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Accounting in the Global Environment

Michael Gaffikin

Internationalisation has been an important consideration for business practice for some time. Accounting has attempted to facilitate this through the creation of an international regulatory framework. Notions of internationalization have now been superseded by that of globalisation. However, there have been resistances and their impact on accounting are discussed

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Joseph Stiglitz, the 2001 Nobel Prize in Economics winner, has suggested that "Almost overnight, globalization has become the most pressing issue of our times" (2002, p 4). There are several dimensions to globalisation but all too often the discussion centres around "the emerging global economic system its history, structure, and supposed benefits and failings" (Steger, 2003, Preface). This discussion has greatly affected accounting and we are now in an era in which there are serious attempts to develop global regulation of the financial information in financial statements. As Tweedie has stated:

> The International Accounting Standards Board (IASB) is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements" (foreword to Alfredson et al, 2005).

The major stated reason for these international accounting standards has been the need for the free movement of funds to accompany the globalisation of capital markets. As a one time Chairman of the US Federal Reserve Board of Trustees has said:

> If markets are to function properly and capital is to be allocated efficiently, investors require transparency and must have the confidence that financial information accurately reflects economic performance. . . . . In a rapidly globalising world, it only makes sense that the same economic transaction are accounted for in the same manner across various jurisdictions (Paul Volcker quote in Alfredson et al, 2005, p 5)

The last quotation is a little ironic as the United States has been one of the few countries to not whole-heartedly accept the move towards international financial reporting standards (IFRS) – maybe Volcker had another option in mind? However, these are the sentiments that led the Australian Accounting Standards Board (AASB), after consultation with the Financial Reporting Council (FRC), to move to the complete adoption of IFRS, as have many other countries.

History of the International Accounting Standards Board (IASB)

The IASB started its life in a different guise. In the late 1960s representatives of the accounting professional bodies of the United Kingdom, Canada and the United States

formed the Accountants International Study Group (AISG). Their intention was to try and seek some harmonisation of accounting and auditing practices in their countries with a longer term view that some day combined accounting standards could be issued. The AISG had a life of about ten years and issued 20 studies before it was disbanded (in 1977). At the 1972 World Congress of Accountants in Sydney representatives of the Group met to discuss a proposal to form an International Accounting Standards Committee (IASC). It was agreed and representatives of six other countries (Australia, France, Germany, Japan, the Netherlands and Mexico) were invited to join and in 1973 the IASC commenced operations with its inaugural meeting of 29 June 1973 at its headquarters in London, England. Each of the nine members[1] had a representative on the IASC Board. A year later several countries were admitted as Associate Members (Belgium, India, Israel, New Zealand, Pakistan and Zimbabwe) and from that time additional associate member have been admitted.

Prior to the formation of the IASC a worldwide federation of professional accounting bodies had existed – the International Federation of Accountants (IFAC). It was agreed between the two bodies that the IASC would assume responsibility for all matters relating to international accounting standards, while IFAC would continue as a "federation" of professional accounting bodies and be concerned with other matters affecting accounting. All members of IFAC were invited to join IASC.

Like accounting, the world's securities markets regulators have an international "federation", called the International of Securities Commissions (IOSCO)[2]. This body has proved to be an extremely important "lobby" group for the establishment of international accounting standards. It has been, Parker and Morris argue, "a demanding critic of the IASC's harmonization efforts" (2001, p 298). Its concern in the last two decades of the twentieth century was that inconsistent nationally imposed accounting standards hindered the international flow of financial investment due to the uncertainty which investors faced in reading the different financial reports. There were, they argued, inefficiencies between capital markets resulting from the differing accounting policies and enforcement. It, together with many other significant world financial and economic bodies (eg World Bank) pressured member countries for the creation of effective international accounting standards.

International Accounting Standards

The IASC had, since its establishment in 1973, issued international accounting standards. Member countries were obliged, insofar as it was practicable, to comply with these standards. This took the form of national accounting standards consistent with these international standards or a clear indication of how they differed. It is probably fair to say that initially, while there was considerable willingness to comply with the spirit of having

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[1] The UK representative also represented Ireland.

[2] Membership includes ASIC and the SEC and similar organizations of many other countries. There are three classes of members – ordinary (national bodies), associate (other non-national securities commissions in some countries eg Alberta, Canada, and other authorities with interests in financial securities) and affiliate (organizations with similar concerns, eg Australian Stock Exchange) and they (plus other information) can be found at the organisation's website – www.iosco.org

international accounting standards, it was the national accounting standards to which more attention was directed. It was the recognition of this state of affairs that led to the pressure from the world bodies described above such that towards the end of the twentieth century the emphasis had shifted to harmonisation and then convergence of national standards with international standards.

The issuing of accounting regulation (standards) is a costly process. Therefore, to avoid the cost of developing national standards, many smaller countries adopted the international accounting standards as their national standards. Other countries have adopted international standards for more ideological reasons – the growth and expansion of efficient global financial markets. The move to adoption of the international accounting standards has not been easy as in some countries it was seen as surrendering sovereignty – handing economic regulation to organisations outside the state. In addition there were cultural factors (infrastructural and institutional) to be considered. Nevertheless, there has been quite considerable success.

