

STANDARDISATION OR HARMONISATION IN INTERNATIONAL ACCOUNTING: A CONTINGENCY PERSPECTIVE

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Abstract

Standardisasi dan harmonisasi merupakan permasalahan penting dalam akuntansi internasional yang telah dikembangkan pada tahun-tahun terakhir ini. Praktek internasional akuntansi itu sendiri bervariasi dari satu negara ke negara lainnya karena masing-masing negara mempunyai lingkungannya sendiri yang berbeda satu sama lain. Perbedaan tersebut terletak pada sejarah, tahapan penerapan teknologi, budaya, politik, sistem ekonomi dan bahasa. Perbedaan praktek akuntansi ini pada akhirnya mendorong dikembangkannya standardisasi dan harmonisasi. Guna menjelaskan perubahan yang terjadi di lingkungan yang berbeda diantara nrgara-negara, maka dalam aplikasi akuntansi internasional diterapkan pendekatan kontingensi. Beberapa literatur mengatakan bahwa standardisasi yang menerapkan keseragaman standar di semua negara nampaknya sulit dicapai. Hal ini kemungkinan disebabkan belum ada kerangka konseptual untuk standardisasi itu sendiri, dan kemungkinan secara politis sulit diterima. Sebagai konsekuensinya, harmonisasi yang secara logis tidak mengundang banyak konflik nampaknya lebih dapat diterima dibandingkan dengan standardisasi.

Keyword: *Standardisasi, harmonisasi, akuntansi internasional, pendekatan kontingensi.*

The accounting system of a country reflects its environment. Therefore the accounting practices among countries are different. A country's accounting standards are developed by the government or by the accounting bodies which is approved by the government. Besides the differences in accounting practices, rapidly expanding of capital market and MNCs' activities require standardisation and harmonisation in international accounting. Standardisation will create the uniformity of accounting standards for all countries. It leads to an availability of understandable and trustworthy accounting information for international users. However, the differences in environment among countries hinder standardisation.

In another side, harmonisation is trying to approach the development of national accounting system with the variety of cultural, political, economic and historical environment. A contingency approach in international accounting is applied to explain these differences. This paper will discuss the issues of standardisation or harmonisation in international accounting. Then, it will be followed by the contingency approach and its application to international accounting, in order to achieve standardisation and harmonisation.

Standardisation and Harmonisation

Both standardisation and harmonisation are the important issues in international accounting. Harmonisation is defined as an adjustment of different standards in every country in order to harmonise and not logically conflict each other (Choi and Mueller, 1992, 257). Furthermore, harmonisation is also an attempt which is trying to reduce the conflicts among countries with diverse accounting systems. In addition, standardisation is the uniformity of accounting standards which is applied in every country. Meek and Saudagaran (1989, 168) explained "that standardisation dictates a uniform standard in all countries that participate in that efforts". The Generally Accepted Accounting Principles (GAAP), is an example attempt for standardisation.

Standardisation is difficult to reach, due to some obstacles. First, the different practices in different country resulted in the different accounting report and the purposes of financial reports. Second, the sovereignty or nationalism (Cascini, 1993; Choi and Mueller, 1992 and Tay, 1992) reflects the unwillingness of the accountants or companies to lose their sovereignty. It may be manifested in the lack of knowledge or interest in accounting elsewhere. As a result, to alter internationally set standard in reporting and to change to the environment is difficult.

In 1973, the International Accounting Standard Committee (IASC) was established by accounting institutions in nine countries to meet the standardisation. IASC formulated the standards for its members that can bring the national practices into the international standards. Besides IASC, ASEAN Federation of Accounting (AFA) was established an exposure draft. In addition, the International Federation of Accounting (IFAC) consisting of professional bodies from many countries provides the issuing statements on auditing and management accounting. IASC has made many achievements (Wirawan, 2002). Producing 41 standards in the end of 2000 is the current achievement.

