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Institutional isomorphism and the adoption of IASs in a developing country: another crisis of external dependence

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Institutional Isomorphism and the Adoption of IASs in a Developing Country: Another Crisis of External Dependence

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This paper provides a critical evaluation of the recent decision of the Bangladeshi accounting profession to adopt all applicable International Accounting Standards. The paper argues that institutional legitimisation is a key factor that drives the adoption process. This argument is based on evidence of immense pressure that major international donor/lending institutions put on the Bangladeshi government and professional accounting bodies to adopt IASs not only to provide credibility to foreign investors but also ensure that accountability arrangements with lending/donor agencies are tight enough. Clearly, the government and other institutions in Bangladesh have very little option (if any at all) because of the country's high dependence on aid. We argue that a wholesale adoption of IASs constitutes a quick-fix that may not necessarily be in the long-term interest of Bangladesh and its accounting institutions.

Key words:
(Institutional isomorphism, International Accounting Standards, compliance, developing countries, Bangladesh)

Introduction

There are a growing number of studies that question the relevance of International Accounting Standards (IASs) to developing and emerging economies[i]. Such studies draw on the argument that for

accounting and reporting systems to be effective they must reflect the context within which they function (Hopwood, 1979; Burchell et al, 1980). While it cannot be denied that contextual variables can be similar between two or more countries, it has long been argued that the environments of developing countries significantly differ from the West and accounting technology developed by and for the West may not be appropriate for addressing the problems in today's developing economies (cf., Points and Cunningham, 1998; Larson and Kenny, 1996; Hoarau, 1995 and Briston, 1978). Wallace and Briston (1993, pp. 216-217) argue that:

> Developing countries continue to adopt foreign accounting and educational systems. This is often expensive, and the adopting country has little control over the relevance of imported accounting. The main issue is whether the objectives of the assistance-granting country (or aid-agency) and receiving country are congruent. The biggest problem developing countries have is that of too many foreign 'experts' marketing half-baked solutions to problems that neither they nor the recipient nations understand. Donor agencies should collaborate more closely with the recipient country to ensure that their assistance is delivered only in accordance with national accounting development plans.

Although the International Accounting Standard Committee (ISAC now IASB) seeks to pronounce standards that will have universal applicability, recent writings have demonstrated how the committee's pronouncements effectively mirror standards developed in the United States and United Kingdom and are therefore unsuitable for developing countries in general (Larson and Kenny, 1998; Hoarau, 1995, and Hove, 1990). Hoarau (1995) argues that IASs are based on Anglo-Saxon accounting models and in fact symbolise American hegemony with some manifestations of national sovereignty. Similarly, Points and Cunningham (1998) observe that foreign donor agencies continuously tyring to impose IASB standards to countries created out of the former Soviet Union instead of assisting in real accounting reforms in these countries.

Notwithstanding these views, after a long period without accounting standards of its own, the Bangladeshi accounting profession is seeking to adopt all applicable IASs in response to "many bilateral and multilateral agencies working in Bangladesh [that] have been urging upon the Government and loan/aid receiving agencies to adopt International Accounting Standards in order to ensure accountability and transparency in financial reporting" (Institute of Cost and Management Accountants of Bangladesh, Annual Report, 1999, p. 12). We draw on institutional theory as elaborated by Scott, (1987) and DiMaggio and Powell, (1983), among others, as a theoretical lens for appreciating the IAS adoption process in Bangladesh. Based on archival documents and interviews with members of the various institutions involved in accounting standard setting issues and accounting practitioners, this paper critically evaluates the impending wholesale adoption of IASs highlighting the possible benefits and consequences to Bangladesh. The paper is not critical about the qualities and strengths of the IAS standards rather we contend that the wholesale adoption that is driven by institutional legitimisation may not necessarily be in the long-term "interest" of Bangladesh (cf., Susela, 1999; Points and Cunningham, 1998). We argue that Bangladesh's heavy dependence on foreign aid which as of 1999 financed between "85% and 100% of the development budget of Bangladesh" (see Huq and Abrar,

1999, p. 2), is the main rationale for the wholesale adoption of IASs[ii]. We further argue that the adoption process of IASs in Bangladesh is fraught with pitfalls leading to increased confusion among the practitioners. It is our view that the adoption process could be made less contentious through greater participation by all interested parties.

The rest of the paper is organised as follows: after a background discussion which profiles the accounting profession in Bangladesh, we review the literature on the relevance of IASs to developing countries more generally. We then discuss our data collection procedures and the theoretical framework to analyse and interpret data before presenting evidence from the field. Before concluding we provide a critical evaluation of the evidence gathered and make recommendations.