The process of issuing accounting standards by the IASC was similar to that in many member countries;

1 a project "recognised as needing attention – a steering committee of experts appointed;
2 usually a discussion (or issues) paper published as well as a draft statement of principles (DSOP);
3 an exposure draft published to solicit public comment; and
4 standards issued

Also, like in some member countries, the IASC felt it was necessary to establish a Standing Interpretations Committee (SIC) whose responsibility was to settle any implementation issues that arose. For example, in the United States the standard on accounting for financial instruments (FAS 133) had been seen as especially difficult and in need of extra guidance provided for members so guidelines were published. Similarly with the international accounting standard, IAS 39 Financial Instruments: Recognition and Measurement. The IASC created a Implementation Guidance Committee (IGC). This committee addressed several issues surrounding the standard most if which were later incorporated in the revised accounting standard.

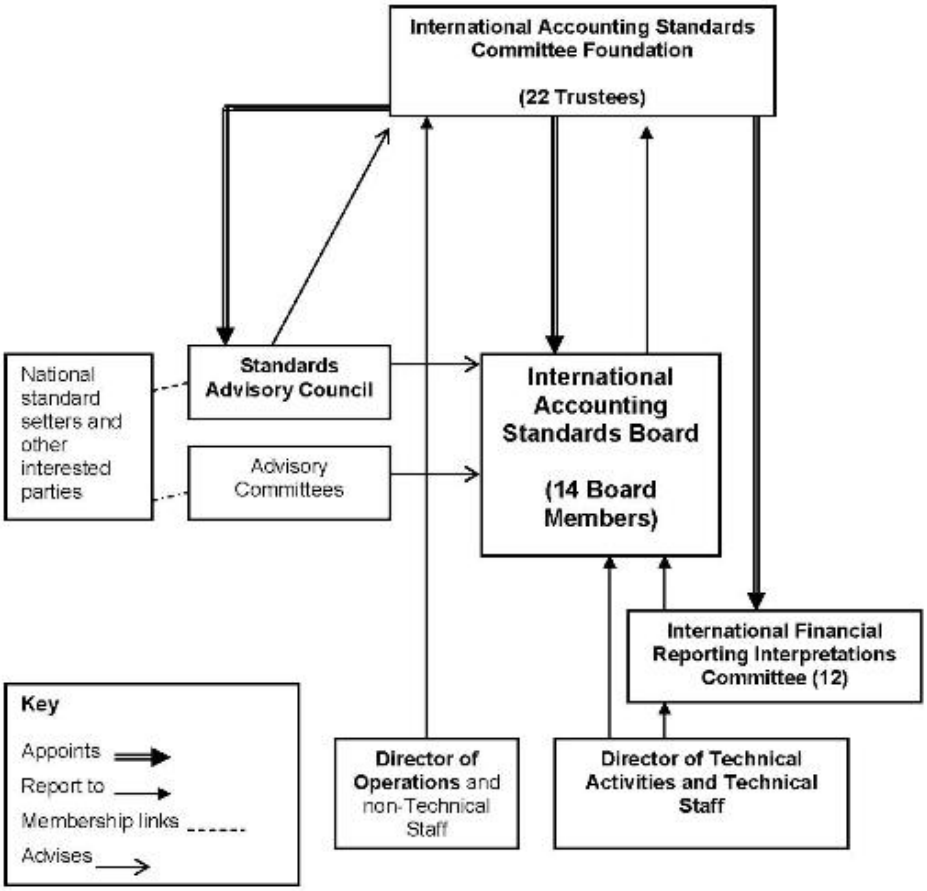
In addition, also like in many member countries, the IASC developed a statement explaining the conceptual basis for the accounting standards it was to issue. This resulted in 1989 in the adoption of the *Framework for the Preparation of Financial Statements*, - essentially the IASC's conceptual framework. This signalled the intention of the IASC to develop **principles based** standard rather than (as in the United States) **rules based** standards. The major difference in the two approaches is that the principles based approach proceeds from underlying principles (such as expressed in the *Framework*) whereas a rules based approach attempts to specify actions for each instance, that is, rules with which to comply in specified situations. The principles approach relies on professional judgement in applying the principles relevant to the transaction(s) rather than stipulating the procedures to be followed. The differing philosophies have been cited as a

major reason for the less than whole-hearted acceptance by the United States of international accounting standards. However, it also accounts for there being far fewer international accounting standards than US accounting standards.

