Transnational Governance Spirals: The Transformation of Regulatory Authority in Internet Governance and Corporate Financial Reporting[1]

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Abstract

Transnational regulation involves profound changes in the ways rules are set today. Based on two case studies on Internet governance and the regulation of corporate financial reporting, we show that transnational governance is best understood as a dynamic, non-linear process. In both fields, regulatory institutions are constantly renegotiated between public and private actors, a process which gives rise to new, hybrid, forms of authority. The hybridization of authority challenges the common distinction between public and private authority in transnational regulation. We propose to characterize the ongoing dynamics as transnational governance spirals. Our comparative analysis follows a research strategy of causal reconstruction. To that end, we identify three mechanisms serving as analytical tools to explain transnational institution building and the observed governance spirals: integration, authorization and formalization.

Keywords: transnational regulation; governance; authority; mechanisms; institution building

Introduction: transnational institution building and regulation

Transnational governance involves profound changes in the ways rules are set today. Cross-border rules and regulations are no longer primarily negotiated under the auspices of public authorities. Today, international agreements are often complemented or even replaced by various private forms of norm-setting. Research on global governance has diagnosed a shift of regulatory authority from the national to the transnational level and from the public to the private sector (Knill/Lehmkuhl 2002, Slaughter 2004, Dingwerth 2007). While the terminology of 'shift' suggests that regulatory authority as such remains more or less unchanged, we argue that

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transnational regulation is characterized by a significant transformation of authority. Based on two empirical cases, we intend to show that transnational governance is best understood as a dynamic, non-linear process. The collaboration between public and private actors leads to a hybridization of regulatory authority. As a result, the traditional distinction between public and private authority requires reconsideration.

The emphasis on continuous change in transnational regulation is in line with recent findings which suggest a reorientation towards "processes and mechanisms that connect ideas, interests and institutions" (Orenstein and Schmitz 2006, p. 23-24). The underlying assumption of this perspective is that the institutionalization of transnational governance entails a significant alteration of the sources of authority. We propose the image of a 'governance spiral' to highlight the ongoing dynamics of these processes. The building of institutions is a central element of transnational governance, but should not be mistaken for a mere add-on to national and supranational organizations. Instead, we see transnational governance structures as being constantly renegotiated between public and private actors, a process which gives rise to new forms of authority.

With this paper, we aim at contributing some insights about change in transnational governance in general and the development of regulatory authority in particular. In both policy fields of Internet governance and corporate financial reporting, we observe a recombination and mutual realignment of public and private resources, which we refer to as a hybridization of regulatory authority. In these areas, rule setting draws on a combination of authoritative sources such as government recognition, private expertise, contract law or consensus-building across stakeholder groups. Hence, the prevailing rhetoric of private self-regulation in the global governance literature needs to be handled with care. While self-regulation proved to be an accurate description of the initial stages of norm-setting in Internet governance and financial reporting regulation, these original 'selfs' were subsequently transformed through a broadening of actor constellations and the institutional embedding of their norm-setting activities.

We base our arguments on the analysis of two prominent examples of self-regulation which have acquired substantial rule setting authority in the transnational sphere: the Internet Corporation for Assigned Names and Numbers (ICANN), which sets the rules for a substantial part of the Domain Name System and administrates the pool of unallocated Internet addresses; and the International Accounting Standards Board (IASB) which has been setting standards for the preparation of financial reports of listed corporations since the early 1970s. Despite historical and contextual differences such as the material content, dominant actors, and regulatory traditions, the cases also share some important features: Emphasis is put on practical expertise and shared beliefs center on the superiority of self-regulation driven by private interest groups. In addition, both initiatives can be traced back to the 1970s and have their origins in fields initially densely regulated by public actors.

The analysis of our empirical cases follows a research strategy of causal reconstruction, linking initial conditions with observable outcomes to explain the

transformation of authority (cf. Mayntz 2004). To that end, we identify three mechanisms serving as analytical tools (as opposed to empirical triggers) to explain transnational governance spirals: integration, authorization and formalization. We have derived these three mechanisms inductively out of our two cases. Nevertheless, we believe that our comparative design allows systematizing empirical findings in a way that provides more general insights. We have organized the remainder of the article as follows: First, we offer a brief overview of current conceptualizations of transnational authority. Second, we outline how mechanisms can be used as tools for analyzing transformations of regulatory authority and identify three of such mechanisms. Third, a characterization of both cases illustrates the transformative dynamics in transnational regulation. Fourth, we conclude that transnational authority in both fields is subject to a process of hybridization in which the quest for legitimacy is of particular importance.

Conceptualizing transnational authority

Transnational relationships are defined as interactions "across state boundaries when at least one actor is not an agent of a government or an intergovernmental organization" (Nye and Keohane 1971, p. 332). Compared to national jurisdictions, the transnational sphere exhibits a considerably higher level of disorder and uncertainty (cf. Botzem and Hofmann 2008, Stone 2008). The blurring of boundaries between rule makers and rule takers, weak hierarchies, unclear or overlapping responsibilities, and shifting "voluntary-legal divides" characterize the disarray at the transnational level (Sahlin-Andersson 2004, p. 151). Against this background, private actors set out to establish formal and informal institutions capable of filling the regulatory void.