A profile of the accounting profession in Bangladesh

Since the early nineteen seventies the accounting profession in Bangladesh witnessed a tremendous growth in membership numbers culminating into two main accounting professional organisations, the Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) [iii]. The accounting profession is mainly controlled by these two bodies whose structures are "modelled on the United Kingdom" (Parry and Grooves, 1990, p. 119). These organisations are responsible for conducting membership examinations and also ensuring that practical experience requirements are met before potential members, who are mostly university graduates, gain admission into the accounting profession.

While the Companies Act 1994 legislates for companies operating in Bangladesh to prepare financial statements which show a "true and fair view" and the Laws on Securities and Exchange provide some guidelines for listed companies, there are currently no locally developed accounting standards to guide the preparation of these reports. Local investors, however, give significant attention to the information provided in published annual reports of the listed companies in making investment decisions. For example, Karim *et al.* (1996) investigated different user groups' (including bankers, accountants, stock brokers, academicians, tax officials and financial analysts) perception of published annual reports in Bangladesh and observed that annual reports of listed companies were the most important source of information by all six groups of users in making their investment decisions. However, the same study also found that these groups of users have reservations concerning the reliability of the information provided in the annual reports. These reservations centred on the diverse accounting methodologies (borrowed mainly from the UK, US and IASB) which guided corporate entities in preparing their annual reports.

Although the two professional accounting bodies do not have the institutional arrangement or enough funds to set accounting standards for the country, they have members with knowledge and expertise to

do so (Parry and Grooves, 1990). The absence of local accounting standards has always been a major problem for financial statement preparers in Bangladesh who often seek to comply with accounting practices inherited from the colonial masters (United Kingdom) and more recently with standards by the IASB. The lack of accounting standards has made international lending/donor agencies very uneasy to the extent that, in recent times, these agencies have put the Government of Bangladesh under immense pressure to standardise financial reporting practices in Bangladesh.

After a long period without any involvement or interference with the practice of accounting, the Government of Bangladesh has started lobbying the profession to adopt all applicable IASs for use in Bangladesh (ICMAB Annual Report, 1999). Clearly, the decision to adopt all "applicable" IASs is a short-term solution by the government to ensure continued foreign aid and assistance. It is hard to deny that such assistance is critical for Bangladesh's economic development but the long term consequences have to be clearly explored before any decisions on a wholesale adoption of IASs.

As would be expected, professional accountants are divided on the issue. Although a large number of accountants in Bangladesh would prefer to "adapt" individual IASs to reflect Bangladesh's socioeconomic and cultural environments, the ICAB has already adopted 21 IASs and sixteen were "under consideration" as at the end of 1999 (ICAB, IAS Present Status, 1999). The questions then are what drives this adoption process and are these standards relevant to the cultural and socioeconomic environment of Bangladesh? We review the literature on the relevance of IASs to developing countries more generally in the next section before attempting to address these questions.

The relevance of international accounting standards to developing countries: a review of the literature

The IASC (now IASB) was established in 1973 to "formulate and publish in the public interest basic standards to be observed in the presentation of audited accounts and financial statements and promoting their worldwide acceptance and observance" (Bailey and Wild, 1998, p. 7). Since its establishment, the Committee has pronounced forty standards and a number of exposure drafts that seek to guide accountants, globally, on financial statement preparation and presentation. Various commentaries on these pronouncements have engendered a large body of literature on the subject, including numerous studies on the relevance of these pronouncements to developing economies. There are also country specific studies which have explored the relevance and importance of the IASs in those countries. Nevertheless, most of the studies have observed or recommended for modified adoption of IASs to meet local environmental factors (see for example, Hassan, 1998; Al-Rai and Dahmash, 1998; Mirghani, 1998; Larson, 1993; Enthoven, 1969 and 1973). There are some developing countries in which IASs are used as national standards without any modifications (Wallace, 1993, p. 135). However, there is a shortage of existing literature which have investigated the roles and compliances of the IASs in those countries. The notable exception is Zimbabwe. Chamisa (2000) investigated the adoption and compliance of IASs in Zimbabwe and found IASs to be largely relevant to Zimbabwe's

accounting and financial environment. However, noting the diversity of the developing countries, Chamisa cautioned that IASs should not be regarded as substitutes for the development of indigenous accounting standards in developing countries and also should not be regarded as panacea for all the accounting ills of developing countries.

There are a number of studies which have criticised the roles of Western nations and donor agencies in the growing attempts by developing countries to adopt of IASs. (see for example, Hassan, 1998; Points and Cunningham, 1998; Wallace and Briston, 1993;.Perera, 1989; Samuels, 1990; Briston, 1990 and Samuels and Oliga, 1982). Perhaps the most critical comment on this issue came from Wallace and Briston (1993) when they argue that the biggest problem is that too many well-intentioned foreign experts market half-baked solutions to accounting system problems that neither they nor the recipient nations understand. They further argue that accounting and accountability problems would be unique to each developing country and donor agencies should collaborate more closely with the recipient country to ensure that their assistance is delivered only in accordance with the respective national accounting development plans. Earlier Wallace and Gernon (1991) criticised IASs and argued that implicit in the adoption of IASs is the view that accounting is both universal and essentially culture-free.

