

**MUHASEBE DÜZENLEMELERİ: KONTROL KİMDE?
ABD ve ÇİN KARŞILAŞTIRMASI**

**ACCOUNTING REGULATIONS: WHO CALLS THE SHOTS?
A COMPARISON BETWEEN USA and CHINA**

**БУХГАЛТЕРСКИЕ ПРАВИЛА: В ЧЬИХ РУКАХ КОНТРОЛЬ?
НА ПРИМЕРЕ США И КИТАЙЯ**

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ÖZ

Muhasebe bilgisi kişiler, ticari örgütler, toplumlar ve devletler için son derece önemlidir. Bu öneme binaen bilginin hangi kriterlere göre üretileceği ve sunulacağı da bitmeyen bir tartışma konusu olmuştur. Muhasebe bilgisinin nasıl üretileceği ve sunulacağı ile ilgili yapılan düzenlemeler, sonuçlar üzerinde de önemli değişiklikler meydana getirecektir. Bu nedenle sermaye sahipleri, iktidarı elinde bulunduran siyasal eğilim ve hakim ideoloji daima muhasebe düzenleyicileri üzerinde baskı oluşturmuşlardır. Eleştirel Muhasebe literatürü, bahsi geçen müdahalelerin ülkeden ülkeye değişebileceğini; bazen muhasebe ile ideolojinin bazen ise muhasebe ile siyasetin girift ilişkiler içerisine girebileceğini göstermeye çalışmıştır. Bu mücadelenin temel sebebi “muhasebe bilgisinin, yani gücün, nasıl oluşturulacağını ve sunulacağını kim belirleyecek?” sorusuna verilecek cevaptır. Cevaplanması gereken bir başka soru ise, bu araçsallığın muhasebenin varlığı ile birlikte gelen bir zorunluluk olup olmadığıdır. Yani muhasebe özü gereği gücün etkisinde olan bir araç mıdır? Yoksa hakim ideoloji ya da siyasal iktidar tarafından manipüle edilen bir bilim midir? Bu çalışma, muhasebeye ilişkin düzenlemeler üzerindeki siyasal ve ideolojik etkileri araştıran güncel akademik çalışmalara odaklanmaktadır. Ele alınan çalışmaların kimisi ABD'deki politika ve muhasebe arasındaki ilişkiye odaklanırken diğerleri Çin'deki muhasebe düzenlemeleri ile ideoloji arasındaki ilişkileri incelemektedir. Makalenin amacı, 2005 yılı sonrası eleştirel muhasebe literatüründe yer alan; muhasebe ile politika ve ideoloji arasındaki karmaşık ilişkiyi çok boyutlu açıkladığı düşünülen ve günümüz iktisadi dünyasının iki zıt kutbunu temsil eden ABD ile Çin arasında karşılaştırmalı bir analiz olanağı sunan kimi çalışmaları tanıtarak ve özetleyerek araştırmacıların ilgisine ve tartışmasına sunmaktır.

Anahtar Kelimeler: Muhasebe, Politika, İdeoloji, Muhasebe Standartları, Muhasebe Düzenlemeleri

Jel Sınıflandırması: M40, M41, M48, M49.

ABSTRACT

Knowledge of accounting is crucial for individuals, commercial organizations, societies and states. This creates endless debates on according to which criteria the knowledge will be produced and presented. The regulations regarding how the accounting

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DOI: 10.17498/kdeniz.415104

knowledge is produced and presented influence the results significantly. That is why investors and dominant ideology put pressure on accounting regulators. Critical accounting literature suggests that such interventions and pressure may vary from one country to another. It discusses that in certain cases, accounting and ideology or accounting and politics get involved in a complex relationship. The reason of this debate actually lies beneath the question that "who will determine the knowledge of accounting, which is the power, and how it will be produced and presented? Another crucial question is whether accounting is a tool used by power. Or is it a science which is manipulated by the dominant ideology and political power? This paper centres on recent scholarly works on the effects of politics and ideology on accounting regulations. Some of the works which are contained by this paper investigate USA politics and accounting relation whereas others examine accounting regulations and ideology in China. The purpose of the paper is to focus on the studies -penned after 2005- which are thought to have explained the multi-dimensional and complicated relationship between accounting and politics\ideology. Thus, it purposely centres on the works allowing the researcher to analyse comparatively the two opposite poles of the economic life of the world, namely USA and China. The paper adopts a descriptive method that summarizes, conveys and introduces the works in question to researchers for discussion and further investigation.