Works on global governance have pointed to an increasing fragmentation or disaggregation of territorial authority (for an overview see e.g. Orenstein and Schmitz 2006) which limits the possibilities of states to govern beyond their borders. Instead, regulatory authority is increasingly shared amongst states, market actors, associations, and other non-governmental organizations (Colebatch 2009). Private institutions such as standards, rules or codes of conduct have become generally accepted means of global ordering (Haufler 2000, 2003).[3] To the degree that private institutions effectively exert authority, they have been characterized as alternatives to public institutions (Cutler *et al.* 1999, Arts 2003, Kerwer 2005, Pattberg 2005, Borraz 2007). "Governance without government" (Rosenau and Czempiel 1992), self-regulation and soft law refer to a changing division of labor between government, business and society (Hall and Biersteker 2002, Kahler and Lake 2003, Mörth 2004, Graz and Nölke 2008). Initially, the shift from public to private forms of authority was predominantly interpreted as a decline of the national state and related forms of political legitimacy. The state, once the guarantor of collective and

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[3] There is currently a variety of definitions of rules, norms, and standards (see e.g. Braithwaite and Drahos 2000, pp. 18-20). Because the exact distinction between norms, standards, and rules is not central to the argument of our argument, we use these terms synonymously. To us, the important aspects are that standards and norms can be of both a technical and social nature and that they are, contrary to what is frequently stated, not necessarily voluntary (see also Brunsson and Jacobsson 2000).

individual security, appeared to shrink to a *primus inter pares* or even vanish altogether.

In the past few years, the diagnosis of an eroding nation-state has been qualified by a more differentiated understanding. Above all, the multi-level nature of institution-building has been acknowledged (Djelic and Quack 2003, Mattli 2003). Recent empirical work on transnational governance arrangements shows that intensity and density of international regulation are growing, not declining (Djelic and Sahlin-Andersson 2006, Djelic and Quack 2007). Governments are not disappearing from the international stage but rather changing their roles (Drezner 2007). Kahler and Lake (2003, p. 427) make clear that states remain important, at least as a feature of the bargaining process: "[T]hey retain residual rights to enact policy – to regulate business practices, to licence new plants, to tax corporations". Along these lines, supranational oversight over sectoral regimes has been interpreted as an extension of the (national) shadow of hierarchy (Heritiér and Lehmkuhl 2008). Nevertheless, it becomes clear that public authority cannot simply be extended into the transnational realm. The quest for legitimacy is a core element of transnational institution building.

Most approaches to transnational regulation, if only implicitly, portray transnational governance predominantly as a re-location of regulatory authority. Accordingly, new modes of coordination are interpreted as enhancing the influence of private actors. Such views presuppose linear developments, often neglecting the dynamic and contested nature of transnational rule setting. In contrast, Hall and Biersteker (2002, p. 4) conceptualize authority as "joint authorship" of private and public actors in specific issue fields or domains. The notion of joint authorship emphasizes the embeddedness of regulatory activities in networks of competing and cooperating organizations. This suggests that the emergence of transnational authority should neither be understood as a result of mere relocation nor as simply driven by functional needs (for the latter perspective, see Porter 2005). Instead, focusing on specific forms of regulatory collaboration suggests that the emergence of transnational authority should be interpreted as an effect of processes of institution building (cf. Cutler 1999). We thus emphasize the analytical value of a process perspective for explaining the realignment of actor constellations and diverse sources of authority. Hence, transformations of regulatory authority concern reconfigurations of interest groups, modifications of organizational structures, and changing practices of regulation.

The organizational dimension of transnational regulation is of particular interest. Constant organizational reconfigurations epitomize the inherent dynamics of rule setting beyond the nation state. Transnational governance, in particular under the conditions of contingency and the ambivalent interrelation of private and public actors, is characterized by a hybridization of private and public authority. We describe these ongoing dynamics as transnational governance spirals.

Mechanisms of transnational governance

In this section, we introduce three mechanisms to explain the dynamics of transnational governance spirals and thus the transformation of authority. The literature on mechanisms has grown substantially in recent years (see for instance Braithwaite and Drahos 2000, Mahoney 2001, Davis and Marquis 2005, Falleti and Lynch 2009). The usage of mechanisms in these works varies widely, in part drawing on epistemologically incompatible concepts. For our argument, we follow the understanding of Mayntz (2004) who conceptualizes mechanisms as analytical tools which gain their explanatory quality through ex post analysis or "causal reconstruction". Mechanisms permit statements on how, that is, "by what intermediate steps a certain outcome follows from a set of initial conditions" (Mayntz 2004, p. 241). In more general terms, mechanisms allow causal argumentation in specific contexts while maintaining explanatory clout beyond single case phenomena. Falleti and Lynch (2009, p. 1145) emphasize that mechanisms as "relatively abstract concepts or patterns of action that can travel" from an instance or episode to another. They also "explain how a hypothesized cause creates a particular outcome in a given context." For example, in their research on transnational governance, Djelic and Sahlin-Anderson (2006, p.380) use mechanisms to explain the growth of regulatory activities. They identify three broad mechanisms, which are thought to drive a 'governance spiral': lack of trust, responsibility and the search for control[4].

Methodologically, mechanisms represent an alternative to correlational analysis (Mahoney 2001) aimed at explaining causal relationships in research settings where process dimensions are of particular interest. In contrast to functionalist approaches which interpret mechanisms as externally triggered, law-like cause-and-effect relationships (see Braithwaite and Drahos 2000, p. 15f. for a critical assessment), we use mechanisms to explain contingent institution building processes that largely depend on how actors make use of their competencies and resources. In light of the dynamic nature of transnational governance, we emphasize the potentially countervailing tendencies inherent in mechanisms. The three mechanisms presented below exhibit contradictory forces stressing their non-linear character.