Some studies (Larson and Kenny, 1998, 1996; Hoarau, 1995 and Hove, 1990) noted strong commonalities between IASs and those of the UK and US and argued that this was by no means coincidental given the strong dominance of both the UK and US on the Committee and lesser involvement of developing countries. These studies argue that most of the IASs were carbon copies of standards originating from the UK and US with strong orientations towards maximising shareholders' wealth rather than social function of accounting. They argue that accounting should not be treated as the object of providing useful information to investors only, but a craft that serves the purpose of divergent interested groups. Therefore, the roles and relevance of IASs in developing countries still remain debatable. For example, Woolley (1998) investigated the linkage between the adoption of IASs and economic growth in a number of Asian countries. He observed that the mean economic growth rates of developing countries when grouped by their approach to adoption or non-adoption of IASs are not significantly different. Whereas, Larson's (1993) similar study on Africa observed a higher level of economic growth for those countries that adopted and modified IASs to meet local environmental factors.

It seems that a common trend that binds the literature together is that the role and relevance of the IASs in the developing world depend largely on the processes through which these standards are adopted. While exploring the status of IASs and the harmonisation drive, Carlson (1997) has pointed out that there has been little analysis of the processes that are involved in the adoption of the IASs by nations. Carlson recommended that IASB might achieve a greater level of adoption of IASs if it were to more

fully examine the processes of adopting standards rather than assuming that nations will use their products. Carlson further recommended that to achieve harmonisation under the current approach, accountants and the IASB must demonstrate significant benefits to a wider group than just accountants. Watty and Carlson (1998) investigated the demand for international accounting standards from customer quality perspective. They noted the paucity of studies which critically explore the adoption process of IASs in the developing countries and call further country-specific research in this area. This paper partly responds to this call through a case study of Bangladesh.

Data collection and analysis

Principal data collection methods for this paper were interviews and document analysis. Twenty-two interviews were conducted over a five-week period from December 1999 to January 2000. Respondents included senior accountants in various sectors as well as representatives of international lending/donor agencies such as the World Bank and accounting academics. In addition, interviews were conducted with governing members of the two main professional accounting bodies (the ICAB and ICMAB). All interview questions were open-ended and unstructured to allow respondents to provide their views through a 'free-flowing' discussion. Among the most critical issues discussed with respondents was the rationale for the wholesale adoption of IASs and the respondent's opinion in this regard. In particular respondents were asked to identify perceived major benefits and critical problems - to accounting practice, the accounting profession and the Bangladeshi economy - associated with the decision for a wholesale adoption of IASs. Permission was granted for all twenty-two interviews to be recorded and later transcribed but respondent anonymity was guaranteed. The length of most interviews ranged between thirty minutes and one hour. In addition, notes were taken of major issues raised by respondents not only for back-up purposes but also as a quick reference during subsequent interviews.

Corporate annual reports of thirteen listed companies were randomly collected from various sectors to examine the contents to identify any differences in the content of these reports under the current regime (see appendix for the list of companies which provided data for this research). As part of the content analysis of these annual reports, 'follow-up interviews' were conducted with preparers of annual reports where further clarification was required. In addition to interviews and document analysis, informal discussions with senior executives and directors of government departments provided further evidence for this paper.

Theoretical framework: institutional isomorphism

This section elaborates on the theoretical lens (institutional isomorphism, DiMaggio and Powell, 1983) that we employ to interpret our filed evidence. Institutional theories are characterised by a great variety

of positions, which are sometimes complementary and sometimes conflicting (DiMaggio and Powell, 1991, p. 1)[iv]. Institutional theory recognises the influence on organisations and pressures which compel organisations to behave in certain defined ways. Institutional theorists have identified a number of different institutional elements and the institutional view of isomorphism proposed by DiMaggio and Powell is one of them (see also Scott, 1987; Scott and Meyer, 1992).

DiMaggio and Powell (p. 150) argue that organisations compete not just for resources and customers, but also for political power and institutional legitimacy, for social as well as economic fitness. They further argue that the concept of institutional isomorphism is a useful tool for understanding the politics and ceremony that pervade much modern organisational life. DiMaggio and Powell identified three mechanisms through which institutional isomorphic change occurs, these are, 1) coercive isomorphism, 2) mimetic isomorphism, and 3) normative isomorphism[v]. They argue that this typology is an analytic one and the types are not always empirically distinct. However they pointed out that while the three types intermingle in empirical setting, they tend to drive from different conditions and may lead to different outcomes.