Keywords: Accounting, Politics, Ideologies, Accounting Standards, Accounting Regulations

Jel Classification: M40, M41, M48, M49.

АННОТАЦИЯ

Люди со знанием бухгалтерского учета имеют решающее значение для коммерческих организаций, разных сообществ и государств. Между производителями и покупателями идёт бесконечное обсуждение о том, что на какие критерии должно основываться знание бухгалтерского учёта. Поправки в том, как производить и представлять бухгалтерскую информацию, приведет к существенным изменениям результатов. По этой причине владельцы капитала, политическая тенденция у власти и доминирующая идеология всегда оказывали давление на регуляторы бухгалтерского учета. Критическая литература по бухгалтерскому учету предполагает, что указанные вмешательства могут варьироваться в зависимости от страны. В них иногда можно увидеть сочетание бухгалтерского учёта и идеологии, а иногда бухгалтерского учёта и политики. Основной причиной этой борьбы является ответ на вопрос "Кто будет определять бухгалтерские знания, то есть власть, как она будет сформирована и представлена?". Еще один вопрос, на который нужно ответить, - это необходимость, связанная с существованием бухгалтерии. Иными словами, является ли сущность бухгалтерского учета инструментом, на который влияет власть? Или это наука, в которой господствует идеология или политическая власть? В этом исследовании основное внимание уделяется текущим академическим исследованиям, исследующим политические и идеологические влияния на правила бухгалтерского учёта. В то время, как в некоторых исследованиях основное внимание уделялось взаимосвязи между политикой США и бухгалтерским учётом, другие изучают взаимосвязь между правилами бухгалтерского учета и идеологией в Китае. Цель этой статьи, критически проанализировать литературу по бухгалтерскому учёту после 2005-го года. Представить интересам и дискуссиям

исследователей некоторые из исследований, которые обеспечивают сравнительный анализ по бухгалтерскому учёту между США и Китаем. Как считается, в этих странах учитывают сложные отношения между бухгалтерским учётом, политикой и идеологией. Так как, обе эти государства представляют противоположные полярности современного экономического мира.

Ключевые слова: бухгалтерский учет, политика, идеология, стандарты бухгалтерского учета, правила бухгалтерского учета.

Jel Классификация: M40, M41, M48, M49.

1. Introduction

Recently, the question of whether politics and ideology have an influence on accounting has turned into the discussion of how and to what extent the former affects the latter and vice versa. There is no doubt today that from the standard setting to implementation, politics and ideology intervene throughout the whole process. As Gipper et. al. notes “even casual observation of the standard setting process suggests that politics can have a first order effect on how accounting standards are set” (Gipper et. al., 2013: 1). From 1970s onwards, several researches have uncovered this fact through scholarly works (Watts and Zimmerman, 1978; Mason, 1980; Sunder, 1988; Brown and Tarca, 2001; Ahmad, 2015). It is a well known fact today that, on the one hand, accounting and standard setting have been used as ideological tools to control economies of developing countries (Ding and Graham, 2007; Andrew and Cortese, 2013). On the other hand, current studies have also exposed the role of accounting as an instrument to legitimate the economy-based policies by states in general and governments in particular.

Scholarly works in question here investigate accounting as a political or ideological entity which assumes responsibilities going beyond technical liabilities. They take accounting as a social, cultural and political phenomenon with a historical background. That is to argue that accounting is not constant but dynamic; not complete but ongoing; and dependent on social, economic and political changes. Current paper aims to provide a fertile review of the up-to-date research on the relationship between politics, ideology, and accounting regulations. It focuses on the fundamental scholarly works on the subject matter. So it mainly adopts a descriptive method which summarizes, conveys and introduce the critical literature to the researchers. By doing this, the paper also aims to open a door for prolific discussions and further investigations.