In the regulation of Internet governance and corporate financial reporting, the quest for legitimacy has been an enduring element, and the organizational changes observed in both areas can be largely attributed to responses to demands for more transparency and accountability. Since regulation beyond the nation state cannot rely on the binding force of the law and resources for enforcing transnational norms are generally weak, the recognition of regulatory authority among the regulatees is particularly important. Transnational regulatory efforts face ongoing pressure to

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[4] Distrust demands regulatory measures through instruments such as monitoring, auditing, but also deliberative modes of participation which supposedly increase trust but may ultimately entail new distrust. Responsibility drives regulation because jurisdictions are blurred in transnational environments. Soft and self-regulation shift responsibility to the rule takers, which in turn may create the need for additional rules. The search for control over the development of regulation triggers regulatory growth to the extent that regulatees or rule takers seek to influence the regulatory framework by defining competing schemes.

justify or improve their policies, decision-making procedures and, not least, the composition of their decision-making bodies. Thus, private governance bodies use a significant share of their resources to "advocate" their legitimacy (Beisheim and Dingwerth 2008). In institutionalism, legitimacy has been identified as an important mechanism driving institutional change (DiMaggio and Powell 1983, p. 150). Formal and informal pressures, cultural expectations or mandates by governments lead to structural adaptations which, even if some of them are meant to be "largely ceremonial", are likely to affect the structure and behavior of organizations. Yet, not unlike the lack of trust, legitimation constitutes a rather general mechanism that may be held responsible for a broad variety of effects.

Our cases indicate that all identified mechanisms are related to issues of legitimacy, recognition and acceptance: first, the integration of new actors (and the drawing of new boundaries), second, the authorization of rules (and the disapproval of self-regulation) and third, the formalization (and the ritualized application) of decision-making procedures. We have identified these three mechanisms inductively and therefore limit the presentation of evidence to the two cases under investigation. However, we assume these or similar combinations of mechanisms can also be found in other areas of transnational regulation in which professional expertise and privately organized rule-making are prominent. Thus, while the effects of mechanisms depend on the specific contexts, their occurrence is assumed to be of a more general nature (Falleti and Lynch 2009). We have identified the following three mechanisms to explain the transformation of regulatory authority in Internet governance and corporate financial reporting.

Integration

The demarcation of boundaries and the definition of membership present a challenge to many if not all efforts of transnational organizing. As Grande (2006, p. 90) notes, scopes of economic transaction and political jurisdictions are diverging at an accelerating pace in the transnational sphere. Boundaries can no longer be taken as given, "they are the subject of individual and collective decisions and, what is more, they have to be decided permanently". Boundaries become an object of decision making because they reflect conflicting expectations of who is granted or denied access to relevant fora. From the perspective of an established membership, boundaries help in shaping a collective identity by excluding others who lack required competences or attributes of social status and power. In the case of standard setting bodies the framing of what is common orientations, 'technical' expertise, and practical experience provides core criteria for membership. Specific expertise and shared orientations set experts apart from competing orientations and alternative standard solutions. Furthermore, boundaries guard regulatory efforts against external influences such as political bargaining; they shield professional autonomy and protect the consolidation of recognized knowledge. Expertise is understood as a resource which serves to integrate actors into decision-making procedures while simultaneously excluding alternative views and ideas.

From an external perspective, boundaries surrounding rule-making activities restrict participation and thus might delegitimize the regulatory effort. The more practically relevant private regulation becomes for a specific policy area, the more contested the rule-maker's authority is likely to be. In the course of their development, both ICANN and IASB have faced increasing demands of participation reflecting a pluralization of interests in both policy fields. Both standard setting bodies have responded to external pressures by co-opting actors considered to be sympathetic to their goals and promising to further legitimatize their activities (see Black 2008, p. 147 for the notion of legitimizing communities). This also includes public actors attempting to secure control over influential rule-making efforts. Integration of new actors is an important response to external criticism. At the same time, the shifting or opening up of organizational boundaries may challenge the professional identity of standard setters and the autonomy of the established organizations. Due to the integration of new actors, rule-making activities become embedded in the mesh of regulatory organizations at various levels and professional expertise becomes politicized. The mechanism of integration may thus evoke new efforts of exclusion to protect the organizations' identity and core competences as well as the defining powers of the dominant interest groups.

Authorization

Transnational regulation fills a regulatory void and is often considered to be optional. The voluntary character of standards and norms has been described as a specific advantage over law-based regulation (Kerwer 2005). In practice, however, the relationship between public and private authority proves to be closely entangled and private standard setters devote much of their activity to the quest of authorization through public entities (Tamm Hallström 2004). Implementing privately generated rules and making them binding is the eye of the needle through which private regulators can pass only with the help of third parties, often enough governments. Even if norms generated by private actors are recognized by other private actors – for example through civil law contracts – private acceptance does not equal mandatory provisions. By recognizing privately drafted norms and, simultaneously, standard-setting organizations, public authorities act as a screening agent for private rules and approve their appropriateness. Simultaneously, the quest of authority by private regulators brings about new forms of public private cooperation on the transnational level. In these regulatory arrangements governments may claim the right to set basic conditions defining the validity of standards, thereby negotiating potential distributional effects (cf. the concept of the regulatory state of Jordana and Levi-Faur 2004). Yet, in the fields of Internet and corporate financial reporting regulation, only the US administration and increasingly the EU Commission have proven to be powerful enough to assert their own political interests.

Governments are not the only sources of authorization, however. Regulatory authority on the transnational level depends to a significant degree on the mandate and recognition of rule takers. Regulatees may contribute to regulatory processes thereby recognizing the private rule making authority. Adopting transnational rules, which can be interpreted as an 'authorization from below' proves to be particularly

important against the backdrop of unclear, overlapping and competing jurisdictions. In the area of Internet regulation, rivalry has evolved between private and intergovernmental standard setting competences. Likewise, in the area of corporate financial reporting, competition between private and European standard setting competences has sprung up.

