

Globalization, Autonomy and Global Institutions: Accounting for Accounting

Author(s): Sarah Eaton, University of Toronto
Tony Porter, McMaster University

Described recently by Colleen Reynolds, a WJBC-AM radio host, as "dry, boring, bean counter boring," accounting would seem to be as far from the excitement and turbulence of globalization as one could imagine. And yet, a close look at the activities of accountants worldwide reveals that accounting is bound up with some of the most significant and distinctive characteristics of a globalizing world.

Since the advent of bookkeeping techniques in the middle ages, accounting has played an important role in business and politics, largely because accounting information allows for organizational control to be exercised at a distance. The invention of double-entry bookkeeping in fourteenth century Venice contributed to an upswing in international trade as merchants acquired a means of tracking increasingly complex business deals conducted in far-flung places. In the seventeenth century, the first joint-stock companies (the ancestors of today's giant publicly traded companies like Microsoft) formed partly because new accounting techniques made it possible for investors to keep track of company management's use of their funds. For similar reasons, accounting has also played an important role in the evolution of the modern nation-state. The economic data which governments publish in the form of national accounts are used to guide national policy-making on a wide range of issues. Voters also pay attention to national accounts which many see as an important measure of their government's performance.

In the current era of globalization, accounting has the potential to serve as an important "common language." Because of its reliance on summaries of numbers, accounting is well-suited to creating a common measure that allows comparison across industries, countries, languages, and firms that in other respects vary immensely. The easy comparability offered by accounting has, in turn, encouraged business activities to extend beyond borders. A Canadian investor conversant in the language of accounting can readily participate in European stock markets because even if she does not read the local language, she will be able to understand the financial information published by the corporations with which she interacts. Besides the usefulness of accounting, financial information presented in glossy, carefully put-together annual reports is a way for corporations to use their brand appeal to attract consumers and potential investors.

If accounting generally plays a prominent role in global economics, one powerful group of accounting firms — the "Big Four" (PWC, KPMG, Deloitte & Touche, and Ernst & Young) — are especially influential in political and business circles. In most of the world, the Big Four conduct the lion's share of public company audits, which are the legally-required external checks on a company's report of its financial position ("public" companies have shares that can be owned and traded by the general public). In the United States, for instance, the Big Four perform 78 percent of the audits of public companies. A series of high-profile American corporate scandals in 2001 revealed that some of the

most prestigious accounting firms had succumbed to pressure from the firms they were auditing and had attested to financial reports that were seriously in error. The most infamous case was Arthur Andersen's (formerly a "Big Five" corporation made bankrupt by the scandal) fraudulent audits of American energy trader, Enron. Andersen's audit reports aided Enron's management in keeping millions of dollars of debt and losses off the books. If multinational corporations sometimes try to influence Big Four accountants' decisions, many of these same firms are actively engaged in trying to influence the political process. In the United States, the Big Four routinely spend hundreds of thousands of dollars on campaign contributions to legislators and even presidential candidates who they think will be friendly to their interests.

Beyond the immense corporate power exercised by the Big Four, accountants play an ever more important role in helping governments to regulate financial markets. In countries like the United States, Canada, and England, where the trading of shares on stock markets has been a major source of corporate funding, private groups of accountants are typically authorized by governments to write accounting standards which are the rules that corporations are lawfully required to follow in drawing up their annual reports and other financial statements. In many of these same countries, the accounting industry itself has been largely responsible for policing the actions of auditors, though in the wake of the Enron affair, a number of governments have shown greater interest in more direct regulation of auditing. Even in countries where stock markets have traditionally not been an important source of corporate finance (and where, hence, financial statements issued to investors take on less importance) there seems to be increased participation by private sector accountants in the regulation of financial markets. This is the case in Japan, for example, and, to a lesser extent, in France.

A number of international groupings of accountants have been actively involved in trying to standardize accounting rules and practices around the world, and their growth is another aspect of the globalization of accounting. The International Accounting Standards Board (IASB), a private sector organization, is working to replace the many sets of national accounting standards in existence with a single set of global accounting standards. They are, in effect, trying to standardize the common language of accounting. Their major success to date has been an agreement with the European Union (EU) which states that as of January 2005, public companies in Europe are legally required to use International Accounting Standards (IAS) to draw up their corporate accounts. Whereas IASB's focus is on standardizing accounting *rules* worldwide, two other groups — the International Federation of Accountants (IFAC) and the International Forum on Accountancy Development (IFAD) — are trying to standardize audit and regulatory *practices* around the world. Their work with private sector accountants is focused on encouraging ethical conduct in auditing. The accounting standards and practice guidelines provided by these groups have been adopted as benchmarks by the International Monetary Fund (IMF) and the World Bank in their assessments of countries to which they loan money.

In sum, accounting is implicated in some of the most rapid changes taking place in the globalizing world. The Big Four exercise immense power in both global markets and in the political arena. Likewise, the common language function of accounting is contributing to the creation of a truly global marketplace. Accounting, it seems, is about much more than men in white shirts poring over ledgers in dusty back rooms.