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Accounting harmonization in the BRIC countries: A common path?

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ABSTRACT

The aim of this paper is to understand the similarities and differences in the accounting convergence process of the BRIC countries. The study examines the evolution of these countries' accounting systems by developing a three-dimensional framework based on the political, economic and cultural elements. Brazil and Russia merely imitate, whereas China and India edit and translate the international standards ('informed divergence'). The political aspect, supported by the national culture and 'community', represents the main driver, even if the three dimensions are closely interconnected and overall, we show the current emergence of limits of the implementation of the dominant market model.

1. Introduction

The process of international accounting convergence is undergoing a period of change. Several developed and developing countries around the world are adopting international GAAP. Today, the two main accounting standards are the IAS/IFRS, issued by the IASC/IASB and used or allowed in more than 120 countries, and the U.S. GAAP, issued by the FASB and mainly adopted in the USA. Those based on the first standard are principle-based, allowing room for interpretation (Ball, 2006), whereas those based on the second are rule-based (Benston, Bromwich, & Wagenhofer, 2006). The convergence process, confirmed by the Norwalk Agreement in 2002, is in progress. The Securities and Exchange Commission (SEC), convinced that one accounting standard could improve the comprehensibility of financial reporting, has decided to allow companies listed on the NYSE to use the IAS/IFRS, making the reconciliation form voluntary (Durand & Tarca, 2005; Henry, Lin, & Yang, 2009). At the same time, despite the many innovations in harmonization studies in the past 10 years, it is remarkable that a single standard has still not been fully achieved. The comparability and the transparency of financial reporting are without doubt affected by these decisions (Chiapello & Medjad, 2009).

The convergence process toward a single set of rules is particularly interesting in developing countries, where accounting standards are usually of low quality, if not absent. The harmonization process of accounting standards toward IAS/IFRS is strongly influenced by political, cultural and economic elements. After reaching political and economic stability, these states need to regulate the capital markets and companies have to disclose additional financial information (Zeghal & Mhedhbi, 2006). Some governments are deciding to directly implement international GAAP without, or with a few, amendments

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(Nobes & Parker, 2012). The BRIC (Brazil, Russia, India and China) countries (O'Neill, 2001), among the fastest growing economies in the world, are all converging toward a single set of international accounting standards as they are deciding or planning to adopt IAS/IFRS in the next few years. Their main goals are to facilitate the interpretation, transparency and comparability of the financial reporting of their companies all over the world. Moreover, all four countries are increasingly integrated in the world economy, they are becoming a central and crucial node in the global flows of goods and service and their economies are more export-driven (Fagiolo, Reyes, & Schiavo, 2010). They account for 20% of world GDP, they have a population of almost 3 billion people and their importance is also strongly linked to the growing trend of both inward and, more recently, outward investments. From a cultural point of view, it is also interesting to notice that Brazil, India and China are considered to be emerging powerful actors in the global mediascape (Straubhaar, 2010). Despite the growing importance of these countries, there is still a lack of comparative analysis of the BRICs' accounting regulations.

The aim of this study is to contribute to the current debate on accounting harmonization, investigating the process undertaken by the BRICs. Thus, the article attempts to respond to the two following research questions:

(1) What are the similarities and differences in the accounting harmonization processes of the BRIC countries?
(2) Why are the BRIC countries making these decisions?

We initially study the evolution of the BRICs' accounting systems over the last decades. In fact, as Merton (1959) says 'it might at first seem needless to say that before social facts can be 'explained', it is advisable to ensure that they actually are facts. Yet, in science as in everyday life, explanations are provided for things that never were'. Then, we make a comparative analysis of the harmonization process of accounting standards. Differing from previous studies (Borker, 2012a; Ramanna, 2013; Xiao, Weetman, & Sun, 2004), we explain why BRIC countries made those decisions by developing a three-dimensional theoretical framework based on the political, economic and cultural characteristics of the different countries. In fact, accounting is no longer considered a mere technique. To fully understand the current accounting systems, we need to adopt a broader perspective, specifically looking at the societal relations of power, as accounting shapes and is shaped by the environment (Chapman, Cooper, & Miller, 2009).

We find that all BRICs are fast approaching the dominant model, which is represented by the IAS/IFRS (Lehman, 2005). At the same time, the analysis of the dynamic process of adoption of international GAAP highlights that China and India have decided to issue national accounting standards based on the IAS/IFRS showing a process of 'translation/editing', whereas Brazil and Russia have fully adopted the IAS/IFRS ('imitation'). Different from Baudot (2014), we claim that the 'informed divergence' is not only a peculiarity of the relationship between different standards, such as between the IAS/IFRS and the U.S. GAAP, but it can emerge even within the same accounting standard.

The political, economic and cultural dimensions of the accounting harmonization processes of the BRICs are strictly interconnected, and influence between them is extremely likely, especially if we consider that the accounting framework is strongly permeated by the local context (Arnold & Sikka, 2001). Nevertheless, the political aspect, supported by the national culture and 'community', represents the main driver of the decision process even if the three dimensions are intimately interconnected as identified in the analysis of the political economic aspects. Overall, the current globalization, which has strongly sponsored the standardization process among the different national GAAP, is actually showing its limits since national interests are limiting the achievement of a single and unique standard all over the world. In fact, in addition to the evident slowdown of the convergence process between the IAS/IFRS and the U.S. GAAP, we are assisting more and more to a well-identified willingness to protect the peculiarities of national economies and so the competitiveness of the respective firms. Despite the fact that the four countries have progressively liberalized their markets in the last decades, restrictions imposed by the political regulation of the market ('statism'), especially in China and India, represent a clear pattern aiming to resist to a dominant and widespread model. At the same time, we still have to take into consideration that the other two countries have passively adopted the IAS/IFRS: Brazil moved even further since it has already introduced the IFRS for SMEs, meaning that also the small and medium firms, which are usually considered the 'watchdogs' of the local values, have to adopt this set of standard based on a different framework with respect to the local GAAP. To the best of our knowledge, this is the first study that comprehensively looks at the reasons behind the convergence process of a set of developing countries.

These results are useful to policy makers in studying the convergence process as well to other developing countries that are planning to adopt the IAS/IFRS. Several of the least developed countries, which do not have any accounting rules, wish to directly implement the IAS/IFRS in next few years. The transnational standard setting body necessarily has to take into consideration these discrepancies in the adoption process of the dominant accounting standards since they clearly represent voices which have been suffocated in the name of the liberation process in the last decades. Moreover, this paper, showing that accounting is fully embedded in in the political economy of a country, contributes to bring additional evidence to validate the presence of 'varieties of capitalism' which should be analyzed in a dynamic perspective since they gradually evolved in recent decades.

In Section 2, we present the literature review and in Section 3 we define the theoretical framework. In Section 4, we analyze the evolution of the four accounting systems in the last century. In the last two paragraphs, we discuss the evidence gathered and we present our conclusions.