This paper comprises actual empirical works that were written after 2005. They are papers which are thought to have explained the multi-dimensional and complicated relationship between accounting and politics and ideology. Specifically, there are five research contained by this paper, three of which investigate USA politics and accounting relation whereas two examine accounting regulations and ideology in China. The reason why this paper chose those works is that while the USA based research provide the best aspect of the relationship between politics and accounting, China-based research present the best aspect of ideology and accounting relation. Because in the USA institutional politics is largely open to external influence through various mechanisms such as lobbying, whereas in China it is far more easier to observe the ideological shift and its effect on accounting.

This paper now goes on introducing the main actual research on the subject. The paper divided into three main sections throughout which politics-accounting relationship and ideology-accounting relationship are studied and conclusion with some comments. In

the related sections, it first introduce what the research mean by politics and/or ideology. Then it continues to convey how the papers establish the connection between politics, ideology, and accounting. Finally, it ties with the conclusion part.

1. Politics-Accounting Relationship

Brandon Gipper, Brett Lombardi and Douglas J. Skinner (2013) investigate the political influence over accounting standard-setting in the U.S.A. They define political influence as a “purposeful intervention in the standard-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity’s economic value or wealth or achieve some other self-interested purpose inconsistent with the FASB’s mission.” (Gipper et. al, 2013: 3) They do this investigation by centring on the functioning of the U.S. Financial Accounting Standards Board (FASB)¹. They initially discuss the main theories applicable on the accounting-setters and go on a debate about the relationship between politics and the FASB.

As Gipper et. al. (2013: 8) conveys there are a number models applicable on the FASB’s function in the USA. The first model is Regulatory Capture which explains the accounting standard-setters as “firms in the industry being regulated “capture” the regulator who makes regulatory decisions that are in the firms’ (industry’s) best interests, as opposed to being socially efficient.” (Gipper et al., 2013: 8) According to this argument, the biggest eight companies in the US controls and guides the FASB in order to maintain the interests of the companies or their clients. However, Gipper et. al. (2013: 9) have an objection against this argument as they observe that “the FASB rules affect many different types of entities (the Big 4 audit firms, other audit firms, users of financial statements such as analysts, as well as firms across many different industries) with divergent interests, so it is not clear exactly who ‘captures’ the FASB.” So, decisions made by FASB could be influenced by a number of factors including the regulators’ characteristics (i.e. their wealth and jobs), their ideological views, political persuasions etc. To understand the effect of these and their extent of affection, Gipper et. al. (2013: 37) suggest researchers to investigate data on the regulators’ personal characteristics. And then researcher can continue studying how those attributes influence the drafts that have been issued by the standard-setter institutions and persons.

The second model is the Public Interest model according to which the standard setters such as the FASB function in a philanthropic way to protect public interest from the market loss. However, Gipper et al. (2013: 8) argues that this model is too reductionist in its definition of standard-setters as purely altruistic. Moreover, the argument that the FASB is independent needs more focus here. Because if a standard-setter – an institution or a person - works in favour of public companies, it is obviously working for the state and possibly, for the government. For every state and government there is an ideological background that they constitute their social, cultural and economic policies according to.

¹ The FASB has been announced by the American Congress as an independent standard-setting institution. Hence, the FASB is a sovereign and self-governing standard-setter which is free from political influence. The FASB’s function was declared so as to set accounting standards for public companies. According to Gipper et al. (2013: 8) “[t]his means that accounting standard-setters like the FASB differ from other types of regulators in some important ways, which affects the applicability and descriptiveness of general economic theories of regulation.”

That is what makes the FASB, as a public-benefit institution, widely open to political influence.

Deriving from these critics, Gipper et. al. (2013: 10) argues that “[o]verall, no one model fully captures the complex economic and political nature of accounting standard-setting, in part because accounting standard-setters are held out to be independent while at the same time operating under the direct oversight of [...] the Congress, a delicate balancing act.” The theories for instance, do not explain the subject in terms of how agenda of standard-setters is set, which should be seen as something more than “simply identifying the topics that the board will work on –part of this process is also to determine the scope of a projects which influences that accounting standard system (Leftwich, 1990. Additionally, Leftwich points to the fact that the Securities and Exchange Commission (SEC)² added a project to the FASB agenda through lobbying including certain politicians. Deriving upon debate, Gipper et. al. (2013: 15) argues that the agenda of standard-setters are open to be influenced by underlying economic, legal and political forces:

It seems likely that political forces are generally play an important role in agenda setting in the FASB and that this operates more broadly than simply being manifested through the opinions of FASAC [Financial Accounting Standards Advisory Council] members.

