China’s Participation and Resistance in Adopting Western Accounting Practices

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Abstract

Purpose - The aim of this paper is to investigate China’s attitude towards adopting western accounting practices. In particular, its response to the expansion of western professional accounting bodies into China will be studied.

Design/methodology/approach - The paper draws on the theoretical framework of new institutional sociology (NIS) and legitimacy theory to disentangle the symbolic from the substantive in respect of what government, accounting institutions and ‘actors’ say and the strategies they employ. Data are collected using semi-structured in-depth interviews and qualitative document analysis.

Findings - The study reveals a strong coercive influence of western institutional networks (such as the western professional accounting bodies, the Big 4, multinational enterprises, the World Bank, the IASB, the IMF, and the WTO) on China, and China’s limited power to control these institutions. The authors find the intrusion of the western accounting institutions has been seen as a threat to China’s information secrecy and national security. As a result, there are signs of a push-back against the operations of the international accounting organisations in the Chinese market.

Research limitations/implications – China’s participation in the areas investigated in this paper would promote the further globalisation of accounting, while China’s resistance may come about because China feels its voice in international organisations, professions, and accounting education is being undervalued. The extent of China’s participation or resistance will be of great significance for the future of accounting globalisation.

Originality/value - It is against a background of China’s growing assertiveness that the research was undertaken and this study is, arguably, therefore able to make a contribution to the history of the Anglo-Saxon accounting profession and its move into overseas countries. The paper also makes a contribution to knowledge through the application of NIS theory to the field of the accounting profession.

Keywords Professionalisation, Accounting Profession, Globalisation of Accounting, China, Convergence, IFRS, New Institutional Sociology, Legitimacy Theory.
1. Introduction

The first professional accounting body in the world was established in the United Kingdom in 1853 (Lee, 1995). Since then, Anglo-Saxon accounting institutions have been dominating the accounting field. Leicht and Fennell (2008) draw attention to the change within the accounting profession as a result of the growing importance of the institutional environment. Many researchers have highlighted the embeddedness of international institutions such as the western professional accounting bodies, the big accounting firms (the Big 4), multinational enterprises (MNEs), the World Bank, the International Accounting Standards Board (IASB), the International Monetary Fund (IMF) and the World Trade Organisation (WTO) in the globalisation of accounting (Albu, Albu, Bunea, Calu, & Girbina, 2011; Leicht & Fennell, 2008; Samuel, 2006). It is argued that these institutions dominate the adoption of the International Financial Reporting Standards (IFRS) in developing countries, which could be regarded as a form of accounting colonialism (Larson, 1997; Saudagaran, 2004; Sikka, 2001). Within such an institutional context, the western professional accounting bodies made their move to overseas markets, in particular to emerging Asian markets such as China, because the growth of their domestic markets reached maximum levels. This paper investigates China’s attitude towards adopting western accounting practices with a particular focus on how China responds to the expansion of western professional accounting bodies. For this research, western accounting practices refer to the convergence of Chinese accounting standards with western accounting standards, i.e. IFRS, and the collaborations with western professional accounting bodies in aspects of training domestic accountants, mutual recognition, assessment of skills and competency in professional examinations and so forth.

China is a growing world power with possibly the world’s largest economy in the future (Peng & Bewley, 2010), and how the country operates in this accounting field will have ramifications for the rest of the world. On one hand, China’s accounting standard setters issued the new Chinese generally accepted accounting practices (the Chinese GAAP), which took effect from 1st January 2007. The new Chinese GAAP is the first to claim substantial convergence with IFRS (IASB, 2006; Peng & Bewley, 2010; Tweedie, 2006). On the other hand, China may resist globalisation because it feels its voice in
international organisations, professional accounting bodies, and accounting education is being undervalued. The extent of China’s participation or resistance will be of great future significance for the ideal of accounting globalisation. This paper employs new institutional sociology and legitimacy theory to disentangle the symbolic from the substantive in respect of what the Chinese government, accounting institutions and ‘actors’ say and the strategies they employ. To pursue its research objectives, the study is organised to address the following two interrelated research questions:

*RQ1.* Whether the welcome by China to the international institutions is an isomorphic response to exogenous pressures? If yes, what form/s of isomorphic influence are observed and how do these influences happen?

*RQ2.* To what extent are China’s legitimising strategies employed in adopting western accounting practices symbolic or substantive? Whether participation and/or resistance can be observed?

Both of the two research questions are addressed through in-depth interviews and review of empirical evidence from various qualitative documents such as official reports, government policies and regulations, and media.

The structure of this paper is outlined below. Section 2 provides the background setting of the study and reviews relevant prior literature and theory. This is followed by a description of research design in section 3. Section 4 discusses key findings and it is followed by section 5 that concludes the study.