DiMaggio and Powell (p. 150) argue that coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function. Such pressures may be felt as force, as persuasion, or as invitations to join in collusion. The rationale underlying these institutional influences is primarily financial dependence. They (p. 154) further note that in cases where alternative sources are either not readily available or require effort to locate, the stronger party to the transaction can coerce the weaker party to adopt its practices in order to accommodate the stronger party's needs. In other words, organisations will be more subject to the whims of resource suppliers.

Concerning the mimetic institutional force, DiMaggio and Powell (1983, p. 155) propose that organisations which lack well-defined technologies will import institutionalised rules and practices[vi]. They argue that organisations tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful. Drawing on Meyer (1981), DiMaggio and Powell (p. 152) indicate that it is easy to predict the organisation of newly emerging nation's administration without knowing anything about the nation itself, since peripheral nations are far more isomorphic in administrative form and economic pattern than any theory of the world system of economic division of labour would lead one to expect.

DiMaggio and Powell (1983, p. 152) argue that normative pressures stems primarily from professionalisation. In their view, professions are subject to the same coercive and mimetic pressures as organisations. Professionals must compromise with nonprofessional clients, bosses or regulators. While various kinds of professionals within an organisation may differ from one another, they exhibit much similarity to their professional counterparts in other organisations. In many cases, professional

power is as much assigned by the state as it is created by the activities of the professions.

These are the three institutional forces through which, according to DiMaggio and Powell (1983), institutional isomorphic changes occur. Meyer and Rowan (1977, p. 348) pointed out three crucial consequences of isomorphism with environmental institutions for organisations. These are, 1) they incorporate elements which are legitimated externally, rather than in terms of efficiency; 2) they employ external or ceremonial assessment criteria to define the value of structural elements; and 3) dependence on externally fixed institutions reduces turbulence and maintains stability. Therefore, if institutional isomorphism is fulfilled, they are capable of providing legitimacy which enables organisations to receive the funding they need in order to continue their operations. However, Meyer and Rowan (1977, p. 356) also observe that organisations in search of external support and stability incorporate all sorts of incompatible structural elements leading to a concern for efficiency. DiMaggio and Powell (1983, p. 153) also caution that each of the above mentioned institutional isomorphic processes could be expected to proceed in the absence of evidence that they increase internal organisational efficiency.

Adoption of institutional perspective to explore and understand organisational changes involving accounting discourse is not a new phenomenon [see for example, Irvine (2000); Burns, J. (2000); Fogarthy (1996); Carruthers (1995); Scapens (1994); Mouritsen, 1994; Covaleski et al. (1993), Covaleski and Dirsmith (1988a), and Covaleski and Dirsmith (1988b)]. These studies investigated the accounting discourse of various organisations through exploring the inter-play between imposed accounting practices, routines, institutions, power, and politics. With the exception of Irvine (2000) the analyses of these studies involved a focus on the internal workings of organisations. Irvine (2000) emphasised a nonprofit organisation's ties with its external environment and observed that accounting practices have been used to achieve financial legitimacy of the organisation to receive funds from external sources. However none of these studies explored institutionalism and international institutions such as United Nations or the World Bank. DiMaggio and Powell (1991, p. 7) argue that nations, in an effort to realise joint gains, agree to bind themselves to international regimes that subsequently limit their freedom of action. The institutional arrangement among the donor agencies (such as the World Bank and the International Monetary Fund), the Bangladesh government and the IAS implementation authorities in Bangladesh is an appropriate interpretive issue for the application of the concept of institutional isomorphism. We draw on the above discussion to explore the adoption of the IASs in Bangladesh.

Institutional isomorphism, confusion and communication problems: evidence from the field

The institutional arrangements of the adoption of IASs in Bangladesh involve the government, the World Bank, Asian Development Bank (ADB) and the Institute of Chartered Accountants of Bangladesh (ICAB). The process is initiated by these international lending/donor agencies which

pressurise the GoB to adopt IASs as part of aid packages. The government in turn delegates the process to the Securities and Exchange Commission (SEC). The SEC then empowers the ICAB which is perceived as the expert institution on the issue, to adopt those standards specified by SEC and the GoB. Thus ICAB is recognised "as the sole authority in Bangladesh for adoption of International Accounting Standards and International Standards on Auditing", despite the existence of two professional bodies in the country (ICAB Circular 1/15/ICAB - 99, September 1999). In addition to pressurising the GoB, these international agencies also directly influence the SEC and ICAB through financial and technical assistance to further speed up the adoption process (see Baree, 1999)[vii]. After standards are adopted, the ICAB labels them "Bangladesh Accounting Standards (BAS)" notwithstanding that most of these standards are carbon copies with the same numbers as the original IASs. The SEC then has the responsibility, as delegated by the GoB, to monitor compliance with these standards by listed companies. The current arrangement does not include other interested parties such as accounting academics, ICMAB, the Federation of Bangladesh Chamber of Commerce and Industries (FBCCI), and general users of corporate financial statements.