As an evidence for this, they recall the two important accounting issues of the 1970s. In this period, oil and gas accounting and inflation accounting were added to the agenda because they were closely related to the ARAB oil embargo and inflation which were the biggest political and economic issues of the period. Hence, the FASB got gas and oil accounting on the agenda by the act of Congress.

Another name who has also given a focus on the FASB is Ross L. Watts (2006). Her work centres on how and why political agencies, courts and market forces attempt to influence accounting. She searches the answers to these questions through examples from FASB and IASB (International Accounting Standard Board). Further, her research involves the legal and the political systems through which political agencies find a way to affect accounting (Watts, 2006: 55).

What she finds out is that the FASB creates the accounting rules passing through a process that is based on the market. She argues that political actors play a significant role in this process. According to her, changes in the economic and legal systems are carried out and also are reflected by political forces. Those changes shape the market as well as the accounting standards. Political forces are also open to be guided by interest groups which attempt to influence accounting standards in favour of their own interest. Here

² The Security and Exchange Commission is government commission established by the U.S. government in 1934 in order to regulate the securities markets and protect investors. The Commission defines its mission as follows: “The mission of the SEC is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC strives to promote a market environment that is worthy of the public's trust.”(U.S. Securities and Exchange Commission Official Website, 01.01.2018).

intervenes lobbying as a political mechanism to have an impact on standard-setting process.

According to Watts (2006), accounting standards develop through market process which itself is a part of political and legal systems. Most of her work on lobbying through comment letters, drafts and other documents show that firms and their managers propose accounting rules to be set in favour of the market. Interestingly enough, she argues that if accounting standards are not set compatible with political and legal forces, they will fail in a short time. Watts (2006: 56) comments on this as follows:

History makes it apparent that standard-setting in the US is constrained by political forces –if the standard is too far from a political equilibrium, it cannot last. the long-term political equilibrium in the US appears to require conservatism, so it is likely that SFAS 142 will not last in its current form. Some of the firms with unverifiable goodwill that are underperforming will fail and in the political process part of the blame for failure will be attached to the failure of the accounting methods to recognise that assets were overstated.

So, she argues that if legal, political and economic changes (and actors, obviously) are not considered in setting the accounting standards, the standards do not survive long and lose their effect in a short time (Watts, 2006: 60).

The last, but not least, work that this paper is dealing with belongs to Afzal Ahmad (2015) who focuses on the effect of practical and institutional politics on accounting. It investigates the relationship between accounting and lobbying as a political practice. The paper centres particularly on the influence of lobbying on accounting standard. To measure the effect of lobbying, it explores the relationship between the lobbying process related to certain accounting standards and the application of those standards. It specifically analyses the lobbying activities of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB).

On the one hand, standard setters which are often known as standard boards (such as the IASB and the FASB) “are committed to protect the interests of investors rather than the interests of corporations and auditors” (Ahmad, 2015: 33). According to Ahmad, on the other hand, commitment to the preservation of investors’ interests may sometimes change into the desire to protect the interest of governments or standard setters’ themselves through lobbying activities.

The research concludes that the major determinants of lobbying in the field of accounting standards are the size of lobbying corporations and the perceived effects of the regulations on the economic well-being of the enterprises. The analysis of the specific cases indicates that both firm-level, industry-level and country-level factors contribute to lobbying decisions that are obliged to be approved by institutional politics, i.e. the U.S. Congress.

So far, the paper deals with the fundamental works that investigate the relationship between institutional politics and accounting regulations. They mainly focus on how, why, and to what extent politics influence accounting-setting process. Now it turns to the research that the relationship between ideology and accounting is explored.

