Assessing international accounting harmonization using Hegelian dialectic, isomorphism and Foucault

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Abstract

This paper applies an innovative approach to explore the processes, effects and likely future progress of the convergence of national accounting standards with International Financial Reporting Standards (IFRS). Particular use is made of the Hegelian dialectic concepts of thesis, antithesis and synthesis; notions of isomorphism and decoupling; and, to a lesser extent, Foucault’s concept of power–knowledge. Factors that are likely to explain the extent, rhythm and pattern of convergence of national accounting standards with IFRS are discussed. The paper concludes by highlighting four matters that are thought likely to enhance understanding of the process of international accounting standards harmonization; and by averring that the international harmonization process is a dialectical process influenced by belief systems that are constructed in a context of isomorphism and decoupling.

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1. Introduction

This paper aims to improve understanding of the processes involved in achieving widespread institutionalization of harmonized international accounting standards, particularly International Financial Reporting Standards (IFRS). It is prompted by Hopwood’s (2000, p. 763) contention that “knowledge of how forms of financial accounting emerge
from, sustain and modify wider institutional and social structures is modest.” The paper is motivated also by Hopwood’s criticism that previous attempts to enhance such knowledge have overindulged in “... simplistic theories of differentiation ... deep rooted notions of cultural understanding and ... psychological appreciations of institutional differences” (Hopwood, 2000, p. 763).

An innovative analytical approach is deployed, in which accounting harmonization is conceived as interpretable through three complementing lenses. First, and most important, is the lens provided by Hegelian dialectic. This views the world as one of constant change arising from thesis, antithesis and synthesis. Second, is the lens through which the institutionalization of accounting is viewed as being effected by coercive, normative and mimetic isomorphism, and by a process of decoupling. Third, is the lens provided by Foucault’s concept of knowledge and power. Using these three lenses, this paper seeks to assist those associated with international accounting standards harmonization (whether they be issuers, appliers, or users of resultant financial statements) by providing better explanations of how international harmonization has evolved, how it has affected institutional and social structures, and how it might progress in the future.

The push for global adoption of IFRS is part of a general wave of standardization that has taken place in broader, non-accounting contexts over the past 150 years. Such standardization has been described aptly as part of “the general constellation of developments ... known as modernity” (Menzies, 2005, p. 23). The world has witnessed the standardization of time, weights and measures, means of communication, and methods of production; and has seen the growth of numerous organizations (e.g., International Organization for Standardization) “through which regulation by international technical standards has replaced regulation by national policy” (Menzies, 2005, p. 29). Consequently, in modern society, the global harmonization of accounting standards might be regarded as uncontroversial, unremarkable, and inevitable. Nonetheless, it is only within the last two decades that the international harmonization of accounting standards has gained widespread and effective acceptance (Cooper et al., 2003, p. 359). Although the move to harmonize accounting standards throughout the world is politically intricate, theoretically complex, and operationally uncertain, the drive to do so has strong impetus (Chand, 2005, p. 209).

Many arguments about the merits of global harmonization of accounting standards have been advanced. These are referred to as the thesis. A central pillar of such arguments has been free culture theory. This holds that all users of financial statements have the same needs in all countries and that economic transactions can be measured universally in accounting terms using the same procedures (Mora, 1995). Militating against this view (the antithesis) is environmental determinism theory: that accounting should be a product of the unique environment in which it operates (Gernon and Wallace, 1995). Consequently, an important question that arises in debates about international accounting harmonization is whether accounting ought to be conceived as truly universal or as subject to variation because of environmental factors.

To capture the broad process of international accounting standards harmonization, this paper introduces key elements of Hegelian dialecticism (thesis, antithesis and synthesis)
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