Formalization

Self regulatory efforts have been regularly criticized for their lack of accountability and unbalanced stakeholder representation. Such criticism shows that private rule-setting is measured against political criteria similar to those applied to national and international regulatory authorities. Private actors, too, are expected to respect recognized principles of equality, an orientation to common welfare and transparent procedures. In response to such criticisms, private regulators initiate organizational reforms to confer legitimacy. General criteria such as transparency, accountability and openness for participation become "institutional templates" that are "borrowed" across sectors (Hall and Taylor 1996, p. 953). As a consequence, practices of private norm-setting become increasingly codified and organizational structures experience a growing degree of formalization.

The mechanism of formalization figures prominently in attempts to meet external concerns about the legitimacy of private standard setting. In practice, one advantage of formalized procedures lies in the channeling of consultation and participation. While participatory procedures convey the impression of openness and inclusiveness, they tie seamlessly into an expertise-based understanding of standard-setting which considers openness to technical arguments an inherent quality. More generally, one should not underestimate the ceremonial dimension of such codification processes. As organization theory tells us, clear distinctions need to be made between formal structures and the somewhat "decoupled", everyday work practices of a regulator (cf. Meyer and Rowan 1977). The trend towards formalizing private self-regulation thus goes hand in hand with new informal practices rule-setting, but should not be confused with participation.

Comparing two cases of transnational standardization

We have selected two prominent cases of transnational self-regulation: the Internet communication infrastructures and standards for corporate financial reporting. Both cases have been covered extensively as examples of private transnational rule-making despite differences between the issue areas. Variations are apparent in historical trajectories of regulation and with regard to the actors involved. Nevertheless, there are evident similarities, such as the relevance of professional actors and their expertise, and the inability of public authority to bring about binding rules. Today, both cases are regarded as prime examples of transnational regulation, characterized by a salient gap between economic and political integration (Knill and Lehmkuhl 2002, p. 42). We understand our two examples as critical cases that allow us to challenge and extend theory (Yin 2009). This also reflects the assumption that

"the crucial variation may no longer be among different states and their domestic realm, but between different transgovernmental and non-governmental networks, their internal configurations, and their unique domestic and international context" (Orenstein and Schmitz 2006, p. 17, see also Dingwerth 2007, p. 191). The comparison serves to emphasize the dynamics of transnational governance and provides explanations on the basis of mechanisms as analytical constructs. While we do not claim that our cases present immediate generalizable results, the causal reconstruction also reveals conceptual insights on transnational governance spirals.

The first case study deals with the regulation of the Internet's infrastructure, i.e. the Domain Name System and Internet addresses (IP numbers). Internet names and numbers were originally developed by a private standard-setting organization. In the second half of the 1990s, the US Government assumed oversight responsibility for the regulation of these resources. A private company was entrusted with the task of establishing a contract-based framework for self-regulation, but doubts about the clout and legitimacy of the new arrangement has led to a number of reforms. The second case study traces the inception of transnational standards for the disclosure of information in corporate financial reports. Conceived three decades ago as an association-based, initially voluntary harmonization project dominated by experts as an alternative to national regulations, IASB emerged as an assertive private organization whose standards have spread globally. The development of the once voluntary standardization project is characterized by an increasing integration of important actors, and by linking up with public hierarchy, especially when standards have to be enforced.

Both cases show dynamic developments rather than unidirectional shifts of authority. Whereas the early phase of Internet governance and the setting of international accounting standards seemed to indicate that public regulatory authority was declining, our study contradicts the presumption of such linear changes. Rather, the comparison suggests that change is occurring as a transformation of forms of private-public norm-setting and as an extension of sources of authority. We interpret the ongoing dynamics as transnational governance spirals continuously readjusting private-public interactions.

ICANN: the case of Internet regulation

Until the late 1980s, international communication services such as postal service and telephony in most countries were run as a sovereign monopoly. International collaboration was organized as an intergovernmental process and confined to ensuring that autonomous national infrastructures were compatible across frontiers (Cowhey 1990). In the 1970s the development of digital information technology led to a rapid proliferation of manufacturer-specific communication networks (Abbate 1999, p. 149). Because communication across these networks was difficult, uniform standards were needed that would not only facilitate digital communication as a global mass service but also create an international market for information technology.

Private initiative: Whereas international standard setting in telecommunications used to be an intergovernmental responsibility carried out by the International Telecommunication Union (ITU), data networking standards from the 1970s on have been subject to various private and public efforts. The development of Internet standards goes back to a group of engineers which got research funding from the US Department of Defense for addressing the problem of 'internetworking'. In 1986, these engineers formed the Internet Engineering Task Force (IETF), a "loosely self-organized group of people" (Hoffman 2006) without a legal status or formal organizational boundaries. Aided by government funding, yet largely free of government intervention, the IETF created a cluster of technical, social, and administrative norms that effectively regulated the use of the Internet until the mid 1990s. The tradition of the Internet's self-regulation is not least a result of the governments' disinterest in the former research network that gave rise to today's Internet. An academic culture of expertise, experimentation and sharing of what were regarded as public resources were formative aspects of the IETF's ideas about managing the Internet. Their standards gained legitimacy by virtue of low participation thresholds and an application-oriented meritocracy. Authority in the engineering community was rooted in personal expertise and contributions to the common good, the technical development and coordination of the Internet (Hofmann 2007).

Initially, the engineers who had developed the Internet also assumed responsibility for administering the Internet's name and addressing systems. The editing and indexing of the standards, the allocation of Internet addresses and the delegation of top-level domains were incumbent upon the Internet Assigned Numbers Authority (IANA, the institutional precursor of ICANN). From today's perspective, these responsibilities implied an enormous amount of power which, until the founding of ICANN, was held by a single person: Jon Postel. As long as the Internet was the preserve of a small, exclusive community, an informal administrative structure resting on personal trust seemed suitable, and the (academic) users broadly concurred with this culture of sharing.