2. Relationship Between Ideology And Accounting

While the research considered so far are mainly about the US, China also has a relatively broad literature about the relationship between politics, ideology and accounting. This has several reasons. First of all, China's political and social life have passed through diverse ideologies in recent history which provide researchers with the opportunity to investigate its history with close lens. Second of all, diverse ideologies give researcher the chance to compare governments' policies regarding economy in general and accounting in particular. Last but not least, comparing to other countries, governments of China dominantly influenced the process of constructing national economy. Beyond this, authoritarianism related with the Communist Party administration, move to shape a different system of power unmistakable from the sort of interest group dynamics experienced in the west and "this leads to a very different style of accounting in China as compared to the west" (Ding and Graham, 2007; Yee, 2012; cited in Xu 2014: 1).

In her work, Lina Xu (2014) focuses particularly on the effect of political ideologies on accounting in China. She adopts a critical definition of ideology and takes it as a matter of political conflict and power struggle processing through political interests and discourse. Her data includes the archives of primary official government regulations, Chinese accounting journals, Chinese accounting textbooks, and western and Chinese academic literature.

In her work, she initially looks at a number of critical theories which have been used in accounting studies (including Habermasian critical theory, social constructionism, Foucauldian critical theory and Giddens' structuration theory). Among these, she focuses on Gramsci's theory of hegemony as she argues that the theory of hegemony provides with the proper ground to explore the process of accounting becoming a political tool (2014: 64). As she refers to Cooper (1995) at length, the theory approaches to accounting through three dimensions. According to this, in the first dimension "accounting is intertwined with the state to support the hegemonic leadership of capitalism. The second dimension is the political aspect of hegemony, and accounting is seen as a discursive practice concerned with the reproduction of capitalism." (Xu, 2014: 64). Hegemonic leadership, the third dimension, uses accounting to create its leadership and maintain it (2014: 65).

Using Gramsci's theory of hegemony, Xu shows the role of politicians' and the political ideologies that they are attached to in constructing an accounting structure and the role of accounting structure in maintaining ideological dominance of the political power between 1949 and 1992. Gramsci argues that the success of political power lies beneath its capacity to establish a hegemonic culture through which it makes people believe that the ruling class ideology is for everyone's benefit. By adapting Gramsci's thesis, Xu analyses Chinese archives between 1949 and 1992 and relates them to the accounting systems set up by diverse ideologies that prevailed in China (2012: 194). As she approaches the archives critically, she distances herself from the traditional approach to accounting which takes it as a technical tool and ignores its political function.

She points out Mao's political ideology of New Democracy as the socio-cultural and political idea prevailing the society between 1949 and 1957. Mao government, she argues, changed the focus of accounting to ensure the interests of the working class and encourage the execution of central planning. Thusly, a centralised accounting system along the lines of that in the Soviet Union was built up in this period (Xu, 2012: 195).

Between 1958 and 1977, the Maoist government reformed the accounting system once more in order to get rid of residues of capitalism in economy. During this period, in a harmony with the hegemonic ideology, a socialist accounting system was set up. However, after Deng took over the political power after 1978, accounting system was once more directed to a more liberal usage. From 1978 to 1992, Deng applied reforms in economy which required accounting to be compatible with the market system. During this period, the leading names of accounting “followed Deng’s ideas for a new set of accounting systems aligning with western countries, and rejected Mao’s arguments to get rid of western accounting systems and facilitate a centralised accounting system in socialist China.” (Xu, 2012: 196) Consequently, China has harmonized its accounting standards with the International Accounting Standards (IAS) in 1992.

Another work on accounting and ideology in China penned by Mahmoud Ezzamel, Jason Zezhong Xiao and Aixiang Pan in 2007. Focusing on the transition from Mao period to Deng’s, their paper investigates the effect of ideology on accounting system. Ezzamel et. al. (2007) specifically trace the impact of ideologies on accounting through ideological discourses. They examine how and to what extent these discourses penetrate into accounting regulations. For this research they particularly look at Maoism and Dengism as two distinctive ideology that prevailed in China between 1950s and 1990s.m

Maoist politics ruled the country between 1950s and 1970s. It was run by an orthodox socialist affiliation giving the priority to class struggle, central planning and public ownership. Dengist politics, on the other hand, which substituted later on made a huge ideological change. Dengist politics were committed to a more liberal market economy. So, the focus shifted from “production relations to productive forces, from central planning to socialist market economy, and from state-ownership to mixed ownership” (Ezzamel et. al., 2007: 670). Focusing on this shift, Ezzamel et. al. (2007: 670) explore how dominant ideology in each period influence accounting regulations and they ask why ideology affected accounting throughout these periods.