On the rationale for wholesale adoption of IASs in Bangladesh all twenty-two respondents consistently argued that it was only a process of consolidating what had previously been applied in the country. Although there is no requirement in the Companies Act 1994 for compliance with IASs, some corporate annual report preparers of listed companies in Bangladesh, as mandated by the SEC, comply with these standards[viii]. Advisers to the government (including the SEC) have noted that a requirement for mandatory compliance with IASs only amounts to a codification of existing practice and had the benefit of satisfying major Western lending/donor institutions (including the World Bank, United Nations Development Programme, Canadian International Development Agency, and the Asian Development Bank). In response to the pressure from international lending/donor agencies, in 1998 the SEC, acting in accordance with government directive, issued an amended Rule which stipulated that:

> The financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the Schedule and the International Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (Security and Exchange Commission Quarterly Review, January-March 1998, p. 4).

Furthermore auditors of publicly listed companies were also directed to pay particular attention to compliance with IASs in the audit process. The SEC noted:

> The financial statements of an issuer of a listed security shall be audited by a chartered accountant in practice within the meaning of the Bangladesh Chartered Accountants Order,1973 (P.O. 2 of 1973) in accordance with the International Standards of auditing as adopted by the Institute of Chartered Accountants of Bangladesh.... (Security and Exchange Commission Quarterly Review, January-March 1998, p. 4).

Evidence from the interviews (see also Baree, 1999) also indicates that the lending/donor institutions, particularly the World Bank, did lobby the professional accounting bodies (in particular the ICAB) through the "Review of the Accountancy Profession and Professional Education in Bangladesh"

currently underway. Included in the Draft Terms of Reference for the review was the argument outlining the perceived benefits to external constituents:

> A review of the [accountancy profession and professional accounting education] can provide to the government, donors, and other stakeholders useful information, analysis, and recommendations in support of refining and improving the accountancy and auditing profession in Bangladesh (Terms of Reference for the Review of the Accountancy Profession and Professional Education - World Bank).

In September 1999 the ICAB received a grant totalling US$200,000 from the World Bank to facilitate the adoption process within the next two years. The SEC also received technical as well as financial assistance from Asian Development Bank (ADB) to support a number of projects which will ensure a smooth transition to the use of IASs. Surely, these lending/donor institutions must have an interest in the exercise. An interview with a senior official of the World Bank who is also a member of ICAB, for example, indicated that an adoption of IASs is necessary because of the growing capital market in Bangladesh and the attraction this has for foreign private investments in the country. Following a change of government policy in favour of a market economy and a significant growth in the number of listed companies as well as the volume of trading, a second stock market, the Chittagong Stock Exchange was established in 1995. This growth has resulted in a significant amount of foreign private investment in the Bangladeshi economy (see also Huq and Abrar, 1999). However, Hoarau (1995) argues that accounting should not be treated as the object of providing useful information to investors, accounting serves the purpose of divergent interest groups.

In addition to the evidence of institutional isomorphism – especially coercive isomorphism through financial baits, there was sufficient evidence of a great deal of "confusion" and dissension among the principal institutions and other interest groups that would normally be required to collaboratively work to ensure the adoption of IASs. In particular, there is obvious tension between the two professional bodies engendered by the apparent lack of consultation with members of ICMAB. The SEC and Western lending institutions collaborate with the ICAB to the virtual exclusion of ICMAB and other interested parties. Some members of the ICMAB expressed dissatisfaction on grounds that the responsibility for adoption of IASs should have been delegated to an accounting standard setting committee, as in most countries, with representative members from both bodies and other interest groups such as academics and corporate leaders. Some respondents maintained that the whole exercise is flawed because of the undemocratic nature of the process. In particular accounting academics are generally of the view that since various "interest groups" are concerned about the process(es) of determining accounting standards for Bangladesh, it is totally undemocratic for the government to unilaterally pursue a wholesale adoption of IASs without much consultation[ix]. To resolve this stalemate the Ministry of Commerce, acting on behalf of GoB, issued a memorandum in October 1999, proposing the establishment of Bangladesh Accounting and Auditing Standards Monitoring Board which should involve all interested parties (ICAB Annual Report, 1999, p. 19; ICMAB Annual Report, 1999, p. 12). This proposal was rejected by ICAB which perceives itself as "the only competent legal

authority in the country to adopt IAS … and there was no justification whatsoever for formation of the proposed Bangladesh Accounting and Auditing Standards Monitoring Board", (ICAB Annual Report, 1999, p. 19). The result of this undemocratic process of adoption of IASs is that compliance from financial statement preparers who are non-members of the ICAB is very minimal.