International Financial Reporting Standards

History repeats itself. The problems faced by regulators in the USA some three decades earlier also arose in respect of the IASC which resulted in the restructuring and reconstituting of the IASC from a part time body to a full time one in order to cope with the extensive amount of work needed to develop effective standards. Early in this century the IASC was replaced by a smaller but mainly full time International Accounting Standards Board (IASB). This body was to operate under a governing foundation of trustees representing different part of the world – the International Accounting Standards Committee Foundation (IASCF). The new IASB was to be assisted by an advisory body called a Standards Advisory Council (SAC). The previous SIC was to continue in revised form as the International Financial Reporting Interpretations Committee (IFRIC). International accounting standards are to be known as International Financial Reporting Standards (IFRS). The IASB was also to be assisted by members with liaison responsibilities. These members are Australia, Canada, France, Germany, Japan, New Zealand, the UK and the USA and their responsibility is to meet with other members to ensure that all members' interests are fully represented

The IASC had issued forty-one international accounting standards and the SIC has issued thirty-three interpretations. Although the new standards are called international financial reporting standards (IFRS) the previously issued standards are to remain as international accounting standards until they are amended or replaced. Similarly the SICs will also remain in force until replaced. However, as indicated above, standards issued under the IASB are called IFRS and interpretations are called IFRICs.



[source: http://www.iasb.org/about/structure.asp]

FIGURE 6.1 Structure of IASB

Adoption of IFRS

Not all countries have adopted IRFS as their standards as yet. Australia is one country that has adopted IFRS which are effectively the national accounting standards with the provision that the letter A is placed in front to indicate that the AASB has resolved to adopt the IFRS as the Australian standards[3]. The European Union also requires all listed companies to employ IFRS for their consolidated accounts. However, unlike Australia where there is one securities regulator, there are several in Europe so enforcement of compliance will be more complex in Europe than in Australia. Other countries have adopted IFRS as their national standards, for example Bangladesh. Some countries (for

[3] There are many sources for specific details of Australian accounting standards, for example Roshan and Wong, 2006.

example New Zealand) are moving towards this position while other countries remain further from full scale convergence (for example Canada).

The accounting and business communities have long argued the case for and against the harmonisation of accounting standards. It is necessary, as some commentators have argued, in order to improve "the allocation of goods, labour and capital in international markets. to reduce firms' costs of capital and operating expenses, and to facilitate social control of multinational companies" (Parker and Morris, 2001. p 299). However, as two past presidents of the Australian accounting professional bodies have stated, "care needs to be exercised that in the pursuit of common accounting rules the resulting standards do not become overly prescriptive, lack economic reality and understandability" (Kropp and Johnston, 1996, p 289). The notion of harmonisation has also been the subject of debate. While it can be seen as "a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation" (Nobes quoted in Parker and Morris, 2001, p 302), there is a difference in what is legally required in regulations (de jure or formal harmony) and what is actually done by companies in practice (de facto or material harmony). Some researchers have even provided measure of the degree to which some national accounting standards are in "harmony" with IFRS (for example, Fontes et al, 2005).

One "cost" to the Australian accounting profession will be the loss of influence it has on the international accounting community. Some years ago, Peter Agars, then a partner in a major international accounting firm, argued that Australia played an important role in international accounting practice. He claimed that

> Australia helps to keep the international profession in balance in four ways:
>
> - by the influence it exerts in standard setting
> - by the influence it exerts on behalf of the Asia-Pacific region
> - by the equilibrium it engenders between the major power
> - by the resources it contributes" (Agars, 1996, p 362)

The relationship of IFRS to the FASB's standards (USA) is complicated. The ISRB and FASB have been negotiating convergence but it still seems some time before this will occur as there are a few deep differences. The situation is actually quite a paradox. As indicate above, the IASB has stated it will adopt a principles based approach unlike the rules based approach used in the United States. However, at the same time the IASB has a stated policy of moving closer to FASB standards to encourage full convergence! However, to be fair, the SEC and FASB have started discussions on the appropriateness of a principles based approach which, no doubt, would make full convergence easier. The matter is quite complex and relates to where companies are registered. For example, in Canada, foreign securities issuers are permitted to use IFRS in place of and with reconciliation to Canadian GAAP; but domestic companies are not permitted to do so. The position in the United States is not so quite clearly stated and has been complicated by the recent creation of the Public Company Accounting Oversight Board (PCAOB) in the Sarbanes-Oxley Act[4]. The situation is constantly changing. It is obvious that

[4] Domestic firms that are registrants with the Securities and Exchange Commission (SEC) must file financial reports using U.S. generally accepted accounting principles (GAAP). Foreign firms filing with the

supporters of global accounting regulation would welcome the acceptance of IFRS by the largest and strongest economy, the USA.[5] In fact the IASB and the FASB on 29 October 2002 signed a memorandum of understanding (Norwalk Agreement) that they would work together towards complete convergence of US standards with international standards. Currently there are several joint projects underway; for example, the Conceptual Framework – Joint Project of the IASB and FASB. Regular public conferences on the progress to convergence are held in addition to the joint meetings of representatives of the two bodies.

A Question of Principle?