Opening private self-regulation: However, when the infrastructure was privatized in 1992, and the Internet became a mass medium, the composition of Internet users changed quickly, and the IETF's authority to define the technical and administrative norms of the Internet began to erode. Disputes over titles for domain names proved to be a catalyst for this process (Mueller 2002). Domain names, which had been considered a public resource before the privatization, turned into assets with speculative value. An informal secondary market for domain names evolved and in 1994, the first legal disputes over domain names occurred. In that year, Jon Postel still declared that "concerns about 'rights' and 'ownership' of domains are inappropriate" (Postel 1994). This view, which at that time indisputably reflected majority opinion in the IETF (see Mitchell *et al.* 1997), increasingly collided with demands of the expanding electronic commerce which was out to protect its claims to ownership of trademarks on the Internet. Another problem arose from the administrative structure of the Domain Name System. Although many observers argued for the creation of additional top-level domains and the launching of a

competitive registration system, the IETF's informal, meritocracy based coordination structures lacked the clout to take legitimate action on such goals. Flaring conflicts of interest showed that the engineering community was no longer able to act on behalf of all Internet users and that the hitherto unquestioned link between technical and political authority of norm-setting was losing acceptance (Froomkin 2000, pp. 61-62).

The IETF and its legal holding organization, the Internet Society (founded in 1992), responded to the pluralization of interests surrounding the Internet by striving to integrate them. Offers of cooperation were made, particularly to intellectual property organizations and the competing intergovernmental organization for standard setting, the ITU. However, the selective integration of powerful organizations drew heavy criticism and once again, the engineering community saw its authority defied by the allegation of favoritism. The effort to integrate vociferous critics as partners-in-cooperation only exacerbated the IETF's problem of legitimacy.

Public engagement in 'self'-regulation: In the course of 1997, the US Department of Commerce intervened in the growing authority conflicts, declaring governmental jurisdiction over the Internet infrastructure by virtue of the public research funding that had gone into its development, and henceforth assumed responsibility for negotiating a new regulatory model for the Internet.[5] The US government adopted the popular idea of creating legitimate order through private self-regulation in the global cyberspace. In 1998, the IANA was replaced by a non-profit organization, the Internet Corporation for Assigned Names and Numbers (ICANN). A Memorandum of Understanding between the US Department of Commerce and ICANN laid down the division of responsibilities between both actors including a schedule for the intended privatization of those responsibilities. The US government delegated the administration of the Domain Name System and the introduction of a domain name market to ICANN. The agreement also stipulated that regulatory measures were to be developed consensually by all participating volunteers representing the interests of business and civil society (see Weinberg 2001). In response to requests from the European Union, governments were granted a consultative role in the form of a "Governmental Advisory Committee" under the new regime.

When the US Department of Commerce announced its intention to create a global contractual regime for the Domain Name System, it overruled private initiatives also aiming at creating a new international regulatory framework for the Internet. Hence, the US government imposed public authority onto a largely self-regulatory structure with the official objective of privatizing it. This procedure's inherent contradiction became obvious in subsequent years, when it turned out that the US government would not end its supervisory function within the foreseen two-year timeframe but instead repeatedly extended it, thus moving away from the plan of a total privatization of Internet regulation. As a result, the term self-regulation changed its meaning. Regulatory authority on the Internet is drawing upon, and attempting to

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[5]The US Department of Commerce declared jurisdiction only over the regulatory functions of the Internet's name and address spaces. The IETF has been able to retain its autonomy in setting technical standards.

reconcile, heterogeneous sources of legitimation including US administrative law, ICANN's bylaws, technical expertise, and the consent of the regulatees, which in itself is difficult to achieve. The tensions among these sources of 'joint authorship' contribute to the transformation ICANN.

Embedding 'self'-regulation: At first glance the regime of private self regulation under public supervision seemed to meet general expectations. Since its inception, ICANN has created a market for domain names and has established a well-known international arbitration procedure, so trademark law is now largely respected in the Domain Name System. ICANN sets mandatory rules and domain name holders, commercial registrars and many registries are contractually obliged to comply with them. Even the introduction of new top-level domains may be gradually approaching. Yet, despite such achievements ICANN's norm setting authority remains contested and fragile. The bottom-up process for building consensus, for example, has repeatedly foundered on the participating volunteers' lack of willingness to compromise. Notorious bones of contention concern the conditions for creation of new top-level domains or (nationally varying) data-protection provisions (Hunter 2003). Issues of legitimacy have also arisen on the international level due to the persisting unilateral control of the global network infrastructure by the U.S government. The reconsideration of the projected privatization became the subject of protracted multi-level negotiations not only between ICANN and the US Department of Commerce but also among various governments and intergovernmental organizations (Christou and Simpson 2007). The UN World Summit on Information Society in 2003 and 2005 was the first intergovernmental process that challenged the self-regulation regime under the supervision of the US government. Proving unable to reach consensus on the future of Internet regulation, the UN summit resorted to establishing a new "multi-stakeholder" venue to continue the discussion on Internet governance, the Internet Governance Forum (Flyverbom and Bislev 2008). The new forum has created a global deliberative space for debating Internet regulation and linking it to related policy areas (security, development) and regulatory processes.