As cited in detail earlier, Ezzamel et. al. (2007: 671-72) adopt ideology as “political ideology” which is interlaced with the relations of power and domination. So, they basically focus on the dominant ideologies to see how they legitimate, naturalize, and universalize themselves through accounting regulations. In order to see this, they concentrate on political discourses as the “wordly contexts” of political ideologies. For this, they draw upon various sources including works and speeches of Chinese politicians, accounting regulations issued by Chinese governments, and articles and books on Maoist and Dengist ideas. They also conducted semi-structured interviews with accounting regulators, government officials, and accounting academics and practitioners (2007: 674).

What Ezzamel et. al. (2007: 696) concluded is that “accounting regulation is an important arena where contested political ideologies are played out.” In their research, it was Maoist and Dengist ideologies that contested over accounting regulations. While Maoist class perspective constructed an accounting system in accordance with class struggle, Deng attempted to construct a more liberal and globally integrated accounting system.

The papers so far have shown that accounting is a political and ideological entity which is widely open to be influenced by political power and economic elite. Especially the research on the U.S. and China indicate that accounting has been used by political power to legitimate certain economy policies and ideologies.

3. Conclusion

Emphasising only the technical aspects of accounting in the research and academic papers has always been common in related literature. A vast majority of studies on accounting examine accounting standards and accounting-setting within the context of economic systems. In those studies, accounting has seen as a neutral tool or a simple economic technique used by practitioners, governors, academics and other professions. More recent studies, however, present a variant approach which explains accounting in relationship with its socio-economic and cultural and ideological background.

As the awareness regarding the relationship between politics/ideology and accounting raised, academic interest towards the subject also increased. Further more, it has recently become a casual perception that politics and ideology often have a “to begin with” impact on how accounting guidelines are set. This has been revealed by several scholarly works, some of which are considered in this paper.

This paper is about the scholarly works which explore accounting as a political and ideological entity. The papers in question deal with accounting as a socio-political and historical phenomenon. So, the general approach to accounting-standards setting is that it is a dynamic process changing according to institutional politics and on-going ideological practices.

The three works on the FASB show how accounting setters are wide open to be affected by institutional politics as well as the setters’ characteristics such as wealth and job. Following two works on accounting regulations in China uncover the process through which diverse ideologies construct accounting ideologically.

Through their methods and findings, the studies which have been presented by this paper associate accounting to its political and ideological background in order to uncover its political and ideological essence. Doing so, they highlight the fact that accounting is not a neutral tool of economics or a simple economic technique used by companies. They rather show that it has the potential to be used as an ideological instrument by states and governments to manage, misrepresent and manipulate economic data to control national and international economic structures.

The studies on the ideological character of accounting have shown that accounting was re-structured, re-organized and re-contented by leaders according their ideological engagements. Thus, accounting and accounting standards became a tool to serve countries’ ideological transformations (i.e. from communist regime to capitalism). Similarly, scholarly works on the institutional-political nature of accounting have exposed that accounting regulations and particularly the process of standard-setting are not free from political pursuits.

In conclusion, the scholarly works point to the fact that accounting regulations have hardly been free from political and ideological affects. As the examples of U.S.A and China show, through mechanisms such as lobbying, politicians or the leaders who attempt to establish their hegemony attempt to transform accounting regulations in harmony with their own ideals. This fact is also about an ontological debate which seems would never end; does accounting develop under the influence of dominant political ideals because it is under the pressure of power? Or it is substantially serve the power? It is indeed this unknown area that critical accounting researchers are willing to explore. But one should also note that those researchers are not free from their own political and ideological beliefs.

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