2. **Background and prior research**

This section provides background of the accounting profession in China. It also reviews the existing literature relevant to the scope of this study and explains the theory employed for this study.
2.1 Accounting Profession in China

The development of the accounting profession in mainland China is unique. Since the economic reforms of 1978 and to cope with the increasing demands of economic growth, the Chinese accounting profession has gone through a series of major changes and established its own professional accounting body – Chinese Institute of Certified Public Accountants (CICPA) in 1988 (CICPA, 2013; Hao, 1999). Some major milestones of the development of the accounting profession in China is shown in Table 1. The CICPA is a very young professional accounting body compared with the Anglo-Saxon professional accounting bodies such as the Institute of Chartered Accountants of England and Wales (ICAEW) (founded in 1880), CPA Australia (founded in 1886), the American Institute of Certified Public Accountants (AICPA) (founded in 1887), and the Association of Chartered Certified Accountants (ACCA) (founded in 1904). It is also considered a weaker professional accounting body because the Chinese government still retains control over it (Hao, 1999; National People’s Congress, 1993; Yee, 2009). This weakness and lack of professional independence, Perera (1989) observes, often coincide with the lower professional status of Chinese accountants, which means it is more important that the government, in the interests of uniformity, protects the general society. In contrast to the more independent bodies in the West, the development of the accounting profession in China was and is government driven and organised, reflecting a strong controlling power of the government in the Chinese accounting profession rather than the embeddedness which Leicht and Fenell (2008) found among Anglo-Saxon professions, the big accounting firms, MNEs and the IASB in the institutional network.

Table 1 Development of the Accounting Profession in China

<table>
<thead>
<tr>
<th>Timeline</th>
<th>Major Changes in the Accounting Profession in China</th>
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<tbody>
<tr>
<td>1918</td>
<td>First appeared when Mr Lin Xie became the first “certified accountant” in China (Li &amp; Wang, 1989). Strongly influenced by western countries (Aiken &amp; Lu, 1998; Guo, 1988; Hao, 1999).</td>
</tr>
<tr>
<td>1918 – 1949</td>
<td>Very little development due to continuous political upheaval (Hao, 1999).</td>
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1949 – 1978
New China was founded and the accounting system was significantly influenced by the Soviet model. Central planning replaced the capitalist economic structure, accounting profession effectively disappeared (Aiken & Lu, 1998; Hao, 1999).

1966 – 1976
Worse during the Cultural Revolution, accountants were targeted for persecution (Bledstein, 1976).

1978
Economic transformation started - Open up to the world. Lots of foreign direct investments were established in the form of Chinese-foreign (Sino-foreign) joint ventures (Hao, 1999; Nobes & Parker, 2008; Yee, 2009).

1985
The Chinese government issued the Accounting Law (Hao, 1999).

1986
The government issued CPA regulations (Hao, 1999).

The Chinese Institute of Certified Public Accountants (CICPA) was eventually established in 1988 (Hao, 1999; Kliegman, 2005; Zhang, 1997).

1993
The first “Chinese Accounting Standards for Enterprises” came into effect (National People’s Congress, 1993). Ministry of Finance was given the authority to regulate both the accounting and the auditing firms.

1998
Chinese government “unlinked” the CPA firms from their former government-related sponsors, and then “restructured” CPA firms into either limited liability companies or partnerships (Hao, 1999, p. 297).

In such an institutional environment, China, as a new power in the world, attracts a great deal of attention from these international institutions: for example, a huge capital inflow from the MNEs, the establishment of Chinese-foreign jointly owned (Sino-foreign) ‘Big 4’ accounting firms (Hao, 1999), as well as the entry of Anglo-Saxon professional accounting bodies (CICPA, 2013). When domestic markets have grown to maximum levels, western professional accounting bodies seek more memberships in overseas markets. Their main targets are emerging markets such as Mainland China’s. A number of western professional accounting bodies have proactively expanded its operation into Mainland China. The first western professional accounting body entered into this market was ACCA in 1988. Some other western professional accounting bodies have also followed ACCA to seek for opportunities of collaborations with the Chinese accounting profession. They are the Certified General
Accountants Association of Canada (CGA), the Chartered Institute of Management
Accountants (CIMA), CPA Australia, and ICAEW (CICPA, 2013).

The CICPA in China has established joint training programmes with the Hong Kong
Institute of Certified Public Accountants (HKICPA), ICAEW, and CPA Australia to
train Chinese accountants to complete western professional accounting qualifications
(CICPA, 2010). There are also active collaborations between CICPA and western
professional accounting bodies in areas of continuing education, mutual recognition,
training for professional examination and so forth (CICPA, 2013). It has also been
observed that in recent years China has welcomed the invitation to participate in
international financial accounting bodies (CICPA, 2013). Moreover, China has moved
to align its standards with those of the IASB (IASB, 2006; Peng & Bewley, 2010)
[while not announcing a date for adoption].