Rivera (1989, 322) explained that harmonisation in varying countries is most likely to fail. It may result from the pressures coming from different parties with different motives for international harmonisation itself (Radianto, 2002). Furthermore, Redebaugh & Gray (1997) identified these pressures that are government, investors, bankers, lenders, trade union & employees, general public & accountant, and auditors. However, Meek and Saudagaran (1989) said that harmonisation is more achievable and realistic approach, and also more compatible in making diverse accounting principles from different countries (Nobes and Parker, 1981). It is also much more flexible and open, since there is no a one-size-fits-all approach needed (Radianto, 2002). One example that can be pointed out is the European Community harmonisation. The EC harmonisation program is part of the effort to achieve harmonising company laws, which in turn will occur in the context of

promoting the objective of economic integration within 12 member countries. (Meek and Saudagaran, 1981, 172). The initiatives of harmonisation within EC consisting of directives and legislative instrument, proposed to the Council of Ministers (Most, 1984). As a result all available accounting standards are legally enforceable, since all member countries of EC have to implement EC Directives. Radianto (2001) added the changes in all member countries as well as in those countries due to implementing the Directives.

The Contingency Approach

A contingency approach is becoming more relevant to an international sphere when business is growing internationally. At first, the contingency approach is developed in order to meet the needs for organisational or management approach to be more effective (Luthans, 1976, 22). Organisation needs to be aware of its environment including culture, politics, economy, technology or the value system, since organisation has to adapt its existing environment. This response is known as "contingent" to the environment (Tosi, 1990, 16). The contingency theory assumes that an Organisation is a system consisting of a number of subsystems which are confined by the environment. This environment will be the context and will shape the system.

The contingent relationship refers to the functional relationship between two or more factors. One concept of contingency approach, IF-THEN concept (Tosi, 1991, 29), clarified the independent variable (IF) and the dependent variable (THEN) forming the relationship. However, the functional relationship does not imply that there is a cause and effect relationship. This approach is more likely to be the "all depends approach". The approach taken, depends on the surrounding environments, and there is no one approach that fit in all situation with the different environments. As a result, international accounting can be approached by this theory, since international accounting system and practices in countries are influenced by their environments.

The Environmental Factors

Accounting practices in countries are shaped by the environment. According to Choi and Mueller (1992: 39), a number of environmental factors are: legal system, business ownership, size and complexity of business, political system, social/culture climate, business legislation, specific accounting legislation, business innovation, economic development, growth pattern of economy, and status of professional accounting education and organisation. In addition, Radebaugh (1997: 43) has also identified some environment factors such as the nature of enterprises ownership, the business activities of the enterprises, source of finance and the stage of development of capital market, the nature of the taxation system, the existence and significance of the accounting profession, the state of accounting education and research, the nature of the political system, the social climate, the stage of economic growth and development, the rate of inflation, the nature of legal system and the nature of accounting regulation.

Since the nation have different environment as well as different history, thus their pattern of accounting practices and accounting development are also different. Furthermore the

endeavour of standardisation and harmonisation of international accounting should conpempte to the environment factors. The environmental factors analysed in this paper are the history of the country (Choi and Mueller, 1992), the culture which includes the value system and nationalism (Alhashim, 1992; Choi and Mueller, 1992; Meek and Saudagaran, 1989; Radebaugh, 1997 and Sheth, 1989), technology, legal/law system, political system and language. The accounting system of a country can be approached by using the contingency model based on the above environment, in order to minimise the differences.

Application to the International Accounting

Regarding the diverse environmental factors of different countries' accounting system, the contingency model for international accounting development can be the appropriate way to approach either stadardisation or harmonisation (Choi and Mueller, 1992: 39). One of the environmental factors, that is the history of a country, has a strong effect on the country's accounting system. For example, Indonesian accounting procedure was greatly influenced by Dutch accounting system.

Furthermore, the history of a country also links to the country's law systems. The country's law systems usually are derived from the coloniser country's law system. The country which is colonised by the civil-law coloniser-country, would have the civil law system. Whereas the country under common-law coloniser-country would have a common law system. For example Hong Kong, Singapore or Malaysia. Those kinds of laws give the different features in accounting and commercial system. The common-law countries have a loose regulatory frameworks. As Nobes (1994:36) said this framework was established by the Company Acts and effects on the financial system.