It is therefore not surprising that most business graduates, who represent the majority of working accountants in various sectors of the Bangladeshi economy, appeared unaware or uninformed of the changes that are currently taking place in Bangladesh. A Respondent who is a Finance Director in the textile industry noted that:

> *...we don't know what is going on in reality as far as the compliance with various IASs are concerned. ...there is a communication gap between we the professional accountants [or managers], the ICAB and the SEC....We got surprise feedback for non-compliance with IASs but there was no prior instruction sent to us from SEC or ICAB.*

The above comment was made based on a letter addressed to the respondent's organisation from SEC requiring, among other things, an explanation "within 07 (seven) days of receipt of this letter, the reason as (sic) why your company did not comply with the …provisions of the Rules/ Law [i.e. IASs]" ([SEC/SFD/12:27/99/284). Other corporate Finance Directors provided similar comments on the communication difficulties/gaps between the institutions involved in the adoption process and accountants on the ground who are required to "operationalise these standards".

A senior official of SEC, who is also a member of ICAB, mentioned in an interview that some of the confusion is attributable to the attitudes of auditors who issue unqualified opinions on some financial statements that hardly comply with IASs. He raised the issue of lack of professional independence engendered partly by the dual role some auditors perform: preparing and auditing the same financial statements. The SEC official elaborates:

> *... we are a bit disappointed about the roles played by auditors concerning compliance with IASs for preparing financial statements... they are signing the reports but without properly investigating whether compliance is okay... If this continues like that we will never be able to make sure concerning the compliance with IASs in Bangladesh (sic).*

A member of ICAB in public practice responded to these "allegation" arguing that the market for professional services needs to be regulated jointly by ICAB and ICMAB if there is to be any improvement in ethical aspects of accounting practice in Bangladesh. He notes:

> *...if I don't sign the reports of my clients other practitioners [are] sitting there to replace me immediately...*

Clearly, although the ICAB claims to be the "sole authority for the implementation of IASs in Bangladesh", the Institute has failed to ensure compliance with these standards from its own members. Thus it would appear that in addition to dissension resulting from the adoption process, competition for clients is leading to comprise of ethical standards among practising accountants in the country. While there are provisions in the Code of Professional Conduct of both the ICAB and ICMAB prohibiting

unethical behaviour, such as the above, these are hardly enforceable. Indeed, there are currently no clear-cut disciplinary measures to check and penalise inappropriate behaviours by members of both professional accounting bodies.

Perceived benefits and problems of a wholesale adoption of IASs

Although there was an overwhelming perception among respondents that the main driving force for a wholesale adoption of IASs are the Western donor/lending institutions, they nonetheless saw certain benefits of the existence of IASs and their compliance. Respondents argued that there are key benefits to the Bangladeshi economy as a whole in spite of the institutional legitimisation that underlies the wholesale adoption of IASs. Principal among these views was the increased credibility that foreign investors, in particular, would give to financial reports of listed companies in Bangladesh. This group of annual reports users are increasingly becoming a greater force because of the large increase in direct foreign investments in recent times (see Huq and Abrar, 1999). Baree (1999, p. p. 5) observes that "a growing capital market with 232 listed securities in Dhaka Stock Exchange [alone] with a present market capitalisation of US$ 920,735,295", surely, provides sufficient grounds/justification for investors to require financial statements based on well-developed accounting standards, such as IASs.

Perhaps the most prevalent view among respondents who favoured a wholesale adoption was the issue of cost savings. These views are consistent with the literature which argues that developing accounting standards from scratch involves a huge financial outlay which most developing countries, including Bangladesh, would be unable to provide/justify, given the relative scarcity of financial resources in these countries (see Peasnell, 1993). Time-constraints were also viewed as key considerations, especially in the short-term, for respondents who favoured a wholesale adoption of IASs. Although Bangladesh has the human resources for accounting standard setting, time constraints and cost considerations are critical issues that cannot be downplayed.

From the government's perspective, adoption of IASs will ensure the continued support of international lending/donor institutions whose benevolence constitutes a substantial aspect of the Bangladeshi government's financial resources. Some argue that, for various historical reasons, the Bangladeshi economy needs foreign assistance for survival, at least in the short-term, and a wholesale adoption of IASs will be a step in the right direction because of the confidence it would provide to donors/lending institutions. Furthermore, adoption of IASs would facilitate and enhance both the government and opposition's policy of seeking a competitive market economy through privatisation. Most senior accountants, especially those in public practice, strongly supported the call for a wholesale adoption on grounds of the need to strengthen accountability arrangements at all levels of government as well as the private sector.