Anglo-Saxon accounting bodies are linked together for mutual advantage, a fact
recognised in the literature (Albu et al., 2011; Larson, 1997; Samuel, 2006; Saudagar,
2004; Sikka, 2001) and, perhaps, resented by those authors outside the Anglo-Saxon
tent. The globalisation promoted by the Anglo-Saxon institutions has engendered some
criticism. Saudagaran (2004) considers the progress in the adoption of the IFRS to be a
form of accounting colonialism because the accounting standards of the developed
countries will remain in a dominant position in the process of standard-setting,
regardless of the interests of the developing countries. The research undertaken in this
paper is against a background of the embeddedness of the western institutional network
and the growing assertiveness of China.

2.2 Literature review and theoretical framework

Two theories have been adopted for the purpose of this research: New Institutional
Sociology (NIS) and legitimacy theory. The three forms of institutional isomorphism:
coercive, mimetic and normative suggested by DiMaggio and Powell (1983) are
employed in this research. The concept of isomorphism embraces the influences of the
wider environment on the development of the accounting profession in China. As
Aldrich (1979) argues, organisations compete not just for resources and customers, but
also for political power and institutional legitimacy, for social as well as economic fitness. The concept of institutional isomorphism is a useful tool for understanding the politics and ceremony that pervade much modern organisational life. Within the scope of this study, the first research question focuses on whether the welcome by China to the international institutions is an isomorphic response to exogenous pressures.

Such welcome by China in the form of collaboration and convergence may be less real than it seems because, as Fogarty (1996) comments, NIS presents the paradox that what an organisation actually accomplishes and what its structure suggests it should accomplish are often quite distinct. The people, institutions and professional bodies involved in accounting do not always do what they say they will do. Such a dichotomy lies at the heart of much financial confusion, acrimony and scandal. The globalisation of financial reporting, auditing and the accounting profession is permeated with symbolism passing as substantive. Too often “form” triumphs over “substance”. The symbolic provides smoother pathways to collaboration while the substantive requires implementation, which can be controversial and difficult. Symbolism can be a much wider pathway than simply being defined as people not doing what they say they will do. Therefore, the second research question is pursued: to what extent do China’s strategies employed in adopting western accounting practices symbolic or substantive? Whether participation and/or resistance can be observed?

Suchman (1995) draws attention to the strategic and institutional approaches to legitimacy, the former assuming a larger level of control by managers over the legitimacy process by the employment and adaptation of symbols and rituals to gain societal support. Researchers like Dowling and Pfeffer (1975), Pfeffer (1981), and Ashforth and Gibbs (1990) view legitimacy as an operational resource to be used by managers and individuals.

By contrast, the institutional approach of researchers such as DiMaggio and Powell (1983), Meyer and Rowan (1977), Meyer and Scott (1983), and Zucker (1987) holds the view that legitimacy is a set of social beliefs external to institutions but generally binding on them. Such social beliefs relegate managerial agency, and tend to explain management actions as being both the products and producers of institutionalised
cultural frameworks. That is, society imposes its beliefs on managers through cultural expectations, and the distinction between the symbolic and the substantive, according to Suchman (1995), therefore “fades into insignificance” (p. 576). While the distinction between individual/management strategic and institutional approaches are an important consideration in the literature, this paper follows the thinking of Suchman (1995) by incorporating both strategic and institutional orientations. On the one hand, this paper accepts that managers can and do construct symbolic relationships with their stakeholders to engender approving legitimating perceptions. In this respect, such a compromise leaves intact a distinction between symbolic and substantive actions. However, on the other hand, this paper also accepts arguments from the literature that the cultural environment impacts on the freedom and objectivity of managers within that environment.

Institutions and individuals to achieve legitimisation will adopt either substantive or symbolic strategies or some combination of both (Ashforth & Gibbs, 1990). Substantive actions bring about changes to outputs or changes in terms of technical processes or efficiency. Okike (2004) provides an exemplar of substantive change occurring when the Nigerian government was determined to improve the technical efficiency of the Nigerian audit profession. By contrast to substantive legitimising strategies, symbolic actions are often preferred because they avoid internal conflict over material changes and involve little (or none at all) implementation (Ashforth & Gibbs, 1990). Moreover, symbolic change is much more strongly identified with a desire for legitimacy. A number of studies have been done in studying the implementation of organisational strategies and symbolic changes are found in the process of implementing strategies for legitimacy purpose (Edelman, Abraham, & Erlanger, 1992; Westphal & Zajac, 1998). An illustration of such a desire is exemplified in Brunsson and Olsen (1993)’s study of Swedish Rail. It was found that management reform strategies were formally implemented without any impact on daily operations. It emerged that the reforms required the collaboration of various operational departments who accordingly collaborated as long as the reforms did not affect their work in any significant way. Thus, symbolic strategies have the feature of bearing little impact on production activities.
In the same vein, Meyer (2008) point out, national states promote world norms with which they have no capacity or will to implement. Similarly, Brunsson (1989) observes there is often within institutions a contrast between policy talk and practical action. What is called “loose coupling” is a source of considerable tension. It arises when powerful and interested actors create rules and processes in institutions. Within institutional theory, researchers refer to the concept of decoupling. Decoupling within institutions takes the form of ceremonial activities, which seem to be important and agreeable to the actors involved but do not add anything to efficiency of production. The productive function may be hard to differentiate from the ceremonial, as the decoupling of the symbolic from the substantive is often veiled under a cloak of acting. All actors participate in decoupling. As Meyer (2008) comments:

*Modern organisations and national states appear to be eager to construct themselves as actors thus incorporating, often wholesale, global standards. In an expanding world society, people and groups everywhere seem eager to be actors – this often takes precedence over other goals and can produce assertions of actor identity far from any actor capability. People, in short, may put more effort into being actors than into acting. (p. 801)*

Governments such as Romania may have put more effort into being actors than acting. As Albu et al. (2011) point out, Romania quickly adopted the IFRS but failed to implement substantive change. Likewise, the Greek government has been coerced into legislating reforms aimed at reducing expenditure; however, the desired savings have been heavily diluted in the process of implementation, much to the concern of the European lenders (*The Economist*, 2012). The literature draws attention to a possible disjunction within institutions which occurs when senior management introduces substantive changes, which are then only partially, or sometimes not at all, implemented by the staff concerned with operations (Dowling & Pfeffer, 1975; Hasselbladh & Kallinikos, 2000; Perrow, 1970; Thompson, 1967/2003). There are some indirect references to this disjunction in the literature with regard to governments but none with regard to specific professions (Scott, 2008; Streeck & Schmitter, 1985). Moreover, in respect of governments, professions and individual actors, the question of how such disjunctions occur while seeking legitimacy is not addressed. It is this gap in
the literature that the paper seeks to address.

3. Research Design

The main evidence of this research paper was collected by using semi-structured interviews. Informal conversations were also conducted with a number of interview participants prior to the formal semi-structured interviews to increase the salience and relevance of interview questions (Patton, 2002). By analysing the responses from the informal conversations, lines of inquiry can be developed and modified to ensure that more relevant and important questions are asked in the formal interviews. Follow-up phone calls were made after some of the interviews. The purpose of the follow-up phone calls is to clarify unclear responses from the interviewees. As shown in Table 2, thirty-five participants were purposefully selected for in-depth interviews.

Table 2 Summary of Interviews, Information Conversations and Follow-up Phone Calls

<table>
<thead>
<tr>
<th>Groups of Interviewees (Refer to section 5.4.2)</th>
<th>Number of Interviews</th>
<th>Number of Informal Conversations</th>
<th>Number of Follow-Up Phone Calls</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Key personnel from relevant government agencies in China</td>
<td>4</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>2. Key personnel from CPA Australia</td>
<td>6</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>3. Senior accountants in China</td>
<td>16</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>4. Chinese accounting academics</td>
<td>9</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>11</td>
<td>13</td>
</tr>
</tbody>
</table>

In addition to semi-structured interviews, this study also involved analysing documents from a wide range of sources, in particular a systematic analysis of government resources (such as the National People’s Congress and Ministry of Finance) and websites (such as the CICPA, ACCA and CPA Australia sites) that relate to the entry of western professional accounting bodies into China. As Bryman and Bell (2011) suggest, a government is the source of an extensive amount of information of potential significance for researchers. They add that a government is the source of much textual
material of potential interest, such as acts, legislation and official reports (Bryman & Bell, 2011).

4. Findings and Discussion

4.1 Research Question One: Isomorphic responses

Much of the theoretical argument centres on an explanation by way of coercive isomorphism, that is, an alliance of westernised global bodies (the World Bank, the WTO, the IMF, the IASB, the Big 4 accounting firms, MNEs and so forth) had a significant impact on the Chinese government. Sauddagar (2004), Doupnik and Perera (2007), and Antwi (2009) agree that there is a global process of accounting colonialism taking place whereby governments are subjected to pressures from international bodies to adopt what is largely a system designed and developed for western countries. To an extent the findings of this paper support these arguments but not without some contradictions. The government officials interviewed were unanimous in declaring that coercive exogenous forces would not sway the Chinese government into accepting western accounting practices. It should be observed that such government officials are likely to be party members and to share a more Maoist than a liberal outlook. By contrast, most of the accountants interviewed held that such foreign influences did have a coercive impact on China. In particular, an academic researcher who was involved in the initial stage of IFRS convergence project pointed out that China has been forced by external pressures to converge with the IFRS:

*From my point of view, China converged with the IFRS because of external pressure. First, the EU adopted the IFRS and required all listed companies to adopt it. China noted this and realised that it had to use the same accounting system if it wanted to communicate with the rest of the world. Second, MNEs lobbied the Chinese government to converge with the IFRS so that their financial reporting costs could be reduced. These MNEs can be very influential and persuasive. (Interview: Participant 21)*

This paper finds that the Chinese government converged with the IFRS in response to demands from MNEs operating in China. China’s accounting system was not re-established until 1993 and largely followed the Soviet model, which was in many
ways not able to support the rapid economic growth of the country. Except for the Big 4 firms, there were no accounting firms capable of preparing audits according to international standards. This is also confirmed by Irvine and Lucas (2006), who argue that countries lacking expertise in standard-setting and facing pressures from international corporations are likely to adopt the IFRS. Similar claims of coercive influence by the international institutional bodies can also be found in other research studies (Chamisa, 2000; Irvine & Lucas, 2006; Mir & Rahaman, 2005).

What is also persuasive in arguing that coercive isomorphism was a major factor in China welcoming western accounting firms and professional accounting bodies is the current push-back referred to by some interviewees, whereby the Big 4 firms are becoming less welcome. According to an Accounting Professor:

*Every country protects itself. For instance, the US will not allow Chinese accounting firms to audit American banks. Japan does not welcome the Big 4 and therefore imposes regulations and controls over their operations in Japan. If you take a look at the accounting service industry in Japan, there are over 50,000 accounting firms and those large Japanese corporations are audited by local accounting firms... we are similarly concerned about our economy in terms of information safety. We also need to protect our accounting service industry. Every country is concerned about its own interests.*

*(Interview: Participant 9)*

The intrusion of these western accounting firms is now being seen as a threat to information secrecy and national security in China. As part of such a push-back, the Chinese government recently issued a Big 4 domesticating policy which aims to increase the number of domestic Chinese partners who hold a CICPA qualification and Chinese nationality in the Big 4 accounting firms (Ministry of Finance, 2012). However, a senior consultant from one of the Big 4 in China considers that these regulations will not work effectively:

*These non-Chinese partners can live with the new policy and they will find a way to get around it. These requirements are quite symbolic because audit reports are signed by local Chinese auditors and partners but these non-Chinese partners are in charge and earn the highest salaries.*

*(Interview: Participant 34)*
This coercive effect on the Chinese government has been discussed above with reference to the literature. Another aspect of coercive isomorphism, which has been demonstrated by this study, is the absolute power of the Chinese government in the administration and operation of the Chinese professional accounting body – the CICPA. This paper found that the CICPA, which is the only legally recognised professional accounting body in China, is strongly controlled by the Ministry of Finance. Participant 10 explained:

*CICPA does not have the authority to exercise power in many aspects; for instance they can only issue warnings to accountants who breach the codes of practice. CICPA has to refer cases of serious non-compliance to the Ministry of Finance as this is out of the CICPA’s hands. According to the Law of the People’s Republic of China for Certified Public Accountants, the Ministry of Finance has the authority to punish accountants for their breaches of the codes of practice, impose financial penalties, cancel registrations, as well as approve CPA firms’ registrations and licences. (Interview: Participant 10)*

It has become apparent that the Chinese accounting profession is relatively weak and dependent for legal direction on the Chinese government. By contrast, the accounting profession in common-law countries such as the UK and the US has been independent and relatively strong from a very early stage of its development (Perera, 1989). Ding, Hope, Jeanjean and Stolowy (2007) point out that in many communist and ex-communist countries with relatively weak accounting professions, accounting standards normally follow a rule-based compliance model, which is less sophisticated and less comprehensive. While acknowledging that substance over form is a concept that relies heavily on professional judgment, these researchers also asserted that their rule-based systems do not facilitate a change to a principle-based model. Albu et al. (2011) agree with Ding et al. (2007) and show that the ex-communist country Romania adopted western accounting practices largely as a matter of necessity rather than choice and has since done nothing to enforce them.