As a result, the accounting features under the Company Acts have a large number of auditors and accounting rules are more tightly applied than that of the tax rules. In contrast, the civil-law countries such as Korea, japan or Indonesia borrowed the commercial law from the continental Europe which is dominated by the government. Under the commercial law the accounting regulations which are governcanced by the government are dominated by tax rules.

Technology of the country also influenced by the accounting practices. The different stage of technology determines the accounting report. The rapid growth of technology and communication both hardware and software will enable the staffs to access information needed without moving out the office. They also connect the companies to customers, suppliers and other companies. Furthermore computer, on line system, using transaction from automatic teller machines (ATMs), computerised foregn trading, Electronic Funds Transfer (EFT), and Point of Sale (POS) will also be part of the business (Riches, 1992: 49).

In turn, social climate more or less links with the technology as well. The existing technology affected the social behaviour. Social climate in term of culture that effect the accounting system has been clearly expressed in many researches. Hofstede (1985) stressed that "the lack of consensus in accounting practices between countries is because their purpose is not technical but rather cultural". Culture determines the development of the social class structure, political, educational, and financial system. This soci-

etal value is reflected in the attitude of the government officers, professionals, or even any individual toward the idea, innovation, knowledge and the changing technology. It will influence the setting of accounting principles. Hofstede (1992: 143) mentioned that the national cultural difference involves the three dimensions namely power distance, individualism versus collectivism, and masculinity versus femininity. These three dimensions which perform the social values, affect the accounting values in term of professionalism, uniformity, authority, enforcement, measurement and disclosure (Fechner, 1994: 269). As cultures vary, the accounting system and practices vary too.

Language has an important role in accounting too. A common language is needed in financial statement. Moreover, language also plays an important role in translation of information for achieving effective communication, because the users of the accounting report is not only domestic users but also foreign users who are not familiar with the local language.

These environment factors of international accounting in contingency model is shown in the chart below:

A contingency model : an accounting system of a country

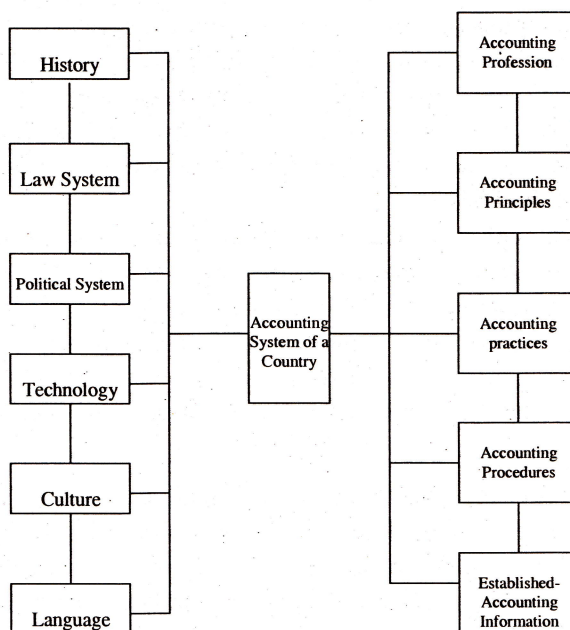


Figure above shows the relationship between environmental factors in a single country and the accounting system of a country. This accounting system of a country conduct all activities related to accounting and financial matter, such as Financial and Accounting Standard of Indonesia. The outcomes of the system are accounting profession, accounting principles, accounting practices, accounting procedures etc.

Since the diverse environmental factors influence the accounting practices in different countries, the standardisation is more difficult to reach. It was argued in some literatures that standardisation has failed to be reached by international accounting bodies

due to the lack of conceptual frameworks. In order to overcome that problems such as nationalism of country, and conflict objectives (Cascini, 1993 and Walters, 1989) which are improving and moving closer together on international standards while “sheltering” the national standards from unwelcome and disruptive change, IASC then, provides a wide range of alternatives.