Some respondents who were critical of a wholesale adoption of IASs identified major problems that will flow from such a policy. In particular, respondents raised the often argued case about IASs not being suitable for the cultural and socioeconomic environment of developing countries such as Bangladesh (see e.g. Briston, 1978, Hove, 1990). Wallace and Gernon (1991) argue that the harmonisation process through IAS has the implicit concept that accounting is both universal and culture-free. India, the neighbouring country next door to Bangladesh which has got cultural and economic similarities with Bangladesh did not go for the wholesale adoption IASs. India has established its own set of accounting standards since 1976 instead of adopting the IASs directly into its accounting standard setting process (Banerjee et al., 1998). The IASs are used as a basis for the Indian Accounting Standards (Wallace, 1993, p. 135).

Perhaps the various views raised by respondents are captured by the following quote from Baree (1999, p. 4).

> 1. Many laws, rules and regulations are colonial in origin and character impeding the development of financial reporting with complete adoption....
>
> 2. Minimum disclosure in every sphere is our socio-commercial culture and following IAS maximum is strongly resented by the entrepreneurs and their representative bodies i.e. chambers of commerce...
>
> 3. The concept of transparency, accountability and corporate governance is new and radical concept however, [it is] gaining importance gradually.... [There is a] need for training the trainers...
>
> 4. The dominance of the government sector in the economy over the last 28 years without appropriate accounting and reporting systems...
>
> 5. Major portion of Bangladesh economy is outside any [IASC] accounting standard, i.e. Jute, tea, garments, agriculture, oil and gas etc.... (sic).

While some of the above concerns are critical and require careful consideration, we argue that most of these issues can be resolved if some of the current efforts by the IASC are successful. For example, the issue about the lack of appropriate IASC standards for particular sectors (e.g. the public sector and agricultural sector) of the Bangladeshi economy is only a short-term problem that would be resolved after the IASC and IFAC have developed some of their current Exposure Drafts into accounting standards.

Summary insights and concluding remarks

We argue that the most problematic aspect of the adoption of IASs centres on the 'process' of adoption more/rather than the content of the individual accounting standards. In its effort to satisfy Western

lending/donor institutions, the government and its representative, SEC, are pursuing the policy in a rather hurried and undemocratic fashion. There appear to be very little consultation with various interested parties in accounting standards and standard setting. Such lack of consultation is producing dissension, especially from academics, the Federation of Bangladesh Chamber of Commerce and Industries, and members of ICAMB, which seems to throw the entire process in jeopardy. For example in most developed countries such as the United Kingdom, United States and

Australia, standard setting committees do not only include representatives from most interest groups but Exposure Drafts are circulated for comments from various professionals and the general public at large. This often has the result of minimising dissension and thus increasing acceptance of accounting standards developed by the committee. The absence of a coordinated structure for the adoption of IASs is mainly responsible for the dissension, confusion and communication problems that interested groups are currently experiencing. The ICAB and SEC appear to be uncritically supportive of the uncoordinated efforts by the World Bank and other lending/donor agencies to encourage the adoption of IASs in Bangladesh without reflecting on the long-term implications of such proposals. The ICAB and the SEC are trying to convince the donor agencies that they are legitimate entities worthy of financial support. In order to gain this legitimacy, they are now trying to create myths about themselves through the perpetuation of symbolic and ceremonial activities (such as the wholesale adoption of the IASs) and stories about their activities. But their actual behaviour becomes severed from the socially constructed stories that they are creating. These stories did not necessarily have any connection to what the organisation actually did, but rather, they were used as forms of symbolic reassurance to mollify the influential donors (cf., Meyer and Rowan, 1977).

In addition, the adoption of IASs should be perceived as a short-term solution to the current lack of local accounting standards in Bangladesh. The long-term objective of the government and various other institutions promoting the adoption of IASs should be to encourage Bangladesh to develop accounting standards that reflect the country's needs and level of socio-economic development. An accounting standard setting committee should be established with representatives from various interest groups, and made responsible for developing accounting standards which reflect Bangladesh's needs. Future development assistance should therefore be targeted at providing the right infrastructure for the development of local standards rather than creating or facilitating a paternalistic relationship between Bangladesh and IASC, a situation that most countries dread.

We believe that in the long-term, IASs could be carefully examined and adapted to reflect the environment of Bangladesh. This not only has the obvious advantage of cost effectiveness, in a country with meagre resources, but also consistent with the calls for global harmonisation of accounting standards (see Peasnell, 1993). Other developing/emerging economies such as Malaysia and Singapore have benefited from the 'adoption' process (see Susela, 1999). In particular, the level of confidence in

published financial statements of listed companies in these countries has increased considerably. Adapting IASs should be less cumbersome because Bangladesh does have the capacity/expertise to critically evaluate and make necessary changes to these standards to meet local needs.

