable amount is defined as the higher of an asset’s or cash-generating unit’s fair

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value less costs of disposal and its value in use.

(14) We speak of disciplined dissonance here to stress its orchestrated and organized nature.

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