As Cascini and Walters explained, many IASC standards permit conflicting alternative treatments to accommodate differences in national accounting standards. For example, Walters (1989, 25) noted that the IASC provided the narrow standard in using cost of inventory method which are LIFO and FIFO (before it were three methods approved), even though FIFO is the most common method used internationally. However, LIFO is also allowed to be used because of tax advantages.

Accounting Practices in Japan, The United States and Indonesia:

Japan

Japanese accounting system is influenced by many countries such as Germany, France, Europe and the US. This system in turn influenced Japanese accounting’s environment. Japan also adopted the American manufacturing system quickly. Moreover, the growth of Japanese capital market, its role in foreign direct investment and Japanese MNCs’ activities encourage standardisation and harmonisation. In addition, Japanese accounting standard which is consistent to Germany laws, and is set by the government, that is the Ministry of Finance. Japanese International standards is growing rapidly and Japan is a member of the IASC.

The contingency approach’s view can explain changes in environment to harmonise Japanese accounting standards. Japanese accounting is becoming more internationalised by adopting the standards of Financial Accounting Standard 78 (FAS 78). For example, Toshiba’s March 31, 1992 Financial Statements were much more in accordance with the US standard (FAS 78), in term of timing differences, foreign translation gains and losses shown in stockholder’s equity section and pension accounting (Slipkowsky, 1993, 30).

The United States

The US Generally Accepted Accounting Principles (GAAP) was established by the Financial Accounting Standards Board (FASB) which specify the financial reporting’s purpose and the qualitative characteristics of accounting information (Agrawal, 1989, 239). FASB’s mission is to establish and improve standards offinancial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users offinancial information (Choi and Mueller, 1992, 123). The US accounting regulations are more influenced by the securities of market. Therefore, the Securities and Exchange Commission (SEC) which set accounting standard for private sector, was equipped the law to enforce the securities law.

Increasing the US MNCs’ activities and the US capital market change the environment. Contingency approach is applied as long as it is measurable and identifiable. For example the deferred credit method of recognising comprehensive tax allocation established in 1991 is replaced by the liability method of SAF no. 96. The SEC also simplify the

regulation for non-US issuers that is the Rule 144A issued in April 1990 which propose a more efficient way to issue securities in the US capital market (Choi and Mueller, 1992:311).

Indonesia

As mentioned before, Indonesian accounting system is influenced by the Dutch accounting system. Indonesian government has set the accounting principles including the method used in preparing the accounting report for Indonesian companies. These principles are called the Financial and Accounting Standards. Furthermore, in achieving harmonisation, Indonesian Accountants' Association (IAI) adopted GAAP, Generally Accepted Auditing Standards (GAAS) and *Code of professional Ethics*. These principles and standards are taken from statement of accounting norms in US, Australia and Netherlands (Abdoelkadir, X. K. and Yunus, H., 1994, 62).

To improve accounting standards, the government continues to play an important role either in education or professional level. To be the Public Accountant, one has to take an examination launched by the government. In response to standardisation and harmonisation, Indonesia became the member of IASC. Moreover, the increasing number of Indonesian students studying accounting abroad, will support Indonesian accounting steps to harmonisation.

Conclusion

It is obvious that environmental factors of each country is different from others'. These environmental factors, such as history, law system, politics, technology, culture and language of a country, actually lead to differences among countries in their accounting practices. In order to explain and minimise those differences, it has been mentioned the use of standardisation and harmonisation in blending those differences. Unfortunately, the concept of standardisation, which implies the uniformity of accounting standards among countries, is difficult to meet in practice. Harmonisation, which is basically adjusting a country's accounting system to the the international one, seems to be a better solution in reducing the differences. In harmony with each other's accounting system, will certainly reduce the differences and the conflicts appeared. Finally, in international accounting, the concept of harmonisation is more acceptable than standardisation.

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