ICANN has responded to internal and external criticism by getting involved in other transnational efforts such as the Internet Governance Forum and by formalizing its policy development and consultation processes, introducing comprehensive accountability provisions and increasing the transparency of its decision-making procedures (Koppell 2005). As part of the "Affirmation of Commitment" which in 2009 replaced the Joint Project Agreement between the US government and ICANN, the latter agreed to further improvements of its transparency and accountability provisions.[6] The growing emphasis on formal rules and ostensibly rational, fact-based decision-making procedures accompanied by a constantly growing number of functions and employees is expected to generate trust in the impartiality of self-regulation. Yet, there are signs of a decoupling of formal rulemaking structures from actual policy-making practices, such as the unaccountable influence of ICANN staff on policy processes, informal backroom negotiations, and the rotation of a small number of loyal experts across committees and responsibilities. While ICANN's

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[6] All agreements between the US government and ICANN can be found here: http://www.icann.org/en/general/agreements.htm.

formal structures and procedures are subject to an ongoing process of bureaucratization, the actual practices of policy making still show elements of the informal, expertise-based authority of the early days of Internet regulation.

IASB: the case of corporate financial reporting regulation

First and foremost, cross-border regulation of accounting standards aims at bringing about comparability of information displayed in corporate financial reports. During the late 1960s, accountants from North America and Britain established a study group to coordinate the international activities of accounting practitioners. A small circle of individuals from national professional associations, who were also partners in auditing firms, set out to prepare comparative studies addressing practical problems related to accounting requirements of firms operating in various jurisdictions (Thomas 1970). These activities were formalized in 1973 when the International Accounting Standards Committee (IASC), IASB's predecessor, was founded.[7] National professions joined forces to develop International Accounting Standards (IAS) aiming to ease the international comparison of corporate information as well as the cross-border mobility of capital.

Private initiative: Anglo-American professionals were particularly active in establishing the IASC. Accountants from Britain, primarily Sir Henry Benson, were strongly engaged in setting up the IASC, partly to counter attempts by the European Community to develop a prescriptive set of European standards in the field of accounting (Hopwood 1994). Membership of the early IASC was confined to nine national professional associations from North America, Europe and Japan which began work by collecting national accounting rules and reformatting them as IAS. During the early years, a number of non-binding and rather vague standards were issued. These "consensus standards" were essentially summaries of accepted national practices (Thorell and Whittington 1994, p. 224) and did not prove to be sufficient for approval by public regulators or for acceptance of corporations preparing financial reports. However, after pressure emerged at the UN-level to develop strict disclosure requirements for multinational corporations, a coalition of private actors started to back IASC's light touch regulatory approach. Bodies such as the International Chamber of Commerce and the International Organization of Employers came forward to support the professions' self-regulatory approach in order to prevent more stringent public regulation (Rahman 1998). IASC was also successful in securing support from the Organization for Economic Co-Operation and Development as well as from some Central Bank governors.

Opening private self-regulation: The formative years of international accounting standardization were strongly influenced by professional associations and practitioners from Anglo-American countries. They were eager to preserve the room for maneuver they enjoyed at the national level and wanted to extend it into the

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[7] Details of the IASB's development have been covered elsewhere, see Tamm Hallström 2004, Martinez-Diaz 2005, Perry and Nölke 2005, Botzem and Quack 2006, Camfferman and Zeff 2007, Botzem 2008, Botzem and Quack 2009.

transnational arena. Deeply embedded in liberal notions of anti-statist ideology, accounting practitioners from Anglo-America stressed the merits of problem-oriented and incremental self-regulation. However, it became clear that the professional regulatory project had to be expanded beyond the field of accounting itself in order for the IASC to become a recognized player of cross-border regulation. The organization opened up to a number of interest groups which were important veto-players or which could provide legitimacy to its cause. During the first decades, the IASC included professional associations from developing countries, the representatives of financial analysts, and national regulatory agencies such as the US Securities and Exchange Commission (SEC) and the European Commission. While these moves helped in establishing the IASC as the hub of a transnational network of standard setting (Braithwaite and Drahos 2000, p. 121), contrasting views about the goal of transnational standardization were now assembled within the organization and continued to make the development of coherent standards difficult. The continued activity of issuing standards did not result in the diffusion of IAS. Private corporations were hesitant to apply international standards, partly because national legal requirements prohibited their use, partly because the ambiguity of IAS averted corporations from using them. In the late 1980s, IASC engaged in specifying IAS by excluding accounting provisions which did not correspond to a pro-market orientation (Botzem and Quack 2006).

Public engagement in 'self'-regulation: During the 1990s it became clear that market actors showed increasing interest in internationally uniform accounting standards. Since the effect of applying IAS was uncertain, a number of firms from Continental Europe opted for US standards in order to fulfill the information requirements of internationally active investors and analysts. Fearing a loss of influence, the European Commission decided to opt for IAS to prevent European corporations from applying US standards (EC 1995). For the first time, IASC became recognized by an important regulatory actor. Europe's clout, however, did not prove to be sufficient. Conflict between the EC on the one hand and the SEC on the other hand emerged over how the IASC should be organized in the future. While Europe called for a modified structure of national delegations, the SEC and other Anglo-American actors stipulated that the newly established IASB should be a private foundation without any formal capacity of public authority over the content of standards (Martinez-Diaz 2005). The SEC carried through and helped the accounting experts to establish a not-for profit private sector organization which centered on 'technical expertise'. IOSCO, the International Organization of Securities Commissions, in great part influenced by the SEC, became a key player with which IASC engaged to revise its standards and narrow them down to the information requirements of capital market actors (Tamm Hallström 2004). Other international organizations, such as the World Bank and the Bank for International Settlements, also supported an allegedly non-political organizational structure. Today, a small number of experienced individuals dominates transnational standard setting and exercises its influence as an independent body. To defend 'technical' expertise, a number of private, pro-market constituents were included that favored standards addressing information requirements of capital market actors. In addition to accountants, preparers of financial statements, users, regulators and academics were included into the

standardization procedures on the basis of a quota system. This selective integration aimed at ensuring input legitimacy by bringing relevant actors to the table. Others, such as labor representatives or national governments were not included. This proved to be sufficient for some jurisdictions, namely the European Union, which introduced regulation to require the use of IAS for listed corporations from 2005 onwards.