Many commentators have questioned whether in fact the USA does adopt a rules based approach as opposed to a principles based approach to standard setting and whether such a distinction can really be made at all. The common belief is, as was described above, that a rules based approach[6] is one in which detailed authoritative prescription prevails reducing the opportunities for managers and auditors to make professional judgements. It would seem that the main advantage to a rules based approach is assist preparers of financial reports and auditors to avoid potential litigation. That is if they can claim that the financial statements are prepared in accordance with (the rules of) accounting standards then they are cleared of any responsibility should something "go wrong". However, too many things did "go wrong" and as a result of corporate collapses such as Enron the US Congress ordered the SEC to study principles based accounting as part of its program for corporate reform.

Thus, the debate over rules-based and principles-based accounting regulation has largely resulted from the perception that the USA has rules-based accounting standards and should move to a principles-based regulatory basis. It is important for those outside the USA because of the desire to have international accounting standards with which the USA fully participates. Currently the USA does not accept IFRS but for supporters of global accounting regulations it is obviously important that the world's largest economy be a part of the process. The IASC has always claimed it adopts a principles-based approach to developing IFRS. It is somewhat ironic that, given that for most of the twentieth century the US accounting regulators sought the underlying principles (or theory) of "good" accounting practice, accounting regulation (GAAP) in the USA has not been based on principles. However, Schipper (2003) claims that US GAAP *is* based on principles – those developed in the FASB's Conceptual Framework. – but that there are elements that lead people to believe that rules are the basis of the standards. Her

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SEC can use U.S. GAAP, their home country GAAP, or international standards—although if they use their home country GAAP or international standards, foreign issuers must provide a reconciliation to U.S. GAAP.

[5] There are many publications which compare US standards with IFRS as well as detailing the adoption of IFRS in other countries. An excellent source is that created by the accounting firm Deloitte. They very generously make a wealth of material available on their website which educators and students are allowed to access without charge: http://www.iasplus.com/dttpubs/pubs.htm. They even provide foreign language versions (eg Chinese) of their publications. In addition they permit access to an IFRS e-learning web-site.

[6] The term *bright line* law is often used and means a law in which its application is very clearly stated, leaving little or no room for interpretation.

perspective is not consistent with the majority of those entering the debate, including the regulators themselves. However, her argument is persuasive.

Although some would suggest the distinction is not important (for example, Bennett, Bradbury and Pragnell, 2006) there are very significant elements in the debate. First, there is the question of professionalism. As West (2003) has indicated, if compliance with accounting standards is merely a technical process of crossing the boxes then there is little room for what would be considered professional judgement leading to questions of whether accounting is in fact a profession at all.

The distinction is important because it can lead to different accounting treatment of the same transaction. For example, when a company enters into a lease it has to decide how to report this lease. It has to decide whether the lease is a capital or operating lease and if it is the former it will have to disclose the lease on its balance sheet. The company may then follow accounting rules which enable it to circumvent the intention behind the transaction. It was argued that Enron technically followed GAAP but were able to "get aroud the rules" and this seems to be a reason why the US government, in the Sarbanes-Oxley Act of 2002, required the SEC to examine the feasibility of principles-based accounting regulation. A problem with attempting to establish rules to guide practice is that there is always the potential that not all situations can be covered by rules. This is dramatically illustrated in taxation legislation where legislators try to cover all contingencies yet "creative" accountants and lawyers seem to come up with schemes that bypass the legislators' intentions. As a result taxation laws become increasingly complex and detailed. This is also true with rules-based accounting regulation. Alexander and Jermakowicz have suggested that the "Increasing detail and complexity of U.S, Generally Accepted Accounting Principles have been attributed to a rules-based rather than principles-based approach to standard setting" (2006. p 133).

The principles-based approach has nowhere been clearly defined but basically the intention is to provide a conceptual basis for accountants to follow rather than a list of detailed rules. Or, as Alexander and Jermakovicz state, it is "an attempt to tell preparers and auditors not what to do but how to decide what needs doing" (p 134). It is sometimes referred to (for example by the SEC) as an objectives-oriented approach to standard setting[7] and this highlights why the distinction is important: it resurrects the question of what are the objectives of financial reporting? This is usually expressed in terms of reporting the underlying economic substance (representative faithfulness) for a reporting entity rather than the form of transactions. It also involves the emphases taken in financial reporting – does the balance sheet assume more importance (the asset/liability model) or the income statement (the revenue/expenses model). The implications of this are discussed by Schipper (2003) and by Benston, Bromwich and Wagenhofer (2006) and include valuation and measurement issues. For example, what is the meaning of the fair value of financial instruments and how is it best measured?

[7] To add even more confusion, the FASB (and the American Accounting Association) refers to it as a concepts-based approach to standard setting.

The debate over principles-based and rules-based standard setting is complex and has many implications for accounting practice. The IASC has consciously set out to determine principles-based standards but the reality is that is has often had to explain some requirements of standards in the form of "rules" to follow. From a theoretical perspective a principles-based approach is preferable. The matter can be perceived as a matter of something in the minds of accountants. A rules-based approach would seem safer for accountants in a litigious environment. That is, the accountant has to demonstrate that the rules have been followed to avoid any possible claim of negligence. However, there are echoes of West's (2003) concern with professionalisation. A principles-based approach necessitates professional judgement by the financial statement preparer and auditor. If such judgement is avoided then just how professional is the accountant? There is ample evidence to show that while seemingly attractive rules-based accounting standards can very easily lead to abuse of the professional status that societies tend to accord accountants.

