



The development of accounting regulations for foreign invested firms in China: The role of Chinese characteristics [☆]



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ABSTRACT

Drawing on actor network theory (ANT), this paper analyses the role of Chinese characteristics in the emergence of three accounting regulations for foreign invested firms (FIFs) as part of China's recent transformation to become part of the "world order". The paper examines how international accounting standards (IAS) and existing Chinese accounting were translated into new regulations for FIFs, and how these translations were shaped by malleable interpretations of Chinese characteristics. Chinese characteristics were a discursive obligatory passage point (OPP) rendered malleable through cognition and the sanctions of political authority to suit the interests of actors seeking to produce new accounting regulations. Chinese characteristics were a signifier that carved out a space for local networks to attain their identity and retain some measure of independence from global networks, shaped the construction of each accounting regulation for FIFs into an attractive package, and influenced the adaptation and transformation of those elements of Western accounting that arrived into China. In turn, IAS became part of the discursive field on accounting regulation that helped mediate the shifts in the interpretation of Chinese characteristics over time.

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Introduction

This paper draws on actor network theory (ANT) to examine the role of Chinese characteristics in the development of three accounting regulations for foreign invested firms (FIFs)¹ in China as part of China's recent

transformation to become part of the modern world order. The paper explores how International Accounting Standards (IAS) and existing Chinese accounting were translated into accounting regulations for FIFs and the mediating role played by Chinese characteristics therein. The production of each regulation is conceptualized as a trial of strength in which reformers built networks around interests constructed as commonly shared between network members. Chinese characteristics were a malleable, discursive obligatory passage point (OPP) defined and redefined by actors' cognition, interest, and the sanction of political authority whereby political acumen and timing contributed to facilitating the acceptance of new regulations.

Increasingly, countries have been undergoing significant transformations in order to become a part of the modern "world order" as a consequence of the "interrelated processes" of globalization that are "operating across all the primary domains of social power" (Held & McGrew,

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¹ See Appendix A for a list of abbreviations used in this paper.

2000: 6; see also Held, McGrew, Goldblatt, & Perraton, 1999). Yet, counter pressures seek to preserve cultural identity and ways of doing things (Tomlinson, 2000). Recent developments in China are an example of such radical transformation which entailed gradual customization of Western ideas coupled with a desire to preserve Chinese cultural identity. Our argument is that Chinese characteristics played a key role in the effort to reconcile these seemingly irreconcilable pressures for pursuing international conformity while preserving cultural identity, and they impacted the way in which elements of Western accounting were customized and arrived into China. In turn, IAS became part of the discursive field on accounting regulation that helped mediate the shifts in the interpretation of Chinese characteristics over time.

“Chinese characteristics”, or “Chineseness” (for the latter see Coase & Wang, 2013) are dominant expressions in discussions of China’s recent transformation. Official Chinese discourse talks of “socialism with Chinese characteristics”, whereas elsewhere the discourse is on “capitalism with Chinese characteristics” (e.g., Breslin, 2004; Coase & Wang, 2013; Huang, 2008; Karmel, 1994; Peck & Zhang, 2013; Yang, 2007).² The addendum “with Chinese characteristics”, has been attached to issues such as agrarian reforms (Zhang & Donaldson, 2008), political ideologies (Nathan & Shi, 1996), the global model (Mohrman, 2008), civil services (Aufrecht & Bun, 1995), ownership (Dorn, 2003), and human resources (Warner, 2008). It is therefore not surprising that Chinese characteristics played a key role in the development of the accounting regulations we analyse. Remarkably, however, Chinese characteristics are hardly articulated and/or problematized in the literature. In this paper, we reflect on what Chinese characteristics mean, how their meaning shifted across individuals/groups and over time, and how they mediated the production of each accounting regulation and the adaptation and transformation of Western accounting ideas in China.

This study differs from research on accounting change in transitional economies such as the Czech Republic (Seal, Sucher, & Zelenka, 1995); Poland (Krzywda, Bailey, & Schroeder, 1995); and Vietnam (Phuong & Richards, 2011). While these studies provide timely updates of current developments in accounting regulations, they present accounting change as purely technical and unproblematic, with little attention accorded to the impact of cultural and political issues. While Chow, Chau, and Gray (1995) focus on the role of the Chinese government in the development of accounting standards and Xiao, Zhang, and Xie (2000), Xiao, Weetman, and Sun (2004) examine factors that motivated the development of Chinese accounting and auditing standards in the 1980s and 1990s, studies neglect the dynamics of change and the translation of accounting ideas. In one of the few exceptions that problematizes the travel of Western ideas to a former socialist context, Mennicken (2008) examines the process of using international auditing standards in a post-Soviet Russian audit firm and emphasizes the fragility of international harmonization projects.

We examine the networks formed and the media used to bring about new accounting regulations (actants) with a specific focus on the role of Chinese characteristics. We conceptualize the travel of accounting ideas as both the process and outcome of actor-network formation, which involves a chain of activities performed by actors/actants through which ideas or visions are translated into practice (Callon, 1980, 1986; Latour, 1987, 2005). We theorize Chinese characteristics as a discursive OPP, pointing to their malleability to political acumen and actors’ interests, and explore the implications of this theorizing for ANT.

By studying the machinations of the regulatory environment in the context of China’s transformation, we add to the sparse literature that problematizes the travel of ideas to different socio-political contexts. We show how China’s unique socio-political and cultural contexts, summed up by the term Chinese characteristics, impacted the process and outcomes of accounting regulation. Some socialist elements have remained an important part of the Chinese political agenda despite the continuing march towards greater marketization, with the Chinese government continuing to have a major interventionist role in accounting regulation. We show how differing forces acted to shape accounting regulations for FIFs, and how these forces, especially Chinese characteristics, underwent frequent translations and was susceptible to political manipulation. Chinese characteristics operated as a discursive OPP by acting as a gatekeeper that impacted the way the West arrived in China by permitting some Western ideas, suitably translated, but not others, to enter China. The malleability and shifting meaning of Chinese characteristics helped create a space for actors with differing agendas to become part of the network that produced the accounting regulations, and made it possible for local entities to protect their identities and independence while engaging the so-called global. As IAS became part of the discursive field on accounting regulations, IAS interacted with, and helped reshape, the interpretations of Chinese characteristics so that parts of Western accounting that were barred in the 1985 regulation were included in later regulations. We also note the value of acumen and timing in rendering the moments of translation more effective. Finally, we argue that the process of producing accounting regulations for FIFs galvanized the interests of diverse actors, bonding them together in their drive to adapt and translate elements of Western accounting.

This study also contributes to the literature on accounting change informed by ANT. Briers and Chua (2001) examine the implementation of activity-based costing as a set of trials of strengths, Christensen and Skaerbaek (2010) study how consultants ‘purify’ accounting technologies to reduce resistance to change, and Dambrin and Robson (2011) focus on the ambivalence, opacity and performativity of flawed measures. While providing powerful insights, these studies focus on either single case studies (Briers & Chua, 2001; Christensen & Skaerbaek, 2010) or individual industries (Dambrin and Robson, 2011) in advanced capitalist countries. In contrast, we examine the state transformation of a socialist economy towards greater marketization and show how Western accounting ideas travel to that context. This helps clarify the extent to which ANT illuminates how

² One of the few exceptions is Harvey (2007: 122).

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