Embedding 'self'-regulation: In 2001, IASB's transformation into a private sector body was completed and formal links with national professional associations were cut. Instead, special relations with some regulatory agencies were established to acknowledge the requirements of standards' enforcement. To ensure the acceptance by private organizations, links with financial market actors were intensified to secure their recognition of IAS as the most relevant set of accounting standards for internationalized markets. To that end, the IASB contrasts 'technical' expertise based standardization with 'political' interest driven statist regulation in order to claim full independence for decision-making on the normative content of standards. Such an understanding is shared by the US standard setter FASB (Financial Accounting Standards Board) with whom IASB cooperates closely. To make sure that IAS are in line with US accounting principles, both standard setters have signed a Memorandum of Understanding in which they agree to work towards convergence of IAS and US standards. In the future, the result of this process could be one global set of standards for financial reporting. However, this special relationship makes the US regulator a key player and has provoked criticism in Europe and elsewhere. In addition, the increasing weight of auditing firms spurs critique: They have replaced national associations as the prime locus of expertise (Greenwood *et al.* 2002; Cooper and Robson 2006). In fact, their representation in the IASB is very strong and a good portion of funding is supplied by the Big 4 accounting firms (Botzem 2008).

To counter some of the criticism and to depict the IASB as a modern organization, transparency is becoming ever more important. Today, many of the documents are available online, and IASB Board meetings are open to the public. Most important, however, is the implementation of a detailed due process which the IASB Board applies to set standards. Despite a precise codification of rigorous procedures, the practical relevance of the due process is unclear. Formally, the due process is a consultation procedure in which Comment letters are sent in by any interested individual or organization. How they affect the discussions in and decisions of the IASB Board remains an open question. The fact that comments are sent in at a rather late stage in the standardization process gives rise to doubts and suggests a predominantly ceremonial nature of the due process. This corresponds with a steady growth in staff and expenditures and can be interpreted as an increasing bureaucratization of the IASB. Despite the current financial crisis, its position as the central actor in transnational accounting regulation seems largely unchallenged.

Regulatory authority in transformation

Systematizing the causal reconstructions of both cases allows pointing out commonalities to sketch out some overarching elements of how regulatory authority is transformed. A process analysis of Internet regulation illuminates the

transformation from an expertise-based authority to a hybrid which in new ways merges private and public forms of authority. Among the constitutional sources of authority are US governmental oversight and administrative law and the ever expanding ICANN bylaws which specify the organization's structures, responsibilities and processes of rulemaking. The latter source of authority has reached a degree of complexity that it seems justified to characterize it as bureaucratization of volunteer-based regulation. Additional, "softer" sources of authority are technical and regulatory expertise, consensus-building efforts among participants or recommendations by ICANN's Governmental Advisory Committee. The observation of a hybridization of authority does not imply that public and private actors become indistinguishable or that sectoral boundaries between them blur as some authors suggest (Djelic and Sahlin-Andersson 2006, Grande 2006), but rather that in the transnational sphere various sources of authority mutate into new forms of "joint authorship".

The transformation of authority in Internet governance has been neither linear nor chaotic; rather it resembles a spiral movement driven by recurring problems of legitimacy. The development of Internet governance is characterized by a continuing pressure to integrate new actors; initially to embrace politically powerful critics of the technical meritocracy, later on because ICANN came to regard regional and sectoral diversity as a source of legitimacy in itself. While the increasing number of participants hasn't had noticeable effects on the overall balance of interests in ICANN, the original framing of Internet governance as mere technical coordination has shifted towards a more political interpretation (Flyverbom and Bislev 2008).

Whereas Internet regulation is formally based on a contract regime with binding rules, ICANN's authority as a regulator still depends on the recognition by governments, particularly the US government, and the regulatees. The need for public and private authorization accounts for the decline of the meritocracy which shaped the early stage of Internet self-regulation. In order to extend regulatory authority beyond the engineering community, its organizational and conceptual core had to be thoroughly transformed; technical standard-setting was decoupled from regulation, a new organization was created and procedures for participation, representation and bottom-up consensus-building developed. Moreover, private self-regulation emerged as a powerful new frame of reference – despite the US government's supervisory role. Yet, ICANN's frequent reform efforts and the advent of new organizations such as the Internet Governance Forum indicate that the composition, boundaries and competences of this 'self' remain a contested issue.

As a response to persistent criticisms of its regulatory performance, ICANN has noticeably formalized its decision-making procedures, improved its transparency and accountability provisions and created multiple new offices and functions to consolidate the "multi-stakeholder bottom up model". The formalization of regulatory procedures is meant to secure due process and sound outcomes, yet at the same time it shifts the balance of power between volunteers and ICANN staff in favor of the latter. Authority in Internet regulation thus assumes a bureaucratic rationality which privileges rules of procedure over substantive political debates.

The case of transnational regulation of disclosure requirements for corporate reporting exhibits similar characteristics. The process analysis shows a transformation from a profession-based regulatory regime into a complex private-public arrangement drawing on a variety of sources of authority. Standard setting relies on 'technical' expertise defined by professionals and private services firms. In addition, organizational structures increasingly fulfill requirements usually applied to public law making, such as transparency and accountability. Furthermore, enforcement by public actors, namely regulatory agencies, is a key source of authority. Last but not least, IASB is embedded in a tightly knit institutional setting of individuals and organizations who work on and struggle over the development of International Accounting Standards.

Cross-border standardization of accounting rules has been modified considerably over time. Change can be detected at various levels: Standards have been revised to cater to the information needs of capital market actors. The organizational structure has been continuously reconfigured, gradually integrating private actors and some national regulatory agencies. Increasing efforts to demonstrate transparency, precise consultation procedures, and growing internal differentiation indicate IASB's importance, but also point to a bureaucratization of transnational standard setting. During the last four decades, IASB has acquired more and more regulatory clout and has changed from an arena of standard setting to an actor dominating the transnational regulatory network.