International Dimensions of Accounting

There have always been international dimensions to accounting but they have become more evident in the last hundred years. These dimensions can be usefully considered from three perspectives but they all overlap. First, at the level of individual firms. Initially these were firms that engaged in international trade but gradually they became larger and larger until the revenues for several of these corporations rose to be larger than the gross domestic products of many of the countries in which they operate. They have come to be known as multinational corporations (MNCs). The second perspective is the comparison of factors that shape the accounting practices in different countries and is sometime referred to as comparative accounting. Finally, there is the perspective of accounting in the context of the increasingly globalised economy which is the most recent phenomenon which will prove to be by far the most important consideration in examining the international dimensions of accounting. For example, this is the major motivation for advocates of international accounting standards.

Obviously all three aspects are closely interrelated. By definition, a globalised economy refers to the increase in transactions across national boundaries which will involve an examination of the accounting practices in those countries in order to develop meaningful financial reporting. However, initially it is useful to consider each of these aspects separately if we are to develop a meaningful genealogy of current accounting practices.

Multinational Corporations

A first problem in examining MNCs (also referred to as transnational corporations - TNCs) is their definition. Economists have not resolved this issue. One international economist, has suggested that an MNC is a corporation that

1. engages in foreign production through its affiliates located in several countries,
2. exercises direct control over the policies of its affiliates,

3. implements business strategies in production, marketing, finance and staffing that transcend national boundaries (geocentric).

Various criteria have been suggested that include the location of ownership, orientation (home country, host country or world), or other features. However, insofar as accounting is concerned the final financial reporting is significant. In respect of financial reporting it is significant to know *which* financial reporting requirements are to apply. Therefore, ownership or whereabouts of headquarters become important considerations. Issues that arise include how transactions in different currencies are to be treated, what measures for assets and liabilities are to be used in compiling final reports and what methods and processes of consolidation are to be used. These issues were the subject of many, often highly debated, accounting standards.

An example of a reporting problem faced by MNCs would be at what foreign currency exchange rate should a transaction be translated for inclusion in the financial statements. This problem arises because exchange rates fluctuate during the normal accounting period and the exchange rate at the time of the transaction might be significantly different at the time of reporting. Another problem would result from the holding of long term depreciable assets: what would be the basis for depreciation? Most corporations try to avoid the effects of fluctuating exchange rates so engage in various hedging schemes – where a firm uses another transaction to reduce the risk that it will incur a loss on the foreign currency involved in the original transaction. . The problem then is how to account for the benefits and/or costs arising from hedging transactions. The nature of the foreign operations also posed a potential problem – was the overseas transaction part of a self-sustaining foreign operation or what is part of the normal operations of the company? These are just some of the issues that are involved with reporting transaction that involve more than one currency.

Accounting in and for MNCs also involved management accounting issues. These revolve around the costing procedures. An example would be where a developing country allows a foreign corporation to operate in the country because of the benefits derived from the operations (such as employment and taxes). What is the costing structure used by the MNCs. Many MNCs were criticised for loading costs on to the operations in the developing country such that no profit was earned so no taxes were paid. This is known as the issue of *transfer pricing* and there has been considerable research investigating surrounding it. It is now part of a larger problem associated with the benefits of globalisation.

Comparative Accounting

Over the years there have been many research studies into factors deemed to be the cause of national differences in accounting – referred to as comparative accounting. The reason for the differences has been ascribed to many factors; Nobes (1998. p 163) has listed seventeen reasons he found in the literature which include colonial inheritance, age and size of accounting profession, legal system, culture, history, language, religion and others. Other international accounting researchers have produced smaller “lists”.

However, a difference that has dominated much of the research has been that referred to as *culture*. Herein lies a problem because, even across disciplines, no one has successfully defined culture. But some have tried, notably Geert Hofstede (1980) who claimed to have uncovered national cultural characteristics despite most cultural theorists having agreed that this was not possible; "Culture is neither a particular kind of practice nor practice that takes place in a particular social location" (Sewell, 1999, p 48). As Johnstone et al have stated:

> . . . . it is widely recognized that culture is best understood contextually and historically. It is broadly accepted that the idea of a 'superorganic' culture as an active force, ... is untenable. (2000. p 141)

Sadly several accounting writers have adopted Hofstede's ideas without critically thinking about their tenability. Gray has even extended and developed the ideas to present an explanation for differences in accounting practices in different countries (see Gray, 1988). Fortunately other accounting writers such as McSweeney (2002) have clearly shown Hofstede's work to be epistemologically and methodologically fatally flawed.[8] The work is based on "data extracted from a pre-existing bank of employee attitude surveys undertaken around 1967 and 1973 within IBM subsidiaries in 66 countries" (McSweeney, 2002, p 90).The data is statistically analysed and the result is four dimensions of culture (with a fifth added in his later work to accommodate Chinese "culture"). McSweeney demolishes most of Hofstede's argument on the basis of the methodology employed.[9] Further criticism could be levelled at the ontological position adopted – it is clearly a realist position and hence the possibility of the reductionist claims of there being identifiable national cultures (contrary to the work of the majority of cultural researchers, as indicated above). The fact that Gray and other accounting writers can unquestioningly accept Hofstede's work and attempt to relate it to accounting is a sad commentary on much accounting research.