The World Bank is the key donor agency financing the adoption of IASs in Bangladesh. There are is significant evidence that most development efforts of the World Bank have not profited the poorest in the developing countries rather these countries have paid dearly in exchange for the Bank's development efforts (see Caulfield, 1996). Caulfield (1996, p. 224) has provided an example of the institutional isomorphism of the World Bank in Bangladesh which is tangential to the findings of this studyas captured below:

> *Another Bank staffer described how lending programs get out of control. "When I worked on Bangladesh", he said, "we decided at a country program division meeting that the lending program for the next year should be slowed, because Bangladesh could not absorb any more money. Everyone agreed. Then the division chief spoke. He said he also completely agreed, but if he went to his director and told him the lending should be slowed down, "tomorrow you will have a new division chief".*

Earlier in 1994, Robert Cassen & Associates observed that Bangladesh's degree of aid dependence has been excessive and has seriously distorted the development pattern. They recommended that the donors to take a long view of the aid commitment to Bangladesh. The aid provided by the donor agencies to adopt IASs in Bangladesh without considering the basic problems of the accounting infrastructure and institutions may face a similar outcome in future.

APPENDIX

LIST OF COMPANIES WHO PROVIDED DATA FOR THIS STUDY

COMPANY NAME	BUSINESS	WHETHER ENLISTED AT DHAKA STOCK EXCHANGE (DSE)
Amam Sea Food Industries Limited	Export oriented sea food cultivator and manufacturer	YES
Apex Tannery Limited	Tannery products for domestic and foreign markets	YES
Ashraf Textile Mills Limited	Textile products for domestic market	YES
Atlas Bangladesh Limited	Engineering products for domestic market	YES
Bangas Limited	Processed foods and confectionary for domestic market	YES
BOC Bangladesh Limited	British multinational for fuel, power and chemical products	YES
Chic Tex Limited	Textile products for domestic market	YES
Desh Garments Limited	Export oriented garments products	YES
Islam Jute Mills Limited	Jute products for foreign and domestic markets	YES
Monno Ceramic Industries Limited	Ceramic products for foreign and domestic markets	YES
Niloy Cement Industries Limited	Cement for domestic market	YES
Sonargaon Textile Limited	Textile products for domestic market	YES
Square Pharmaceuticals Limited	Medicines for domestic market	YES

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Footnotes:

[i] See for example, Susela, 1999; Banerjee et al.; 1998, Larson and Kenny 1998, 1996; Watty and Carlson, 1998; Hassan, 1998; Al-Rai and Dahmash, 1998; Mirghani, 1998; Carlson, 1997; Wallace and Briston, 1993; Larson, 1993; Wallace, 1993; Hove, 1990 and Perera, 1989.
[ii] For a recent profile of the Bangladeshi economy, see Huq and Abrar (1999).
[iii] This occurred after political independence from Pakistan. Although membership numbers are still small relative to those in the industrialised nations.
[iv] See also, for example, Lowndes (1996) who proposed a series of theoretical 'vignettes' from the new institutionalism, which are the 'mythic' institution,; the 'efficient' institution; the 'stable' institution; the 'manipulated' institution; the 'disaggregated' institution; and the 'appropriate' institution. According to Lowndes, each vignette exposes a particular aspect of institutional life. Scott (1987) has pointed out four faces of institutional theory, which are, institutionalisation as a process of instillingvalue; institutionalisation as a process of creating reality; institutional systems as a class of elements; and institutions as distinct societal spheres.
[v] Identified later by Scott (1995, pp. 14-45) as regulative pillar (coercive isomorphism), cognitive pillar (mimetic isomorphism) and the normative pillar (normative isomorphism).
[vi] Mizruchi and Fein (1999) examined the fate of the DiMaggio and Powell (1983) essay and observed that the discussion of mimetic isomorphism has received attentions by the researchers disproportionate to its role in the essay.
[vii] These issues were also specifically evidenced in the following documents:
(1) ICAB advertisement to appoint Course Consultant and Survey Consultant under the World Bank financed project: "Development of Accounting and Auditing Standards in Bangladesh".
(2) Technical Assistance from the World Bank (Securities and Exchange Commission of Bangladesh Annual Report, 1997/98).
[viii] The content analysis of annual reports collected indicated that some listed companies only partially complied with IASs. It was interesting to note that auditors did not qualify these reports (as discussed later in the paper).
[ix] Who are involved in educating accounting graduates and have not been consulted on any issues regarding the impending wholesale adoption of IASs.