As discussed previously in this section, it is argued that China’s convergence with international accounting standards is strongly influenced by the western international institutions. China’s situation is similar to Romania’s as its convergence is a matter of necessity rather than choice. However, China differs from these ex-communist
countries studied in the literature in that the Chinese government has been very supportive of the convergence and has made many substantive efforts to implement it. This paper found that the majority of the Chinese government officials, accountants and academic researchers interviewed believe that convergence with international accounting standards was welcomed in China. However, because of China’s different social, economic, political and cultural environments, they considered full adoption would be a step too far and not likely to happen in the near future. As Participant 10 admitted:

*China’s accounting standards are an important part of Chinese law. Because they are a part of our law, they need to be written in Chinese. We have to convert the IFRS to standards that we can understand and apply in China. We promise that we will continue converging with the IFRS.* (Interview: Participant 10)

As Participant 11 also expressed in a colourful way:

*Even though we are learning from the West, we cannot blindly mimic everything from the West. We hope to preserve our traditions which suit the development of the accounting industry in our country…Those we borrowed from the West are not practical, because they can only prosper and develop after being localised…using a metaphor, two months ago I bought a plant which can only grow in the South. It was October in Beijing and it was quite cold. The plant was about to blossom when I bought it; however, because of the change in environment, all the petals fell off. Then like something reborn, the plant localised itself and there were new petals coming out.* (Interview: Participant 11)

It was also admitted that there are still quite a few differences in practice between the Chinese accounting standards and the international accounting standards. As a senior accountant who recently gained a western professional accounting membership admitted:

*In the past, I always thought that there was not much difference between Chinese accounting standards and the IFRS as China has been converging with the IFRS. However, after completing the [western] professional programme, I realised that there are quite a few differences in many aspects. Convergence does not mean Chinese standards and the IFRS are almost the same. Certainly there are still quite a few differences in practice.* (Interview: Participant 12)

Therefore, it seems that coercive isomorphism has more influence than mimetic
isomorphism in the case of the Chinese government, even though Westney (1987) points out that Japan’s 19th century modernisers provide a model for governments to learn and adopt what is best from foreign sources. Several researchers (Callao, Jarne, & Laínez, 2007; Hoogendoorn, 2006; Jermakowicz & Gornik-Tomaszewski, 2006; Larson & Street, 2004; Schipper, 2005; Tokar, 2005; Vellam, 2004) give various reasons why mimetic isomorphism in code-law and communist countries is not likely to produce a faithful representation. Albu et al. (2011) argue that de facto application of the IFRS is limited by the differences in cultural, political and social environments. The government officials argued that blindly mimicking the practices of the West will not work for the Chinese accounting system. Many of the interviewees rejected the concept of copying, preferring to offer the response of being open to new learning or that of making future mutual recognition more likely.

In particular, the government officials talked of establishing a gold standard for accounting, which combines the best of the West with Chinese practices and seems to appeal to a Platonic (or perhaps Confucian) ideal. March and Olsen (1976) argue that mimicking could occur unintentionally; therefore such talk of a gold standard does admit some mimetic influence because organisations tend to model or adopt practices from similar organisations in the field that they perceive as more legitimate or successful (DiMaggio & Powell, 1983). In this case, the western practices were accepted by most of the interviewees as more legitimate internationally.

The findings in connection with normative isomorphic influences revealed a rift in officialdom between liberalising officials, often those with overseas experience, and more Maoist officials. The case of the Shenzhen economic zone was cited by interviewees. In this case, two well-known former vice presidents of the Ministry of Finance in China can be considered institutional entrepreneurs because they dislodged existing practices, and introduced new ones (Hardy & Maguire, 2008). The former is regarded as the more liberalising official as he has overseas experience and granted independence to the Shenzhen branch of the CICPA, whereas the latter is regarded as the more Maoist official who strengthened the power of the central government by revoking the legislative power granted by her predecessor to the Shenzhen branch. According to Participant 32:
The CICPA office in Shenzhen special economic zone was very special at that time. They had law-making authority. Similar to HKICPA, they had administrative authority to impose penalties, administer registrations and so forth. They had the 1995 Administrative Regulations of Shenzhen Special Economic Zone on Certified Public Accountants, which gave the Shenzhen CICPA office legislative power to regulate the accounting profession in Shenzhen. (Interview: Participant 32)

The grant and removal of the independent governance of the Shenzhen branch of the CICPA support the findings of the literature (Fligstein, 1991; Greenwood & Hinings, 1996; Jaffee, 2001) in the sense that the top government officials in China have the ability to alter the rules and exercise agency power to influence or change the environment and structural constraints. In this case, the rules referred to are the administrative regulations of the Shenzhen branch of the CICPA (Standing Committee of Shenzhen Municipal People’s Congress, 1995, 2003). This demonstrates that although normative influences can be effective they are variable as government officials change positions. These individual influences are referred as institutional entrepreneurship (DiMaggio, 1988; Fligstein, 1991; Hardy, Maguire, & Lawrence, 2004; Leblebici, Salancik, Copay, & King, 1991). The findings of this paper support the literature by putting human agency back into the institutional analysis of organisations. The importance of individual actors is underlined by Scott (2003) in terms of how their energy, their ideas, their conformity or nonconformity shape and constitute the structure of an organisation.