Culture is socially constructed and is ever changing so it is not possible to claim that fixed cultural dimensions exist. Knowledge of a culture is acquired through complex social understanding. Cultures are characterised by their historical nature – they constantly change with changes in the social, economic and political organisation of society. There is little doubt that accounting practices, as socially defined activities, are greatly affected by culture but it is not possible to prescribe fixed dimensions as to how culture impacts on those practices. The consumption of food is a culturally defined activity and the changes in food consumption patterns in different part of the world are well known as large food TNCs with considerable marketing (rather than culinary) expertise affect these patterns.

Comparative accounting cannot rely on the simplistic cultural dimensions Gray (1988) has described and must involve a much broader compass if it is to have any meaning. In fact the movement for the convergence of financial reporting regulation and practices will

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[8] Hofstede has not only influenced accounting writers but other management disciplines such that he has made " a reputation" on this work despite the successful critique of a large number of writers!

[9] Hofstede did respond and McSweeney replied in a later issue of the journal.

reduce the impact of national cultural differences – this is a characteristic of globalisation.

Globalisation

Currently, one of the most topical subjects for debate is globalisation. However, there are at least two common misconceptions of globalisation. First, that it is a recent phenomenon[10] and, second, that it only concerns economic factors. But, what is it? No one definition has proved to encompass all the dimensions of globalisation. It is certainly a subject that stirs up vigorous debate and at times strong physical reactions as the protests outside Word Trade Organization (WTO) and other international organisations' meetings in cities such as Seattle (WTO), Melbourne and Davos, Switzerland (World Economic Forums), Gothenburg (European Union Summit), Quebec City (Summit of the Americas), Scotland (G8 Summit) and other cities have clearly demonstrated; in Genoa (G8 Summit) there were 100 000 antiglobalist demonstrators one of whom was actually killed. While we move towards a global economy we also now have global terrorism, very dramatically highlighted in New York and Washington on 11 September 2001. And, as Giddens has indicated, such world wide terror "can only be combated through world-wide collaboration, both among nations, and between nations and other agencies" (2004, p xvii).

There is no clear and accepted definition of globalisation and in fact there is some confusion over the condition and the process. That is, there is a process of globalisation and there is a state or condition of globalisation so it is important to know to which reference is being made. Despite the lack of acceptable definition there are some qualitative characteristics of globalisation (the process). Steger (2003) has detailed four characteristics. The first is that it involves

> . . . the *creation* of new and the *multiplication* of existing social networks and activities that increasingly overcome traditional political, economic, cultural, and geographical boundaries (emphasis in original). (p 9)

The second is reflected in the expansion and stretching of social relations, activities and interdependencies. The third characteristic refers to the intensification and acceleration of social exchanges and activities. The fourth refers to peoples' growing awareness of the second and third characteristics.

From the first characteristic it is clear that globalisation involves more that economic considerations although often people concentrate on this aspect. However, as mentioned above, to concentrate on only economic considerations overlooks many other major threats and changes in social dependencies (for example, world wide terrorism, international ecological degradation and other considerations). Given these characteristics then, despite popular belief, globalisation (the process) is not a new phenomenon. It is through the processes of globalisation that the invention of writing, money, Arabic

[10] In an article published in the *Australian Financial Review* ("The end of globalism", 20 Feb 2004), John Ralston Saul even claims globalisation is over!

numbers, items of food, the spirit of modernity and very many other aspects of everyday living spread to other parts of the world. These "social exchanges" are similar to the use of the internet today in that they represent the creation of new networks that overcome traditional boundaries. However, despite the process of globalisation having a very long history it is more commonly associated with the period which witnessed the growth of industrialisation, improved transportation, development of communication technologies and the population explosion of the last two hundred years. This process has become even more dramatically evident in the last forty years.

There have been many gains from the process of globalisation. Improved communication has reduced the sense of isolation felt in many of the world's poorer countries. There have been improvements in health systems leading to higher life expectancies and the reduction in the spread of many diseases (for example, AIDS) and illnesses. There have been some improvements in the rates of employment in many developing countries. Many social injustices have been diminished such as the use of child labour. There has been increased foreign aid and the forgiveness of debt (for example, the Jubilee Project) that have benefited some developing countries. As Stiglitz states, "Those who vilify globalization too often overlook its benefits" (2002, p 5). However, he continues,

> . . . the proponents of globalization have been, if anything, even more unbalanced. To them, globalization (which typically is associated with accepting triumphant capitalism, American style) *is* progress: developing countries must accept it, if they are to grow and to fight poverty effectively. But to many in the developing world, globalization has not brought the promised economic benefits. (2002, p 5)

Despite the many dimensions to globalisation it is largely the *economic aspects* that have been the subject of controversy and because of this accountants have to be aware of the role they play in the process. However, it is not really possible to discuss the economic aspects of globalisation without also considering political processes and the institutions that play such an important role in furthering the "aims" of globalisation.

