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GLOBALIZATION AND ITS IMPACT ON ACCOUNTING

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In this short research note, I first consider the origins of and define the concept of globalization. It is contended that the impact of globalization is increased policy homogenisation among countries. Then some features of the impact of globalization on accounting are discussed. It is concluded that striking the right balance between effective participation in the processes of globalization and retaining of an accounting system that is useful and relevant to domestic needs is a very challenging task.

The implementation of the Marshall Plan to overcome political, economic and social problems of post-war West European societies and economies may have provided' the trigger for the processes of «globalization». Globalisation has had the effect of making the world both larger smaller simultaneously. Global organizations are not citizens of just one country, but instead may both influence economic policies, and be influenced by, the legal and financial systems of the individual nation states in which they operate and to whose law they are subject.

Probable causes of globalization are the removal of currency barriers, the elimination of «protective» import tariffs and the creation of regional trade zones to encourage foreign direct investment (FDI), globalization of markets has occurred because of «the connection of national markets has come about through reductions of barriers to cross border trade investments» Industrial trading agreements were followed by political accords and national treaties leading to the formation of institutions such as the European Union (EU), International Monetary Fund (IMF), World Bank (WB), European Bank for Reconstruction and Development (EBRD), World trade organization (Wto), etc. Under «the active patronage of such Western institutions» American and West European ideas, ideology and companies along with their products and services have crossed national borders, spanning the globe. Coupled with the development of information technology, this has led to an increasing internationalization of business and a worldwide integration of financial markets.

The development of globalization as a process has been accompanied by controversy amongst policy makers and academics. The practical implementation of the concept has led to problems such as, «should national economies be globalized?», or «what are the costs and benefits of economic globalization?».

The «globalization» phenomenon is linked not only to markets but also to firms and their economic activities. A fewer number of larger firms now have a global «footprint», from manufacturing organizations like Daimler-Chrysler or Ford, the service sector (PricewaterhouseCoopers. HSBC) to information, communication technology and media companies (Microsoft, Cable and Wireless).

One impact of globalization is the creation of a «single» market based economy which operates on the basis of a common set of rules imposed by leading institutions such as those previously mentioned. Such a set of rules, common to all those that applies, may be conceived in a way does not necessarily meet all the specific needs of those to whom it applies.

Increasingly those subject to global rules have to accept the constraints imposed upon their independence. Small countries often «agree» to constraints imposed by economically stronger countries on their freedom to choose. Increasingly there is a tension between policy makers at the center and national government regulation at the periphery – «state subsidiarity» has increasingly become a contentious issue. Multi-layered policies result in bureaucracy, uncertainty and conflict. State autonomy is diminished. Playing fields become uneven.

With a diversity of cultural and economic traditions, accounting standards have been established separately in each country, making the implementation of globally standardized accounting procedures difficult to achieve. Despite the ongoing «globalization» of business, markets and services, harmonization of accounting practices amongst individual countries is still a slow process.

Conversely, the growing activity of international accounting firms and multinational companies has led to the export of Western accounting practices to developing countries. This in rum creates a dilemma for practitioners and academics. Should developing countries establish an accounting infrastructure to suit their own specific needs or import accounting systems used by developed countries, from different economic contexts?Different countries have pursued different approaches to solving this problem, which, re-emerged in Central and Eastern Europe in the 1990s. At one end of the spectrum, countries such as Slovenia adopted accounting standards similar to the British-American system of generally accepted accounting standards. On the other side, countries like Albania use a system of accounting based on the French general accounting plan.

The convergence of markets, firms and policies has resulted in a form of state «isomorphism» – a tendency for different national policies to become alike. Accepted accounting and auditing standards and practices are intended to facilitate the global businesses referred to previously. The rise to prominence of the financial sector has also highlighted the increasing need to standardise and harmonise accounting practices. The establishment of international accountancy bodies such as the International Accounting Standards Board (IASB) has served the above purpose. International trade, multinational industries and services, capital mobility and developing financial markets have significantly expanded investment opportunities. Accordingly, individual and institutional investors need to be able to read and analyze the language of domestic and foreign business entities in order to make informed investment decisions. Although accounting is the «lingua franca» of business6, due to the fact that accounting standards and practices are separately established in each country, it is necessary to «translate» them into an easily understandable business lexicon. Accounting is however: «... a language for which there is no common grammar. Hence the anomaly that in a global economy, there is no globally consistent accounting language»

The programme of harmonization has continued to evolve, but the question remains «how to harmonize?» In May 2000, the European Commission drafted a new regulation requiring all EU listed companies to prepare accounts in accordance with International Accounting Standards (IAS). This is the EU’s most significant action aimed at enhancing the comparability of financial reporting and is intended to promote an integrated European capital market, in which high quality transparent and reliable financial reporting are paramount. In addition, the problem of how to reform and harmonize accounting practices in some Central and East European countries still remains. One of the main difficulties is that international accounting and financial reporting standards are subject to continuous updates and/or changes, and that global best accounting practices themselves are a moving target and require constant monitoring and regulatory and structural adjustments. Furthermore, the international accounting standards have aimed primarily at large, publicly quoted companies many of which also tend to be multinational in nature.