Another aspect of normative influences relates to which international body China should be most influenced by. Several interviewees make reference to the global accounting alliance (GAA) without being familiar with any specific members of the alliance. They are, however, aware that the ICAEW and the HKICPA are members of this alliance and that the ACCA and CPA Australia are not (GAA, 2013). For reasons not fully explained, the GAA is seen as the gold standard. The officials interviewed hold the view that the CICPA is more like the ICAEW than other accounting bodies: “CICPA is the professional accounting body in China, it is more similar to the chartered accountants’ organisations” (Participant 10). In terms of collaboration with members of GAA, currently, there is an arrangement whereby members of the ICAEW and the HKICPA can apply for mutual recognition with the CICPA by completing only two
papers: law and taxation (CICPA, 2013). According to the participants interviewed, this is the best exemption that China has been given and reflects the high value that China puts on the GAA. The interviewee also recognises that the ACCA and CPA Australia do not belong to GAA.

*It is quite obvious in Hong Kong that if an accountant has the ACCA qualification and wants to apply for HKICPA membership, he probably needs to take a few more exams. The same conditions apply to CPA Australia members as well. They are obviously in a different circle [network]. This may be because of history or is a reflection of the current status. (Interview: Participant 11)*

An audit partner of an international accounting firm also confirmed the ICAEW as “the gold standard”. He explained:

*When I speak to the people in this profession, most of them know about ICAEW and they recognise that as being “the gold standard” – if you translate, it means the content of the gold is “the most prestigious” in other words. They know it and recognise that as well. (Interview: Participant 16)*

According to Scott (2003) such norms of the notional gold standard are internalised by social actors. They are guided by a sense of what is appropriate, by their obligations to others, and by a commitment to common values. While this normative commitment to welcoming a foreign professional accounting body was widely acknowledged by interviewees, it did not extend to the ACCA and even less to CPA Australia. In particular, interviewees saw the ACCA as a training institution rather than a professional accounting body. What is worse for CPA Australia is that most interviewees saw CPA Australia as an inferior version of the ICAEW. Somehow these overseas professional accounting bodies have been ranked as to their value to China.

**4.2 Research Question Two: Symbolic or substantive legitimising strategies**

The last aspect concerns whether the Chinese government is seeking legitimacy for the Chinese accounting profession in the international accounting arena by adopting either a symbolic or substantive organisational legitimising strategy, or a combination of both. It was drawn from the interview findings that accountants and academics are
unanimously agreed that it is in the interests of the country to have an increasing number of Chinese CPAs holding western professional accounting qualifications. The Chinese government officials agreed with this view, especially as it relates to the importance of further developing the Chinese accounting profession on a global scale. In particular, the officials interviewed were all very proud of China’s stronger voice internationally. The findings of this paper suggest that the Chinese government is willing to seek legitimacy in the eyes of the world and powerful international institutions such as the IASB. Both the convergence with the IFRS and welcoming western professional accounting bodies to operate in China can be considered strategies to gain legitimacy. These legitimising strategies are self-interested and are defined by Suchman (1995) as being pragmatic in nature. Aldrich & Fiol (1994) point out that for self-interested reasons organisations may emphasise their image and legitimise such an image and reputation by advertising and, in the case of China, by being seen in the eyes of western accounting professionals through the western professional accounting bodies. Symbolic strategies concern image and reputation, whereas substantive strategies are more about functionality and operation. Many researchers refer to substantive legitimating techniques when institutions make changes to outputs, methods of operation and goals, or make changes in terms of technical processes or efficiency (Dowling & Pfeffer, 1975; Okike, 2004).

Carruthers (1995) suggests that an organisation’s legitimising strategies may not necessarily be substantive. To acquire legitimacy, an organisation can detach its formal structures and procedures from everyday practices – this is known as decoupling and symbolic window-dressing (Meyer & Rowan, 1977). Observations have been made by many researchers that organisations play active roles in shaping their institutional contexts; however, such symbolic strategies largely result in ceremonial change rather than substantive improvement in technical efficiency (Dowling & Pfeffer, 1975; Parson, 1956; Perrow, 1970; Thompson, 1967/2003).

The findings of this paper reveal that some decoupling happens in both China’s convergence with the IFRS and China’s welcome of western professional accounting bodies. First, with regard to China’s convergence with the IFRS, many previous studies have found that convergence of institutional systems across different cultural, social
and political environments is not easily achieved except possibly in a symbolic rather than a substantive sense (Aguilera & Jackson, 2003; Brunsson, 1989; Brunsson & Olsen, 1993; Fiss, 2008; Fiss & Zajac, 2004; Jackson & Moerke, 2005; Meyer, 2008). The finding concurs with the literature in that Chinese culture and standards still prevail and therefore full adoption of the IFRS seems unlikely in the near future. This is because China’s system of governance has evolved in response to its unique political, historical and cultural environments (Lockett, 1988; Tricker, 1990). Tensions can arise as western thinking is very different from eastern thinking (Hofstede & Bond, 1988).