International Economic Institutions

Much of the angst over the economic aspects of globalisation has arisen from the actions of some international economic bodies, namely the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (the IBRD or as it is better known the World Bank) and the World Trade Organisation (WTO). All organisations have been important tools that have enabled promoters of globalisation to wield tremendous political power. The first two institutions arose from a meeting at Bretton Woods in 1944 to rebuild Europe after the Second World War and prevent a recurrence of the economic depression that had preceded it. Put simply they were created to ensure global economic stability. The Great Depression, the economic depression of the 1930s, was seen as evidence that markets often do not work well. "The IMF was founded on the belief that there was a need for *collective action at the global level* for economic stability" (Stiglitz, 2002, p 12, emphasis in the original) just as the United Nations was

necessary for collective political action at the global level to preserve political stability.[11] The IMF worked for about thirty years on the basis that markets often worked badly but in the 1980s, with Thatcher in the UK and Reagan in the USA preaching free market ideology it, along with the World Bank, changed to champion "market supremacy with ideological fervor" (Stiglitz, p 12).

In 1990 the IMF, the World Bank and the US Treasury produced what is referred to as the Washington Consensus which forms a major part of "the free market mantra" (Stiglitz, p 16). There are several points worth noting. First, it was originally designed to relate to distressed Latin American economies but was later used to relate to all countries wishing to borrow from the IMF or World Bank. Secondly, although these institutions are supposedly global this policy emerges from the USA – as its name graphically signifies. Thirdly it marks a definite shift in the agenda of the IMF and the World Bank to further neoliberal interests to deregulate markets around the world.

The ten points of the Washington Consensus are:

- Fiscal discipline to curb budget deficits;
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure;
- Tax reform (to lower marginal rates and broaden the tax base);
- Financial liberalisation with interest rates determined by the market;
- Competitive exchange rates, to assist export-led growth;
- Trade liberalization (including abolition of import licensing and reduction of tariffs);
- Liberalisation (promotion) of inflows of foreign direct investment
- Privatisation of state enterprises;
- Deregulation of the economy (to abolish barriers to entry and exit); and
- Protection of property rights.

The conditions imposed by these financial institutions on a borrowing nation are referred to as the *conditionalities*. Supporters of the new direction taken by these financial institutions point to statistics indicating an overall increase in global wealth and employment in developing countries and there is little doubt, that taken at face value, these are indicators of an improving global economy. However, very often these are macro-measures or averages which ignore the micro-level inequalities and other damaging consequences of so-called trade liberalisation. There is considerable evidence supporting Chomsky's claim that these

> . . . 'reforms' restore colonial patterns, bar national planning and meaningful democracy, and undermine programs which benefit the general population, while establishing the framework for a world of growing inequality, with a large majority consigned to

[11] There was a hidden political agenda to the IMF and the World Bank – to prevent the spread of communism. Therefore with the "fall of the Soviet Union the way was clear to pursue a more extreme free market ideology.

> suffering and despair in the interests of narrow sectors of privilege and power. (Chomsky quoted in Fox, 2001, p 57)

The effects of the enforcement of the new ideology in the IMF and World Bank is graphically illustrated in the documentary film *Life and Debt* by Stephanie Black. The film describes how the economy of Jamaica was transformed from one with a strong agricultural base to one now almost totally dependent on tourism. For example, as conditions of a loan from the IMF fresh milk supplied by local farmers was replaced by cheaper US powdered milk destroying the local milk farming industry. Bananas had to be imported from Ecuador where they were grown by large US banana corporations. Justification for these (and other similar) conditions was on the basis of trade liberalisation. They were imposed by the World Bank charged with reconstruction and redevelopment and the generation of economic stability and has destroyed the lives of many citizens. However, there has been considerable hypocrisy in the application of the Washington Consensus ideology. Debtor countries are required to remove barriers to trade (to liberalise global trade) yet in many instances the developed countries (especially the USA) protect their own industries with considerable subsidies. A consequence has been increasing the debt of debtor countries rather than "developing" (or structuring) stronger economies.

There is strong empirical evidence for countless other injustices imposed on developing countries and they are detailed in many places in material presented by those from a wide range of political perspectives. For example, the effects of the conditionalities imposed on Indonesia during the Asian financial crisis of the late 1990s are well detailed by Graham and Neu (2003). As someone who has been involved in the governance of the World Bank and a highly respected economist (Nobel prize winner) it is difficult to argue with Stiglitz (2002). There is, underlying all this at least one basic structural problem, he argues. It is that while the market system may work relatively well in developed economies, where there is near "perfect" information, it cannot in most developing countries as many of the preconditions for its operation do not exist. Reforming one area of the country without the necessary reformation of other areas has only created imbalance and (social) chaos and inequities. For example, "The IMF forced one African country to abandon its uniform pricing before an adequate road system was in place" (Stiglitz, p 75). So, who bears the cost of transportation?

