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A critique of the influence of globalization and convergence of accounting standards in Fiji☆

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Abstract

The globalization of the world's economies has inevitably brought with it moves to establish a single set of financial reporting standards. Prima facie, the formulation and promulgation of International Financial Reporting Standards (IFRSs) is concealed behind reified icons of 'relevance'. This paper adds a new dimension to the international accounting debate by discussing themes of regulation, public and private interests, from a critical perspective. Specifically, this paper examines the reasons for the willingness to accept IFRSs in Fiji. A critical conception of 'relevance' and 'accountability' is developed to demonstrate how the needs of private interests' are met in adopting the IFRSs. This paper demonstrates that in this process of convergence, the influence of these private interests – multinational enterprises and large international accounting firms – can lead to a transfer of economic resources in their favour, wherein the public interests are usually ignored. The paper offers suggestions on how public interest might be best served within the current financial reporting system and how, in principle, the needs to report both globally and locally can be reconciled.

Keywords: Harmonization/convergence; International Financial Reporting Standards; Accountability; Benefits

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1. Introduction

The globalization[2] of the world's economies has inevitably brought with it moves to establish a single set of financial reporting standards. Developing such financial reporting standards seems to be a legitimate role for the International Accounting Standards Board (IASB) and its forerunner the International Accounting Standards Committee (IASC). The primary argument for a single set of financial reports, premised on principles of economic rationality, is to achieve global harmonization (or convergence), thereby creating an open and accountable world (Lehman, 2005; Roberts, 1991).[3] Prima facie, the International Financial Reporting Standards (IFRSs) project an aura of objectivity by transcribing complex 'local reality' into universal recognizable and acceptable information (Saravanamuthu, 2004, p. 296). In this process of convergence, IFRSs are developed with the view of global 'relevance'. Assuming that IFRSs are relevant to all societies, the factors causing the differences amongst the nations are regarded as too simplistic and are seen to be easily effaced. This view fails to acknowledge that even with the establishment of a single set of financial reports, institutional difference in infrastructure, culture, legal requirements, and socioeconomic and political systems between nations have contributed to the large scale of international differences in financial reporting (Ampofo and Sellani, 2005; Nobes and Parker, 2004; Radebaugh and Gray, 2002; Saudagaran, 2004; Schultz and Lopez, 2001). Given this ostensible disparity amidst nations, it would be naive to assume, as IASB does, that a single regulatory framework can be established that meets the financial reporting needs of all societies. While the forces of globalization and convergence are moving accounting practices towards a unified, or at least harmonized, regulatory framework for financial reporting, this is unlikely to best serve the diverse interests of the disparate user groups of financial reports.

Several studies have demonstrated that the work of the IASC/B is not related to the needs for accountability to an individual society, but to the needs for accountability by multinational enterprises to the world's major capital markets (Chandler, 1992; Ngangan et al., 2005; Saudagaran, 2004). Such accountability is clearly required for corporations with multiple stock exchange listings over different jurisdictions. Reporting under the same regulatory framework in all jurisdictions will certainly reduce costs and has the potential to ameliorate transparency. An entity that reports a profit under one set of regulations and a loss when applying another set of regulations will confuse rather than enlighten the reader as to the entity's true state of financial affairs. Adoption of IFRSs by all jurisdictions resolves this problem. However, once the IFRSs are adopted by a particular country, both the multinational and domestic enterprises may be required to follow the standards. A suite of standards developed with the needs of international users of financial reports in mind, specifically those seeking international comparability, will not necessarily meet the needs of

[2] Globalisation, for the purpose of this paper refers to the "large and growing flows of trade and capital investments between countries" (Hirst and Thomson, 1996, p. 48).

[3] Harmonization relates to the process of reduction of contradictory accounting rules in order to reach a better international comparability of financial statements (Choi et al., 2002, p. 291), whereas international convergence is a process that eventually results in the adoption of the IFRSs (Wong, 2004, p. 7). The two words will be used interchangeably in this paper.