In accounting standardization, regulatory authority has changed in a number of ways leading to a hybridization of the sources of authority. With regard to actor constellations a shift can be observed from professional associations to a small number of globally operating auditing firms. While the former have been formally excluded during various organizational makeovers, the latter now constitute the relevant loci of expertise and are able to exert considerable influence over the standardization process. Contrary to the official rhetoric of private self-regulation, national regulatory agencies and some selected International Organizations figure prominently in transnational standard setting. While public actors originally had a strong interest in taxation, today they aim at ensuring the global mobility of capital trying to balance investor protection with low transaction costs. As a result of changing actor constellations, regulatory authority has been broadened considerably. Professional actors have invited private corporations and in addition brought International Organizations on board which are concerned with (de-)regulating capital markets, such as the OECD, IOSCO, and the World Bank. This allowed combining the 'technical' expertise of professionals with public recognition of important regulatory agencies. The ex-post enforcement of privately developed standards in many national jurisdictions is one particularly important aspect of the joint authorship in accounting standardization.

Today's transnational regulatory authority in accountancy is an amalgamation of private and public sources authorized both by state and non-state actors. Third parties who adopt standards are particularly important because they legitimize private

regulation. Another source of legitimacy is the increasing formalization of procedures, namely the due process. 'Technical' expertise, which is said to allow for rational decision-making, exemplifies the importance of ideas in transnational regulation. The IASB is active in framing the relevant expertise and uses its official rhetoric as an immunization strategy both against societal claims and as a defense against intensified public control. European demands for more influence over the organization and for more leeway in IAS are usually dismissed as lobbying attempts inhibiting 'technically' appropriate standards.

Conclusion: transnational governance spirals

As different as the two regulatory arrangements may seem at first glance, the comparative process analysis reveals important commonalities. Regulatory authority in both fields is subject to continuous change; public and private actors struggle for control over the evolving principles and processes which constitute the respective governance arrangements. Both norm-setting efforts started out as meritocracies which derived their authority from narrowly defined technical expertise. Today, however, regulatory authority in both fields is subject to a process of hybridization. Private and public sources of authority, commonly believed to be distinct, are merging into new configurations linking administrative law and contract law with voluntary participation, professional expertise and accountability procedures, to name but a few. The mechanisms we identified suggest interpreting this transformation as a persistent struggle for legitimacy. More precisely, the transformation of regulatory authority is driven by the integration of relevant actors (within the semantic frame of private self-regulation), authorization by public and private actors, and the formalization of decision-making procedures.

The early phase of transnational standardization reflects the emphasis participants put on practical outcomes to advance their goal of establishing cross-border standards. Self-regulation in this early stage meant developing immediate solutions for professionally defined technical problems. The authority of these solutions rested on shared expertise, objectives and values across their professional cultures. In both cases, the core of transnational standard-setting consisted of a small, informal group of experts who knew each other through practical collaboration. The integration of third parties sought by private actors indicates the limits of private authority in transnational regulation. As rules and standards became ever more relevant and influential, private regulation began competing or even clashing with existing rules and regulatory authorities. The cooptation of critical actors was an attempt to respond to these conflicts. The different effects of the integrative efforts can be explained in terms of the specific contexts of action that determine transnational standard setting.

Authorization of private standard setting initiatives has been a pivotal element of government involvement in both cases. Government recognition has both elevated and limited the status of private rule-setting. It was vital for the diffusion of standards but it also influenced the direction of standard-setting. Examples are the application of trademark law to the allocation of domain names and the aligning of accounting rules with the information needs of capital markets. At the same time, authorization

from rule takers through participation or mere compliance has conferred trust in the self-regulation process and strengthened the reputation of ICANN and IASB as transnational sites of rulemaking. Yet, public and private participants have also expressed criticism and at times delegitimized the regulatory authority of both organizations.

The growing political clout of transnational regulation has raised new problems of legitimacy. Both regulators have been criticized for favoritism, lack of transparency, inclusiveness and accountability. To the extent that private norms have become quasi legal obligations in both fields, ICANN and IASB increasingly face normative requirements that resemble those of public bodies. In order to ensure recognition, both regulators are thus converting to the procedural ideals of democratic legitimation and frame their activities accordingly. ICANN as well as IASB have undertaken extensive reforms designed to bolster trust and confidence in their competence. The differentiation, rationalization and codification of procedures have been a main priority of these reforms. In recent years, for example, ICANN has inflated its accountability provisions. The IASB, in turn, has subjected its standardization procedures to democratic principles of openness and participation. Although these measures do by no means prevent informal ways of coordinating or in-transparent decision-making, they contribute to the transformation of transnational authority. Principles such as accountability, inclusiveness or openness turn into widely accepted benchmarks around which expectations converge and against which the legitimacy of practices are assessed. Regulatory authority in both fields has become institutionalized and to some extent ceremonial.

We have suggested the image of a governance spiral to highlight the profound transformation of regulatory authority in the transnational sphere. Over the last decade, transnational standardization has been subject to an increasing institutionalization of originally informal norm-setting practices. Expertise-based self-regulation has been replaced by hybrid arrangements which combine private and public sources of authority. We have specified three mechanisms that help to explain this process: integration, authorization and formalization. These mechanisms not only specify how transnational institution building has been taken place in two selected policy areas. They also highlight the relevance of legitimacy in transforming regulatory authority and explain why actor constellations have changed. Further research looking at how private actors set out to fill the regulatory void at the transnational level, could benefit by taking these findings into account.

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