The Role of Accounting in Globalisation

Globalisation has raised many questions in which there are strong implications for accounting and accountants. This is especially true if one adopts a broader, more social and transformative view of accounting as many authors have suggested[12]. For example, issues of corporate governance, anti-corruption measures, financial codes and standards, general standards of accountability and regulation of large international corporations as well as many other concerns involve accounting. Some have argued that "Globalization destabilises our understanding of accounting with associated effects on empire, the

[12] This encompasses the social, cultural and political as well as the economic dimensions of a society on which accounting impacts.

environment and the social sphere in which accounting is conducted" (Cooper, Neu and Lehman, 2003. p 359).

There is a popular belief that globalisation has made individual states powerless to regulate the flows of capital. This is an argument supporting globalisation by showing how open financial markets have become. Arnold and Sikka (2001), however, demonstrate that if a longer view is taken of the so-called growth of global financial markets it can be seen that the reverse is in fact true. Paradoxically financial markets have become increasingly dependent on the state. What goes unnoticed is that political interests within the state exert considerable power over financial markets in order to further their own interests. They illustrate this through examining the case of the Bank of Credit and Commerce International (BCCI), a bank that operated in 73 countries before its spectacular collapse amidst charges of fraudulent management and money laundering. They argue that a state-professional relationship (with a large accounting firm) had empowered the growth of the bank through banking regulations and audit technologies. It is also interesting to note that the Australian Federal Government had forced the Australian accounting profession to engage in the (accounting standards) harmonisation process (see McCombie and Deo, 2005).

However, the importance of accounting in the globalisation debate is clear when the broader social, political and economic implications of accounting are considered. There is little doubt that accounting impacts on organisations and society. Despite the traditional belief that accountants present a neutral economic reality it is now generally realised that accounting presents an economic reality shaped by the dominant economic power groups. However, because of its technical nature this is not at first obvious to many. Thus, it provides organisations with a seemingly objective basis for decision making. While this may more easily be recognised in respect of large international corporations it is also true of other international institutional organisations such as the IMF and the World Bank If the conditionalties imposed by these institutions create misery then accountants must be aware that their discipline contributes to this.

Accounting has long been used by large international corporations to create a "convenient economic reality". For example, costs within these corporations are allocated to show that no profits have been made in countries in which they have been operating resulting in no taxes being paid in those countries. This is referred to as the transfer pricing problem and it has been a concern for many years. It is now just one way in which TNCs, with revenues larger than the GPDs of many countries, yield massive economic power. There has been a considerable growth in TNCs with about 7000 in 1970 to well over 50 000 by the turn of the century. They account for over 70% or world trade. All maintain headquarters in North America, Europe, Japan or South Korea. A recent development is that these TNCs now wield monopsony power in additional to the traditional monopoly or oligopoly power. That is, they dictate to suppliers the prices they are prepared to pay and failure to meet these prices often results in cancellation of contracts for supply and inevitably the ruin of the supplying company. For example the world's biggest retail corporation, WalMart Inc has demanded prices for products which proved to be below the suppliers' costs. Failure to meet these prices resulted in suppliers going out of

business with massive social disruptions, especially, for example, where the supplier company is a town's major source of employment; proportionally massive unemployment virtually destroying the economic basis of the town. Accounting plays a significant role in such practices as such decisions are based on accounting generated numbers. It is well-known that companies are increasingly seeking sources of cheap labour costs resulting in shifting labour and production to areas where this is obtainable! Again, the analysis which forms the basis for these decisions are accounting numbers. Therefore, accountants are not acting neutrally or (usually) in the best mid to long term societal interests (unless this simply means the lowest prices for commodities). However they choose to act, accountants should be fully aware of the active role they are playing in the furtherance of the (profit oriented) goals of TNCs which have become extremely important agents that affect the economic, political and social welfare of many states.

Regulation, Globalisation and Accounting

The stated objectives of the Australian government in requiring the adoption of IFRS by the accounting profession was to facilitate the global flow of investment funds. Taken at face value these motives are admirable. However, a deeper examination reveals this to be yet another example of a false consciousness. That is, there are serious implications which are not at first obvious. In facilitating the global movement of investment the accounting regulators have also enabled many claimed social, political and economic inequities to emerge. There seems little doubt that globalisation has improved the lot of many, especially, but not only, those in Western developed economies. However, questions are raised as to the distribution of these advantages. While some developing economies have had considerable economic benefit great, political power imbalance has so often resulted in the economic benefits flowing only to a corrupt political hegemony – a few individuals with the political power to often supported by military might. Also too often those wielding the Western, developed economic powers have been content to ignore these factors so long as their own economic interests are preserved. These include TNCs, international financial institutions and governments with close ties to these institutions. Supporting the decisions of these bodies are accounting measures.

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