The persistence of national systems alongside the convergence process is found in many developing countries (Allen, 2005; Miller & O'Leary, 1987). Evidence of such persistence has also been found in the responses of the majority of interviewees in this study. Therefore, it is concluded on the basis of the interview and documentary data collected and analysed that China’s adoption of the IFRS is likely to be in a symbolic rather than a substantive form. The intention of the Chinese government to adopt the IFRS could be merely a symbolic strategy to legitimise China in the eyes of the western accounting profession.

Second, even though the CICPA’s joint training programmes with many western professional accounting bodies can be considered substantive strategies, the willingness to further collaborate with the ICAEW and the HKICPA may be seen as a more symbolic move for legitimising in the eyes of the world. Collaboration with a prestigious western professional accounting body can be considered an effective form of symbolic advertising to legitimise the image and the reputation of the Chinese accounting profession. Therefore, the constant reference by interviewees to the gold standard of professional accounting membership may be seen as driven more by symbolic than by substantive legitimising strategies.

5. Conclusion

To conclude the paper, the key finding of this paper is that a degree of international coercion has been involved. Even though the coercive exogenous influences were denied or ignored by the government officials interviewed, it should be noted that these officials were likely to be defensive and not open to questioning they saw as intrusive
as they were Communist Party members. Not surprisingly, the Chinese accountants and accounting academics interviewed, who were more likely to be open to such questioning, believed there was strong evidence that coercive forces have been influential. Coercive influences from the international accounting institutional network – the MNEs – were also found to be a major factor in China’s convergence with the IFRS. However, China has been reluctant to go further than a promise of convergence with the IFRS because of its different social, economic, political and cultural environments. Therefore, it was the agreed view of the interviewees that blindly mimicking practices from the west will not work for the Chinese accounting system.

More recently, the intrusion of the western accounting institutions has been seen as a threat to China’s information secrecy and national security. As a result, there are signs of a push-back against the operations of the international accounting organisations in the Chinese market. Signs of this push-back are the debate between the Chinese government and the PCAOB in the US about Longtop audit work, and the domesticating policy concerning the Big 4 accounting firms. The Chinese government’s push-back activities and its absolute power in the governance of the Chinese professional accounting body (CICPA) are evidence of China’s coercive power in the local accounting field. However, such coercive power was found to be limited when compared with the influence of western institutions.

Normative isomorphic influences can also be observed in China. Top Chinese government officials such as the Vice President of the Ministry of Finance have been found to be institutional entrepreneurs who can exercise their normative powers to change rules in the accounting field. However, it was also observed that such individual influences are variable and constrained as a result of the strong oversight and coercive power of the Chinese government. Another aspect of normative isomorphism widely acknowledged by interviewees was that the ICAEW represents a professional ideal at which China should aim. However, such a normative commitment to welcoming a western professional accounting body does not extend to either the ACCA or CPA Australia. It was observed in this study that the western professional accounting bodies have become ranked according to their value to Chinese accountants.
The last issue raised by the second research question concerns the organisational legitimising strategies adopted by the Chinese government in seeking legitimacy for the Chinese accounting profession. It emerged from the findings of this study that both the convergence with the IFRS and the welcoming of western professional accounting bodies into China can be considered legitimising strategies. However, such legitimising strategies are not necessarily substantive in nature as some decoupling is evident in the findings. The persistence of a national system alongside the convergence process has been revealed by this study. Consistent with the literature, China’s adoption of the IFRS cannot be easily achieved except possibly in a symbolic sense because of differences in the cultural, social and political environments. On the other hand, the CICPA’s collaboration with the ICAEW – which interviewees constantly referred to as “the gold standard” – can be considered an effective symbolic strategy to legitimise the Chinese accounting profession in the eyes of the western accounting profession.

China is a growing world power and may well have the world’s largest economy in the future. How China operates in the accounting field will have far-reaching ramifications for the rest of the world. Chinese participation in IFRS adoption and collaborations with western accounting profession can promote the further globalisation of accounting. Whereas Chinese resistance to globalisation could arise because China feels its voice in international organisations, professions, and accounting education is being undervalued. The extent of China’s participation or resistance will be of great significance in seeking the ideal of accounting globalisation. The findings of this research reveal the impact of the western institutional network on China and the limited coercive power that China has imposed on these institutions. The study raises important implications and contributes to the history of the Anglo-Saxon accounting profession and its move into overseas countries. The paper also makes a contribution to knowledge through the application of NIS theory to the field of the accounting profession.

6. Reference


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